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Symbols Used in the Text



In-Depth Knowledge



Practical Advice



Study Findings



Summary of Key Information

Logic Ends Where Export Control Begins

(Peter Stump)

Do you ask yourself every now and then ...

- ... what export control is anyway?
- ... what is export control good for?
- ... what your company has to do with it?
- ... how much effort does this lead to in your company?
- ... what happens if you ignore the subject?

If you answered 'Yes' to any of these questions, read on and join us on a journey through the export control jungle.

We don't want to serve you with just dry theory to you, but rather combine the theory with practice. Please put yourself in the following fictitious example company, on the basis of which we will work out the theory of export control together with you.

Practice

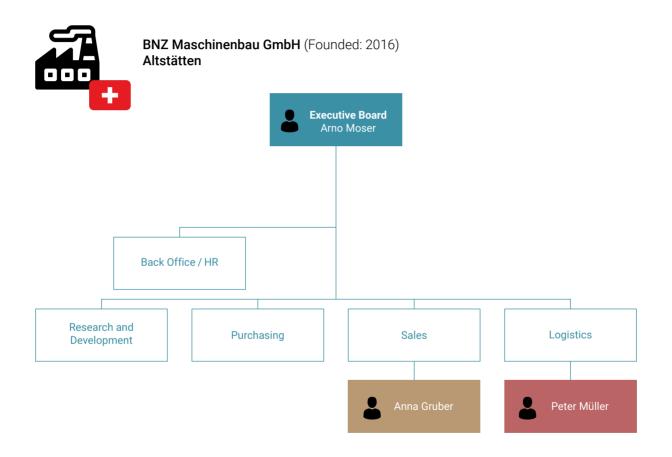
The story around our example company is your guide for the implementation of export control in your own company.

Chapter I: Starting Position

Our example company: BNZ Maschinenbau GmbH

BNZ Maschinenbau GmbH, a mechanical engineering company, was founded in 2016 in Altstätten, Switzerland. The company employs 60 people and specializes in the production of CNC lathes for the manufacture of workpieces. The company's customers are mainly in the automotive industry. The workpieces are exclusively used for drive shafts, engine components and transmission parts utilized in the automotive sector. Until recently, the relatively young company focused only on the Swiss market. However, Arno Moser, the company's managing director, recognizes the potential abroad and would like to expand the business to the prospecting neighboring markets of Austria and Germany.

The company receives its first foreign order. Amann GmbH, an industrial company from Germany, orders a CNC lathe. Anna Gruber, a sales woman at BNZ Maschinenbau GmbH, processes the order from Germany. In a conversation with Michael Maier, a long-standing employee at Amann GmbH's purchasing department, he draws her attention to the subject of export control. Anna Gruber has never heard of export control and asks Peter Müller (logistics employee) whether the topic is relevant for BNZ.



Parties involved in the business case



Amann GmbH (Founded: 1987) Ulm

Michael Maier, Purchasing



ASK Bank Altstätten



Hermann Transporte Logistic and transport Oberriet

Chapter II: The Basics of Export Control

In contrast to Anna, Peter knows the term export control and can give her an initial insight:



Switzerland in general favours the free movement of goods. For security policy reasons, however, the export, import and transit of certain goods are regulated. Certain categories of goods are therefore subject to export controls and require a corresponding export permit.

This statement is sufficient for a first insight, however, Anna needs more information. Peter does not know about the topic in detail. In order to be able to assess the case, Peter initiates an in-depth investigation on the subject of export controls.

During his file studies, Peter comes across the following general figures relating to foreign trade (export, import and transit of goods as well as their brokerage abroad) and export control:



185 937 Swiss companies are involved in foreign trade and are thus affected by export controls.



Foreign trade companies generate an average of 25% of their turnover abroad

Peter searches the literature to find references to current legislation. He gets an overview of the valid laws and makes a corresponding interpretation.

Peter notes that the laws do not only provide for an authorisation requirement for obviously sensitive goods – such as special military goods or war material – but also for so-called dual-use goods. Dual-use goods are products that can be used not only for civil but also for military purposes; these include a much broader range of products than Peter had initially assumed. These could be sensors, general electronics, optical devices, as well as software.

Switzerland made the commitment to incorporate the international agreements into its national legislation.

Swiss Legislation

Embargo Act (EmbA)

For security policy reasons, Switzerland may impose sanctions based on the Embargo Act in the form of import, export and transit bans on goods to or from certain countries.

War Material Act (WMA) & War Material Ordinance (WMO) Examination of war material

Goods Control Act (GCA) & Goods Control Ordinance (GCO) Control of dual-use goods and special military goods. The annexes list the goods subject to grant of authorisation.

(non-binding under international law) regimes

Nuclear Suppliers Group (NSG)

Preventing proliferation of nuclear materials, equipment and technologies

Australian Group (AG)

Preventing proliferation of chemical or biological weapons through exports

Missile Technology Control Regime (MTCR)

Preventing proliferation of goods for the production of delivery systems for weapons of mass destruction (ABC weapons)

Wassenaar Arrangement (WA)

Export Control of Conventional Arms and Dual-Use Goods

(internationally binding) treaties/agreements

Nuclear Non-Proliferation Treaty (NPT)

Prohibition of nuclear proliferation and commitment to disarm nuclear weapons; right to 'peaceful use' of nuclear energy

Biological Weapons Convention (BWC)

Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons, as well as their Destruction

Chemical Weapons Convention (CWC)

Prohibition of the development, manufacture, possession, transfer and use of chemical weapons Following the interpretative order, Peter clarifies what the law understands by the term 'goods'.



Goods are hardware, technology and software. Goods are defined as movable goods that may be the subject of commercial transactions, and electricity. Excluded are security papers and means of payment. Technology is information for the development, production and use of a good that is neither generally accessible nor used for basic scientific research. The term software refers to the compilation of one or more programs.



In addition to the export, import or transit of goods, the brokering abroad is also subject to export control. Business mediation takes place when the goods are delivered from a third country to another third country. As a result, the entire value chain of a company is affected by export control.

Under certain circumstances, even goods not listed in the Swiss Export Control Regulations but intended or likely to be intended for the development, production or use of nuclear, biological or chemical weapons (NBC weapons) or for delivery systems for the use of NBC weapons (ballistic missiles, drones, unmanned aerial vehicles – UAVs) or for the construction of facilities for NBC weapons or their delivery systems may be subject to export control.

By studying the files, Peter realizes that export control and the duties associated with it are more comprehensive than he initially imagined. He is no exception.



A company survey conducted in 2017 shows that **62%** of Swiss companies have a lack of awareness of export controls and their own licensing requirements.

Peter does not want to be one of those 62% – one more reason to do something about it. Therefore, he continues to fight through the jungle of export control and scour the Internet.

Chapter III: The 4 W-Questions

Peter has intensively dealt with the basics of export control and now poses the central question for him:

May Anna export the CNC lathe to Amann GmbH in Germany?

He was not yet able to answer this question with the previous search. A first clue is the clarification of the 4 W-questions of export control. These are 4 key questions. Answering each of these questions makes it possible to assess business cases throughout 4 different dimensions.

In order to ensure that the transaction complies with the export control regulations, it must be checked against these **4 W-questions**.



What should be exported?

Checking of the export goods against to the legal requirements (goods lists)



Who is involved?

Screening the parties involved against sanctions lists



Where to export to?

Screening the country of destination for embargoes and sanctions

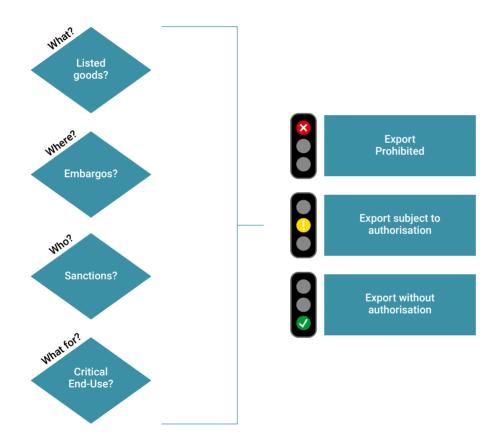


What are the goods or technologies used for?

Verification of the intended use or the end use

If the examination of only one of the 4 W-questions indicates that the transaction is subject to export control, an export license must be obtained in consultation with the State Secretariat for Economic Affairs (SECO). The following verification scheme is intended to assist in the assessment of business cases. When assessing the 4 W-questions, it should be noted that they must be examined at the very beginning of the business activity as well as continuously during the ongoing business relationship. If the 4 W-questions have been examined for a specific case, it cannot be assumed that the result will permanently remain the same and that no further examination is necessary.

Procedure for the examination of business cases according to the 4 W-Questions



Peter sets out to examine the 4 W-questions according to the business case at hand.

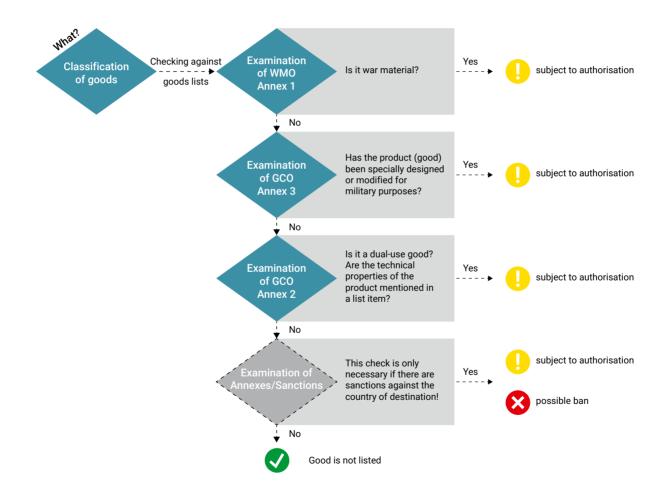


What should be exported? *CNC lathe*

Peter checks the export goods using the lists of goods that he finds on the SECO website (see the checking scheme below). He searches for the relevant list number in keywords and checks whether he can identify the technical properties of his product in a listed number. In doing so he wants to find out whether his goods are included in one of the lists.

- 1. He starts with **Annex 1** of the War Material Ordinance **(WMO)** and quickly recognizes that his lathe is not mentioned in any of their positions
- 2. The next step is to examine the annexes to the Goods Control Ordinance (GCO). Also, in Annex 3, in which the special military goods (ML1 ... ML22) are listed, he cannot find any conformity with his product
- 3. Finally, he browses through **Annex 2** of the **GCO** system, which lists the civilian and military goods on the industrial goods list of the four international control regimes (categories 0 ... 9). This list is very extensive and detailed, as each list item contains technical parameters with various subcategories and annotations

Examination of the Classification of the Goods



In Annex 2, Peter encounters machine tools in category 2 'Material processing' in category B. The detailed classification 001a lists machine tools for turning – with an accuracy, which the machine fulfils.

Peter draws his conclusion: 'The CNC lathe of BNZ Maschinenbau GmbH is apparently a dual-use product according to GKV Appendix 2, No. 2B001a. It is therefore certain that an export permit must be obtained from SECO to export of the CNC lathe to Germany to Amann GmbH (Art. 3 para. 1 GCO).



If Arno Moser's laptop also contains technical data relating to the manufacture of the CNC lathe (listed in category 2E002), authorisation must also be obtained before Mr Moser travels abroad with the listed technology (technology export).

BNZ Maschinenbau GmbH is therefore no exception. 23.1% of Swiss companies active in foreign trade, do so with machines and apparatus as well as electronic goods that are subject to goods control. This represents the category of dual-use goods with which Switzerland trades most internationally.



Used or defective goods are also subject to export controls – insofar as they are specified in the goods control lists – and are subject to an export authorisation.

Subsequently, Peter reviews the further 3 W-questions for this business case.



Who is involved? Amann GmbH, ASK Bank, Hermann Transporte

It must be checked whether none of the persons involved in the business (supplier, customer, forwarder, bank, etc.) is included on a sanctions list.



Where to export to? *Germany*

The question arises as to whether the recipient country is subject to restrictions and to what extent they affect the desired transaction.

The SECO website offers the opportunity to search for sanctioned persons, companies and organizations. In addition, the sanctioned countries are listed with the corresponding sanction measures. Sanction measures could be found neither for Amann GmbH nor for Germany, which is why Peter classifies both the recipient and the exporting country as uncritical.



In total, around **97%** of all Swiss companies maintain business relations with EU and EFTA countries.



Depending on the corporate structure, it may be necessary to take into account other regulations – such as those of the EU, the USA or other third countries – in addition to the Swiss export control regulations.



What are the goods or technologies used **for**? *Production of workpiece*

Due to the fact that Amann GmbH is an industrial company specializing in the manufacture of work pieces (e.g. drive shafts, engine components, gearbox parts) for the automotive sector and that the CNC lathe ordered will be used exclusively for this purpose, the intended use of the goods can be classified as non-critical.

Other warning indicators, which require a more detailed examination of the business, are shown in the table below.

Warning indicators (Red-Flags)	Yes	No
Customer is active in the military sector.		
Customer is active in the government sector.		
Customer rejects routinely and customary business services such as installation, training or maintenance by our company or has them performed by unknown third parties.		
Customer offers unusual payment modalities (e.g. cash)		
Customer demands an unusual degree of secrecy		
Customer is reluctant to provide accurate information on the intended use.		
Customer orders goods outside his ordinary business activity.		
Customer orders an unusually large quantity, measured by his business activity.		
Supplier requires an End-User certificate (EUC).		
Unusual order content as the product properties do not match the specified purpose.		
The ordered goods do not correspond to the technological standard of the recipient country or the customer.		
The desired shipping route is unusual.		

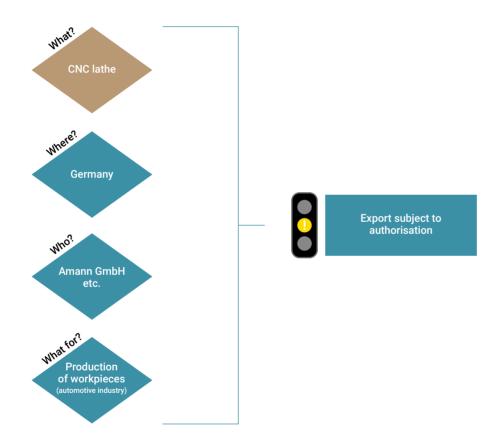


According to a survey conducted among Swiss companies in 2017, the unusual payment methods used by customers, e.g. cash payments of large sums (17%), and customers in the government sector (12.6%) dominate the Red-Flags.

After careful examination of the 4 W-questions, Peter draws his conclusions. The examination of the questions 'Who', 'Where to' and 'What for' did not reveal any indications of a permit requirement. However, the export good 'What' is subject to export control because it is listed as a dual-use good under the GCO system. For this reason, Peter now has to obtain an export permit from SECO.

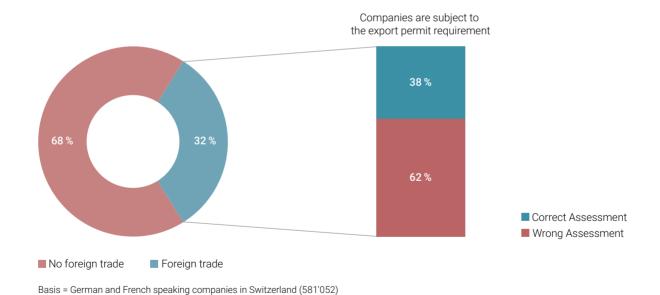
Before he embarks on this yet unknown path, he informs Anna about the new findings.

Examination of the business case: Sale of a CNC lathe to Amann GmbH





62% of the Swiss companies active in foreign trade misjudge their potential export permit requirement.



Source: (Bertsch et al., 2017)

The lack of self-awareness and awareness of the problem can have serious consequences, particularly with regard to personal responsibility in foreign trade, which obliges companies to classify goods correctly and, if necessary, to obtain a permit. Read more about this in 'Chapter V: Risks and side effects'.



Assessment of business cases by means of examination of the 4 W-Questions

- What should be exported? (goods lists)
- Who is involved? (sanction lists)
- Where to export to? (embargo check)
- What are the goods or technologies used for?

Chapter IV: No Pain, No Gain

BNZ Maschinenbau GmbH specializes in the production of CNC lathes for the manufacture of work pieces. Peter Müller realizes that almost all of the company's machines – in as much as they are exported, imported, transited or brokered – are subject to export controls in accordance with the GCO.

What does this mean for BNZ Maschinenbau GmbH?

Peter wants to be clear about the extent and the effort involved. What needs to be changed in the company so that the potential abroad can be exploited in the future without violating the Export Control Act?

The compliant behavior of companies requires adherence to legal regulations and a functioning Internal Compliance Program for Export Controls, or ICP for short. ICP thus refers to an internal export control system.



As every company can be affected by export controls, an ICP should also be a crucial part of the processes of companies active in foreign trade. In addition, proof of a sustainable ICP is a basic prerequisite for SECO to issue an export authorisation.

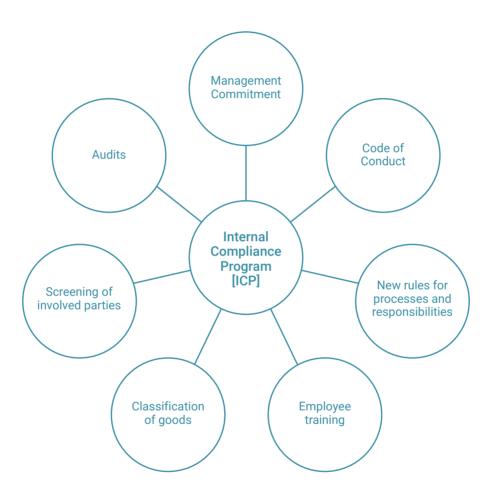
For BNZ Maschinenbau GmbH, this means that an ICP must be implemented in order to be able to process the order to Germany and future foreign orders.

Decisive for the success of the ICP are the commitment, the implementation and the example set by top level management. Managers and executives are role models for compliance with legal regulations and actively raise awareness. A Code of Conduct should set out the company's rules of conduct and awareness of its own actions in export.

Furthermore, processes must sometimes be revised (see Chapter VI) and an internal unit must be defined to monitor compliance with legal and regulatory requirements (e.g. a Compliance Officer/ Compliance Committee). In larger companies, it is advisable to appoint at least one person as Compliance Officer, while in smaller companies, operational areas can also be outsourced to external partners. In any case, responsibility for export control remains with the company.

For an ICP to be successful, extensive and regular training and awareness raising on the subject of export control is of great relevance for all employees directly or indirectly involved in export. Employees should also be made aware of possible procurement risks and risks of misuse of goods with civil application. In addition, the examination and classification of goods on the basis of the lists of goods and the screening of the parties involved against sanctions list are part of an ICP. A functioning ICP is also characterized by the creation of warning lists in order to identify and control risks relating to critical end-uses and recipients. Finally, regular internal audits based on rules and standards, serve to verify the correct implementation of the export control process in the company.

The implementation of an ICP therefore involves a great deal of effort for a company. How the individual elements are precisely implemented is described in 'Chapter VI: The road to success'.



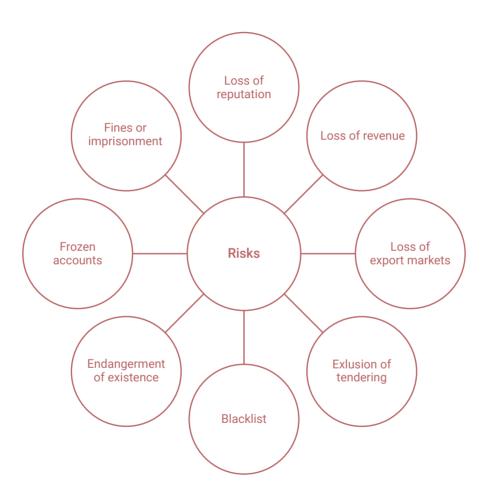
Chapter V: Risks and Side Effects

The self-declaration principle obliges companies to obtain the necessary permits from the respective authorities. Companies must ensure that they are aware of changes in the relevant laws and adapt their internal processes accordingly. For an SME such as BNZ Maschinenbau GmbH, the introduction of an ICP seems to be a high effort. However, Peter knows that the implementation is necessary to obtain an export permit. However, what if Peter had ignored the issue of export control and pretended he had never heard of it? He would export the goods without a permit. However, what are the consequences?

What are the risks and side effects of an illegal export?

A possible breach of the export regulations and a subsequent audit of the company – whether justified or not – may already result in a significant reputational damage. The company and its employees may then face fines, imprisonment, loss of turnover, loss of export markets, blacklisting and exclusion from tenders. In the worst case, a conviction could freeze the bank accounts and endanger the company's existence.

Liability risks can have far-reaching personal and economic consequences for companies and employees. Peter can therefore also be held personally responsible for an illegal export. Under no circumstances does he want to accept these risks.



After examining the 4 W-questions, consulting SECO regarding a potential export permit requirement for CNC lathes and the findings on risks of an unlawful export, Peter decides to inform the managing director Arno Moser.

Arno Moser was not prepared for this. He thought that nothing would stand in the way of his strategy to expand the business into the neighboring markets of Austria and Germany in the future. Following the recognition of the entailed effort, he also asked himself:

Can't we just pretend, as we've never heard of export control before?

Arno Moser had been struggling with a lack of resources for a long time and does not want to spend time and money unnecessarily. Peter informs him about the far-reaching risks of inadequate compliance precautions and emphasizes insisting on compliance with the law.

Awareness of and compliance with legal regulations prevent the risk of fines, imprisonment and the loss of export markets, which contributes to maintaining the competitiveness of companies.



Companies that are actively involved in export control and are aware of potential risks can benefit from their lead in knowledge and regulatory efficiency and enter new markets in compliance with legislation.

Chapter VI: The Road to Success

SECO's confirmation of BNZ Maschinenbau GmbH's obligation to obtain an export permit and the potential risks of a violation of export regulations convince Arno Moser to attach more importance to this issue. The company would like to become more internationally oriented in the future and must therefore implement an ICP within the company, despite the effort involved, in order to monitor the export of the controlled goods.

Peter Müller is commissioned to implement the ICP in the company. Pia Gerber, a consultant, is also called in to ensure that the legally compliant export to Amann GmbH can take place as quickly as possible. Peter became aware of Pia via the Internet. She has specialized in supporting companies with regard to export control regulations and will assist Peter in implementing the ICP as efficiently as possible.



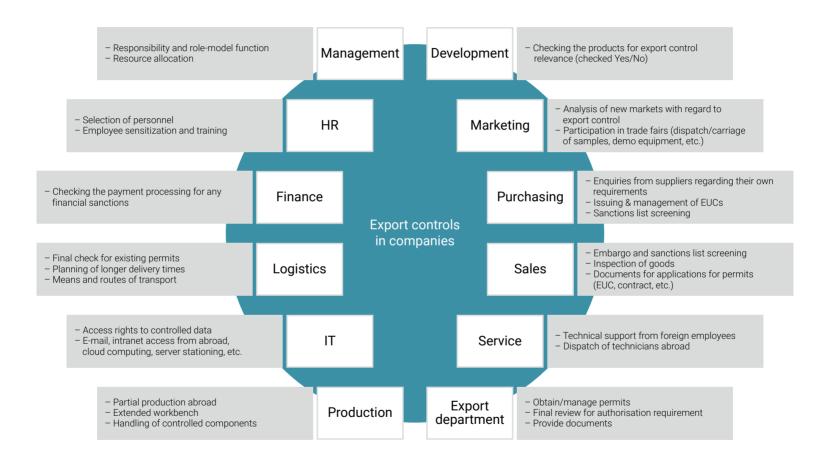
As already shown in 'Chapter IV: No Pain, No Gain', an ICP includes the following activities:

- Management Commitment
- Code of Conduct
- New processes and responsibilities
- Training of all employees directly or indirectly involved in the export process
- Classification of goods according to the goods lists
- Screening oft he parties involved
- Audits

With the support of Pia, Peter begins implementing the ICP at BNZ Maschinenbau GmbH.

In the first step, the commitment of the management has to be obtained. Without the support of Arno Moser, the implementation of an ICP would not be possible. However, Peter was already able to convince him to give export control a high priority in the company. The changes associated with export control are communicated openly within the company. In addition, the issue of export control is included in the Code of Conduct of BNZ Maschinenbau GmbH. Thus, the compliant conduct with regard to export control is anchored within the core values of the company.

Export control affects not only the persons directly involved in the export, but the entire company. The following diagram 'Export control in the company' shows an example of the departments of a company that may be affected.



Consequently, all employees directly or indirectly involved in exports should receive regular training in export control and the associated duties. It is impossible for Peter to take on this task alone. On the one hand, his knowledge of export control is still very limited and on the other hand, he does not currently have the necessary resources to provide training. The support of the consultant Pia is once again in demand. She will carry out the training courses throughout the first year and thus support Peter. In the long term, however, it is planned that Peter will lead the training himself, especially for those employees who are indirectly involved in exports. This represents an initial sensitization with regard to export control. More in-depth training on special topics will continue to be provided by external parties.

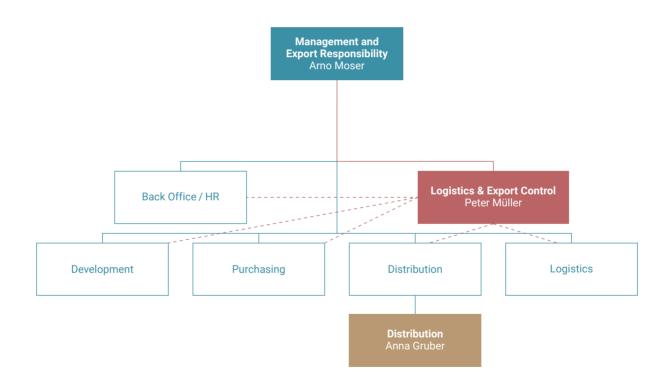
In order for Peter to be able to adapt existing work processes to export control regulations and to avoid conflicts of interest, some responsibilities within the company must be redefined. The organizational structure will be adapted and communicated accordingly within the company.



Export control is a top management issue

For this reason, in addition to his function as managing director, Arno Moser also bears export responsibility within the company and vis-à-vis SECO. He therefore deals with the strategic issues of export control, while Peter Müller now assumes operational responsibility for export control as a staff unit to the management.

In his function as a staff unit, Peter is networked with all areas of the company and in constant interaction with them.



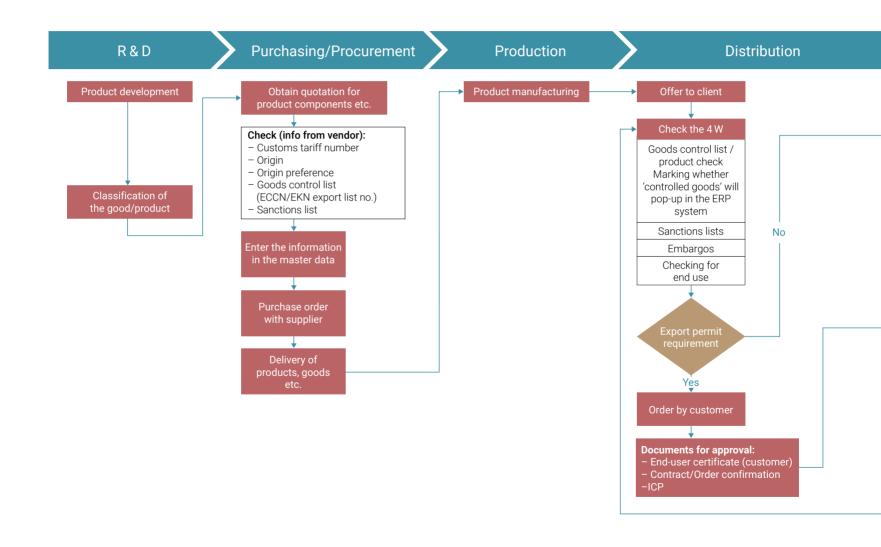
As a next step, the currently existing goods or the company's stock list of articles are classified based on the goods control lists. For this purpose, technical information on products not manufactured by the company itself must be obtained from the respective suppliers. In the case of BNZ Maschinenbau GmbH, almost all machines are classified as subject to authorisation (reference 'Chapter IV: No Pain No Gain' – What is to be exported?) and marked accordingly in the material master database. Consultant Pia recommends that in the future classification should be carried out as early as the product development stage, thus incorporating a further process step into the development process.

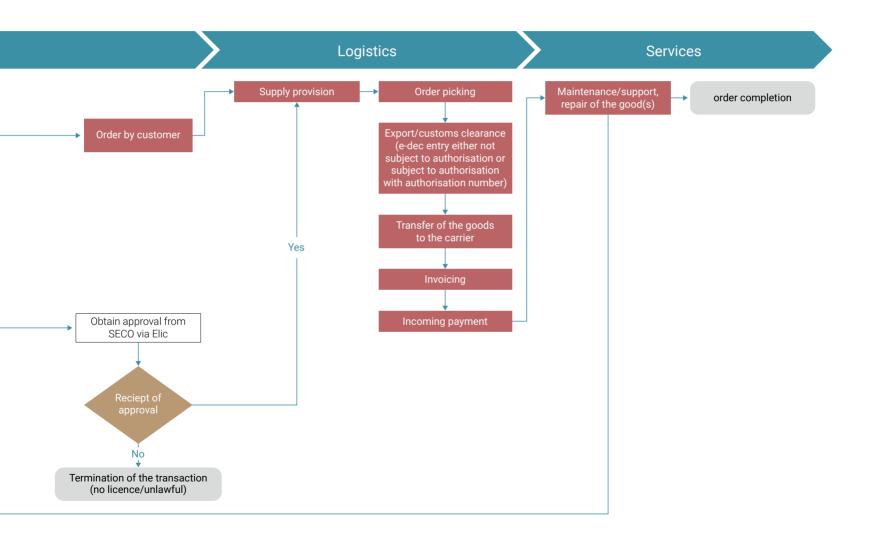
In parallel to the classification of goods, a screening of all parties involved takes place. Henceforth it will already be necessary along with the procurement of product components from external suppliers to request relevant information and documents before doing business with them. Warning lists should be kept for critical suppliers and customers associated therewith.

Internal audits are carried out regularly to check compliance with these export control regulations. Therefore, updated system documentation and legally compliant electronic archiving of export documents are necessary.

At this point in time, Peter and Arno are becoming aware that export control has an impact on the entire value chain. To ensure that Peter maintains an overview in his new function, he examines the value chain and presents it graphically with the respective interfaces for export control (see the following figure 'Export control in the value chain using the example of the BNZ Maschinenbau GmbH').

Export control in the value chain using BNZ Maschinenbau GmbH as an example





When new products are developed, an initial classification of the product components based on the lists of goods is in future to be carried out. In the present case, the CNC lathe was only checked during order processing. Peter has already answered the 4 W questions for the order to Amann GmbH (see 'Chapter III: The 4 W-questions'). On the basis of his inspection, the CNC lathe is subject to export control, as it is a listed dual-use item according to the Goods Control Ordnance. The approval process takes place via the electronic approval platform Elic provided by SECO. Peter asks Anna to request the documents necessary for export from Amann GmbH via Elic. Peter submits the required documents including proof of an ICP on the approval platform.



As a rule, an examination of the export control provisions (answering the 4 W questions) must already take place as part of the offer phase – not only during order processing.

SECO assesses the application for approval submitted. After just a few days, SECO approves the application via the electronic approval platform Elic. The logistics department of BNZ Maschinenbau GmbH can now reference the license number shown in Elic in the shipping documents for the customs clearance to Germany and process the order.

If support services or repairs of the goods should occur during the further business relationship, it must be taken into account that spare parts, services, software and training on site may also be subject to export control and therefore the process (answering the 4 W questions) starts from scratch. After successful implementation of an ICP, export control is day-to-day practice at BNZ Maschinenbau GmbH.

A general export permit for BNZ Maschinenbau GmbH would be the best option for the future. Based on such a general export license, several exports of controlled goods to different countries could be carried out without the individual license procedure, which would reduce the administrative burden both on the company and SECO.

Special consideration along the export control process must be given to the following risk exposures:



Risk positions in the export control process:

- Bank: Export successfully completed, but bank is unable to make payment due to compliance guidelines (reason: embargos, sanctions).
- US (re-)export control with extraterritorial effect: When are Swiss companies affected by US export law?
 - Trading goods with a US connection (procurement, re-export, de minimis rule)
 - Employment of US nationals, green card holders in the company
 - · Deployment of US nationals to non-American subsidiaries, joint ventures
 - Exchange of information with US business partners (deemed export)

The Most Important in Brief

You don't have enough time to read the entire guide, or you would like a summary of the key contents? Then you will find the essential information here in brief.

To ensure that your transaction complies with export control regulations, it must be checked against the **4 W-questions**.



What should be exported?

Inspection of the export goods according to the legal requirements (lists of goods)



Who is involved?

Screening involved parties against sanction lists



Where to export to?

Screening the country of destination for embargoes and sanctions



What are the goods or technologies used for?

Verification of the intended purpose or end use respectively

Export control has an impact on the entire value chain of your company. Make sure you have an internal export control system (ICP) that consists of the following:

- ✓ Management Commitment
- ✓ Code of Conduct
- ✓ New rules for processes and responsibilities
- ✓ Training courses for all employees directly or indirectly involved in exports
- ✓ Classification of goods based on lists of goods
- ✓ Screening of the parties involved
- ✓ Audits

The risks of an unlawful export (e.g. fines or imprisonment, damage to reputation, loss of turnover, loss of export markets) are far-reaching and should under no circumstances be accepted. In addition, personal and economic consequences can arise for the company and its employees.

Companies that actively deal with export controls and are aware of potential risks can benefit from their knowledge advantage and enter new markets in compliance with legal regulations.

In line with the citation quoted at the beginning: 'Logic ends where export control begins'. We hope to have brought a little light into the darkness of export control.

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We live in the age of globalization. Export is vital for the survival of a small country like Switzerland. In addition to international competition, laws, regulations and sanctions present companies with major challenges.

Export control 'in a Nutshell' presents the complex subject of compliance with laws and regulations in the international movement of goods in a simple, short and clear way. The guide helps companies to identify potential export risks at an early stage and to deal with them successfully.

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