BUSINESS FOCUS ON ENFORCEMENT

A review by techUK of compliance and enforcement activity related to export control for electronic systems, assemblies and components

MARCH 2015
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Review of compliance and enforcement activity related to export control for electronic systems, assemblies and components.

March 2015

Introduction

techUK represents the companies and technologies that are defining today the world that we will live in tomorrow. More than 800 companies are members of techUK. Collectively they employ more than 500,000 people, which represents nearly half of all ICT sector jobs in the UK. These companies range from leading FTSE 100 companies to new innovative start-ups. The majority of techUK's members are small and medium sized businesses.

In addition, techUK is connected to a further 5000 organisations through UK-techMap (www.UK-techMap.com) and networks and works in collaboration with umbrella groups, such as ESCO, who provide a forum for all the major Trade Associations in Electronic Systems.

Executive Summary

This review looked at the regulatory processes for export control as it applies to manufacturers and producers of electronic systems, assemblies and components in the UK.

In total, 35 companies with an estimated combined UK turnover of £1 billion responded to either a survey or to direct contact and were consulted, either through the on-line survey, through telephone interviews, company meetings on site, at exhibitions and at a focus workshop. The companies who participated included the UK divisions of four multi-nationals exporting at the system/product level, and several small to medium sized companies at the component and sub-assembly level. All but one company stated that the current enforcement regime in the UK has a negative impact upon their export business compared similar companies or branches of the same company located in the EU and US.

The significant findings are outlined as follows:

Finding 1

- Companies supplying components to military and other non-consumer product manufacturers both within the EU and worldwide are increasingly losing business to competitors in Europe.
  - Within the UK PCB industry, which is well regarded for export of high-end products to Europe, USA and Asia, companies reported lost and cancelled orders during 2014, due to export licence issues, amounting to 20% of their previous year’s exports.
- Equivalent companies or divisions of the same company located in other countries in Europe, such as Germany, Italy and France, have reported that
they do not have to apply for export licences for certain types of electronic components as is the case for UK exporters.

**Finding 2**
- Where UK companies apply for licences to export certain bespoke electronic components, the time taken for the licence to be processed far exceeds the time taken for manufacture of the goods.
  - Companies have reported that the resultant delays in shipping products that require licences increasingly results in lost or cancelled orders and customers placing their orders elsewhere in Europe.

**Finding 3**
- Companies surveyed have reported that the advice and guidance, concerning the classification of products, from both the Export Control Organisation (ECO) and from UKTI recommended consultants is unclear and confusing.
  - Companies have reported that they have been advised to apply for licences only to find out that they are not required while in other cases, a licence type has been recommended, applied for and granted, only to find that is not suitable for the goods to be shipped.
  - Those companies that have used consultants, including those recommended by UKTI, have found that their services can be expensive and unreliable when giving advice about licence applications for electronic components.

From the companies we talked to, we believe that the perceived difficulties in obtaining the necessary licences in the UK verses other markets may lead to companies relocating to Europe or the USA

- The largest of the companies to be interviewed, with a UK turnover of £500M, has already recently relocated its export business to outside of the UK, stating that the current licensing system makes it difficult to run its export business in the UK.
- A leading exporter of high-quality high technology PCBs have said that they are considering relocating to Europe with the loss of 260 UK jobs.
Background

The UK’s Electronics technology sector

Electronics technology is the enabler that drives innovation across every market sector.

The UK’s electronics industry contributes £80 billion to the UK economy (5.4% of the UK’s GDP) and is the bedrock of the UK’s technology sector. It has a complex value chain of organisations involved in design, development and the manufacture of components, circuit boards, systems and products.

Electronics manufacturing and production alone in the UK is estimated to be worth €15 Billion (Figure 1), the third largest in Europe after Germany and France.

Figure 1

Western European Electronic Production 2012: €115 Billion (Excluding Components)

Source: Yearbook of World Electronics Data, Reed Electronics Research

UK Strengths & Capability in a changing Global economy

The growth and opening of the Global market place has changed the face of electronics in the UK over the past decade. The UK’s strength and capability now lies in niche, high value markets, typically defined by complex, low volume products that deliver innovative or high quality features. Key market areas for the UK, and Europe are control & instrumentation, medical & industrial, radio communications and telecommunications (Figure 2)
Western Europe now competes against low labour economies on criteria that deliver high levels of service (response, lead-time, quality, design and expertise). Time to market is now crucial to meet customer needs, and lead-times are typically measured in days rather than weeks.

Furthermore, niche markets, particularly defence and security markets where the UK has a particular strength, now use 'Commercial Off The Shelf' (COTS) components in their Bill of Materials to reduce costs, (rather than bespoke components) - see Annex 1. The inclusion of COTS has tended to increase the number of commercial products which could be used in military applications and which may be classified as ‘dual use’, thereby increasing the necessity for export licences for a wider range of products.

Given these market conditions and the UK’s capability in this sector, it is vitally important that UK exporters are on a level playing field with other EU and Western countries and are not put at a disadvantage by the way export controls are implemented.

About this review

The Better Regulation Executive at BIS commissioned techUK to review the regulatory activity of export control that affects manufacturers and producers of electronic systems, assemblies and components as a pilot project for Business Focus on Enforcement.

The on-line survey was sent out to all techUK members and network members, to the UK-techMap community and to the heads of the ESCO Trade Associations for distribution through their networks. Awareness of the project was also raised by the Europe Enterprise Network.

In total, 35 companies with an estimated combined UK turnover of £1 billion responded to either a survey or to direct contact and were consulted, either through the on-line survey, through telephone interviews, company meetings on site, at exhibitions and at a focus workshop. The companies who participated included the UK divisions of four multi-
nationals exporting at the system/product level, and several small to medium sized companies at the component and sub-assembly level.

Printed Circuit Board manufacturers responded that they have had particular difficulties with negotiating Export Control. In response to growing competition from Asia, UK PCB manufacturers has focused on small volume of high-value boards offering fast turnaround of orders. As such, the industry exports high-end products to Europe, Asia and the USA.

This report surveyed in person all of the major UK PCB manufacturers representing more than 80% by annual turnover of the UK PCB industry.

Annex 1 has a short glossary of unfamiliar terms used in this report.

Annex 2 contains a copy of an email conversation between one of the companies interviewed and their customer, which is typical of other examples seen.
Findings & supporting evidence

Finding 1

- Companies supplying components to Military and other non-consumer product manufacturers both within the EU and worldwide are increasingly losing business to competitors in Europe.
  - Within the UK PCB industry, which is well regarded for export of high-end products to Europe, USA and Asia, companies reported lost and cancelled orders during 2014, due to export licence issues, amounting to 20% of their previous year’s exports.
- Equivalent companies or divisions of the same company located in other countries in Europe, such as Germany, Italy and France, have reported that they do not have to apply for export licences for certain types of electronic components as is the case for UK exporters.

The EU export control regime related to Dual-use items is governed by Regulation (EC) No 428/2009, which provides for common EU control rules, a common EU control list and harmonised policies for implementation. The Regulation is binding and directly applicable throughout the EU.

Dual-use items are goods, software and technology normally used for civilian purposes but which may have military applications, or may contribute to the proliferation of Weapons of Mass Destruction (WMD). The EU therefore controls the export, transit and brokering of dual-use items as a key instrument contributing to international peace and security.

Dual-use items represent a significant portion of EU trade with strategic partners. EU dual-use industries bring together thousands of small, medium and large companies providing high value-added jobs across a wide range of key sectors of the EU economy. Dual-use export controls affect research and development (R&D), production and trade of typically high-tech, advanced products across a wide range of civil industries — e.g. energy, aerospace, defence and security, lasers and navigation, telecommunications, life sciences, chemical and pharmaceutical industries, material-processing equipment, electronics, semiconductor and computing industries, medical and automotive.

In its ‘Report on the Public Consultation’ on a Green Paper on export controls reform, the European Commission also recognises that Export Controls are not uniformly applied through the EU and the licensing system introduces significant delays to exports which affects the ability of EU technology-based company to export (see link to paper and report at: ec.europa.eu/trade/import-and-export-rules/export-from-eu/dual-use-controls/).

"Strategic export controls: ensuring security and competitiveness in a changing world”

The evidence collected during this review finds that companies operating in the UK, exporting to both EU and non-EU countries, for dual use items, experience issues giving rise to delays when exporting. These issues have resulted in lost business and cancelled orders during 2014 of 11% of annual export business in the PCB industry alone.

At the heart of these issues are the lists of products and components that define where an export licence is required. The UK operates with two lists:
- The UK Strategic Export Control List (consolidated lists of export controls)
- The UK Military List

EU Legislation on Export Control has a 'catch all' phrase that has the potential to bring all dual use products into scope for requiring an export licence. Companies surveyed report that this is results in confusion as to whether components are in or out of scope of the legislation. The 'catch all' phrase, used extensively in the EU Dual-Use Regulation 428/2009, refers to:

‘…and specially designed components therefor’

An example of the use of this 'catch all' phrase is illustrated from ML11 on the UK Military List:

ML11 [M-e] Electronic equipment, "spacecraft" and components, not specified elsewhere in this Schedule, as follows:

a. Electronic equipment specially designed or modified for military use and specifically designed components therefore

The 'catch all' phrase; 'specifically designed components therefore' has in the past been the justification to bring into scope standard components, classified as dual use, such as bare printed circuit boards, cables, ‘O’ rings, shields or gaskets. These common components naturally have a degree of design/customisation to fit the environment for which they are intended to be used, however, the companies surveyed reported that their products have no electronic functionality and a small part of a complete electronic system. UK exporters are also able to identify where a different approach is taken in other EU countries; in that export legislation does not appear to be controlled in the same way as the UK.

For example one prominent German PCB manufacturer with significant export trade told us that they do not request the end-use for products that they export. They check the details of the company and country to ensure that the export is not prohibited, but are not required to find out anything further.

As a consequence, the EU suppliers of these components are regarded as more responsive and more competitive.

**Supporting Evidence – Companies are increasingly facing competition from European competitors and are losing business due to UK export licence controls.**

The most valuable evidence supporting this finding came from multi-national companies (small and large) who were able to compare directly the mode of operation for export licences in the UK with the legislation and enforcement from their operations in other locations.

**Interviews at electronica 2014.**

electronica is the international trade exhibition, held every two years in Munich, and attended by virtually all companies from across the global electronics technology value chain. At electronica, techUK were able to interview personnel from EU operations of UK
suppliers. The following three companies supply Printed Circuit Boards (PCBs), laminate materials and completed PCBs, to customers worldwide. All the finished PCBs have a degree of customisation which means they fall under export regulations when the end-use could be a military or dual-use product

- Company A manufacture bare board printed circuit boards. During the interview, it was confirmed that bare board PCBs do not require an export licence in France for non-EU customers whereas their UK operation do require an export licence. This was also corroborated during the Company interview.

- The Managing Director of the European operation of Company B, who also has responsibility for the UK subsidiary, supplies laminate material for PCBs. When asked specifically, what the approach would be at their German operation if they received an order to ship PCBs to Algeria, the answer given was that they would just ship them; no export licence is required for their German operation.

- Interview with company C who supply Printed Circuit Boards which are manufactured in Germany. When asked about export control in Germany for PCB manufacturers, the answer given was that they do due diligence on their customers and find out where the products are to be shipped. Currently, they do not export to Russia, but otherwise there is no restriction in shipping to customers in NATO countries. They do not need to know what the end application is; just where the product is shipped to.

Evidence Collected from the on-line survey

- Company D, a manufacturer of gaskets and components for RFI/EMI shielding reported that:  
  *If the component is straight out of the catalogue, there is no issue. If there is a slight modification, UK companies enter the export control process.*

- Company E, a well-known international supplier of IT & telecoms equipment stated that:  
  *The UK have controls in place, not present in other countries, especially when moving goods within EU countries'*

In relation to ‘dual-use’ they stated that:

*Mass market (consumer) products now have the same levels of encryption as security related IT products. Even educational, medical and agricultural supplies are restricted by export controls.*

- Company F, a Finnish company who recently set up in the UK, had to re-classify a number of components to meet the UK legislation.

- Company G who make products for commercial and professional use stated that they had an order for a commercial product where the end use is China which was supplied via their sales office in Germany. The company asked for an end user undertaking in line with Export Control requirements. The sales office advised them that they compete with other European manufacturer and that companies in
Germany manufacturing similar products do not ask for the same undertakings that we in the UK insist upon.

Their German parent company advised that:

\textit{this export licence requirement menaces all future cable harness business with [customer name] we just started. We compete with other European manufacturers ([competitor named]...) who don’t request these. We, [Company Name] ask you strongly to double check necessity of it personally with ECO again.}

Evidence Collected from direct company interviews

- Company H is a manufacturer of Printed Circuit Boards. They get their export customers to complete an End User Undertaking to check whether a licence is required. However, they have recently had a number of lost or cancelled orders due to their request for this form to be completed. They stated that one of their biggest customers in Scandinavia was asking them where they find online exactly why they have to ask all of these questions and require export licences.

They spoke with their contact in Norway, who procures boards from all over Europe. They confirmed that the UK is the only country that requires the licences for PCBs. Even then the UK companies they deal with all adopt their own approach, some not asking with others requiring User Undertaking forms to be completed. This customer also stated that they have NDAs with their end customers and are often not in a position to let them know the end use.

Company I is a Manufacturer of Printed Circuit Boards. The Managing Director stated that The U.K. appears to be far stricter in applying export control to PCBs compared to other European countries. This evidence comes mainly from customers reactions to receiving a request to complete an End User Undertaking (EUU). Many customers are unwilling to complete these forms, not because the information is not available, but because it takes the buyer some time and effort to complete them. They would rather place the order with a company that does not request EUUs.

As an example, a major international aerospace company in Italy have specifically said ‘do not request an EUU’ – they will not use a company that requests one.

Supporting Evidence - That the business impact for UK companies is lost or cancelled orders

Evidence Collected from the on-line survey

- Company D, a manufacturer of gaskets and components for RFI/EMI shielding, estimated that they lose £50K per annum due to the UK Export Licence procedure. They reported that

\textit{‘Customers Cancel orders due to the time taken to obtain licences’}

\textit{‘Defence companies overseas find the UK’s export control legislation at the component level absurd and will often not work with UK companies, choosing to buy from overseas competitors’}
• Company E, a well-known International Supplier of IT & telecoms equipment stated that they had lost three contracts to the value of £17m in the last year and no-bidded on contracts for about £45m: They said that this was due to:

Lead-times to obtain export licences that have led to cancellations (from clients in Saudi Arabia and Oman). This has led lead to companies looking for local supply of components, as opposed to a UK supplier.

Instead of supplying directly from the UK, this company reported that it had found it easier to export from their offices based in other countries.

• Company wishing to remain anonymous - Supplier of IT equipment
  - Annual loss of business estimated to be £1m

• Company wishing to remain anonymous - Supplier of Test Equipment
  - Annual loss of business estimated to be £100k

• Company wishing to remain anonymous - Supplier of bare board PCBs
  - Annual loss of business estimated to be £500k

Evidence Collected from direct company interviews

• Company wishing to remain anonymous - Supplier of IT & telecoms equipment
  - Annual loss of business estimated to be in the region of millions. Shipments have been re-directed from the UK to export instead from the US, where the export controls are more flexible, especially to ‘friendly’ non-EU countries and/or NGO’s.

Finding 2

• Where UK companies apply for licences to export certain bespoke electronic components, the time taken for the licence to be processed far exceeds the time taken for manufacture.
  o Companies have reported that the resultant delay in shipping products that require licences increasingly results in lost or cancelled orders and customers placing their order elsewhere in Europe.

The significant markets into which UK companies deliver their electronic technology products, systems and components demand high service levels especially with respect to response times for supply, whether relating to engineering change, new products or replacement/service parts.

Lead-times from receipt of order to supply are therefore crucial for the industry; being measured typically in days, not weeks, especially for components.

The enforcement processes of the current export licence control regime in the UK puts the ECO on the critical path for the total lead-time to supply. The granting or otherwise of export licences is a critical part of the export process, and therefore any delays in this process will affect the end user (client or customer).
At a time when the UK is driving exports, especially into non-EU countries, in particular the 'BRIC' countries, it is essential that the export licence control is fit for purpose when considering the competitive nature of the global economy.

**Lead-times in modern manufacturing**

Most manufacturing industries today follow the lead pioneered by the automotive industry over the past three decades where inventory levels are near zero and 'Just-in-Time' manufacturing is the norm. The result is that customer demands for very short supply lead-times are now common place. Industry has reacted by investing in short cycle technology ranging from automated design systems to quick change tooling.

From the evidence collected during this review, it would appear that the ECO process cycle times are not meeting the demands of the industry and this is having an adverse effect upon UK exporters.

**Resource and Capacity**

Figure 3 illustrates the success that the UK is currently having with regards to its export drive. In this figure covering all exported goods it can be seen that there has been a significant increase in exports to non-EU countries since 2010.

**Figure 3 (Source: Institute of Exporters)**

![Figure 3](image-url)

Figure 4 illustrates the number of Standard Individual Export Licences (SIEL) that have been granted by the ECO over the same period, for all exports.
During this period, while exports have increased, the number of licences applications have not kept pace, which points either to a capacity/resource issue, a change in profile of the goods which the UK now exports, more goods being exported utilising the Open General or Open Individual licence type, or increasing non-compliance with the export licence regulations. It was not possible in this review to identify those exports related to electronic components since this information is not available from the ECO.

However, using the end-use category code ML11, which companies have reported as typically being assigned by the ECO SIEL applications where electronic components have an end-use in military equipment, it is possible to analyse a subset of SIEL applications from the ECO SPIRE system.

Analysis of main European Countries to which companies interviewed said they export - Austria, Finland, France, Germany, Italy, Portugal, Spain, Sweden, Switzerland

Over the last 3 years, 2011 to 2014, 675 licence (OIEL and SIEL) applications were processed under categories which included ML11. Only one application was refused - to Germany (reason unknown).

This analysis appears to indicate that licences are almost always granted for exports in this category to the listed countries. In fact, during the company interviews, we were told that the licence refusal to Germany listed in the analysis had been originally made from one of the companies interviewed and was the result of an administrative error made by the company in the licence application.

A common comment by the companies that were interviewed was that their SIEL applications were almost always granted but that there appeared to be no method to ‘fast-track’ their applications.

**ECO Targets and performance (Reference Table 2)**
The ECO deliver comprehensive performance statistics on a quarterly basis. The primary metric is that the ECO complete 70% of SIEL applications within 20 days.
Table 2 (below) illustrates the performance metrics for April to June 2014. On a country by country basis, the ECO met this target for 60% (12 out of 20) of the countries for which export licences were requested. China and India, two key strategic countries identified by UKTI for export potential, did not meet the target over this period.

The ECO process to grant export licences requires that other Government departments are consulted with regards to specific licence requests.

Evidence collected for this review mentioned that some delays (to process export licence requests) were due to an extended consultation period with the Foreign & Commonwealth Office (FCO).

One company mentioned that they had seen the period to grant a licence for countries previously regarded as 'safe', (Algeria), extend to the point where they now expected to lose new business to trusted buyers such as the United Nations. The feedback that this company had been given was that these new delays were as a result of new policies introduced by the FCO.

Their customer was one that they had traded with for many years, but they were applying for a licence due to the current flavour of advice from their latest set of consultants. They tried to get a rating to assess whether the product needed a licence but the ECO rating system had been down for the last four months, therefore the only safe way to find out for sure was to apply for a licence, which they felt was absolutely nonsensical.

In 2013 they did £200K with this customer, not all military necessarily, but a more normal run rate is £80-100K pa. This particular order was worth £6.7K. If they were not able to ship soon they would lose the whole account including the non-military exports.

The company said that they had spent more than the value of this order on people’s time dealing with it – and suggested that this was the essence of the problem – that they were not selling £150M fighter jets, but were selling lots of low value components and therefore needed to sell more parts to generate revenue. They indicated that they believed the licensing system seemed to be designed for big ticket, long lead-time items.

The same company was granted a SIEL after a period of 3 months and an OGEL shortly afterwards. When they tried to export the goods under the OGEL, they found that the licence did not apply to the good that they were exporting and that they would need to apply for a different licence.

The company quoted above raised the question as to whether or not the current enforcement process is necessarily suitable for all export product or all countries. A number of companies interviewed already use risk-based assessment software for their own due diligence and feel that this should be sufficient for certain product types shipping to certain countries.

To verify whether this assertion was justified, we analysed SIEL applications during the period April to June 2014 from data published by the ECO.
Table 2 (below) identifies that in the period April to June 2014, only 32 out 1355 SIEL applications were rejected (2.36%). Many of the countries listed had no SIEL licence refusals during this period, yet for all but one these countries, the median time for a licence application to be processed was more than 3 weeks. It must be remembered that this duration for licence application is on top of the time needed by a company to request the information from their customer for the licence application.

Table 2 - ECO Performance statistics April to June 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Total SIELs issued</th>
<th>Median processing time, days (SIELs/SITCLs)</th>
<th>SIELs/SITCLs completed in 20 working days (% and number)</th>
<th>SIELs/SITCLs completed in 60 working days (% and number)</th>
<th>Number of OIELs/OITCLs rejected</th>
<th>Number of SIELs/SITCLs refused</th>
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<td></td>
<td></td>
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</table>

% of countries where SIEL 70% target is met: 60.00%
% SIELS refused: 2.36%

Source: ECO performance dashboard April to June 2014

During interviews and the workshop; industry clearly identified a clear need for export control legislation, however many commented that the 'one size fits all' approach was not delivering the lead time performance demanded by global customers. The performance statistics in Table 2 indicate that the median process time ranges from 12 days to 22 days. However, this median obscures the actual 'best' and 'worst' process times. One company interviewed during this review reported that one of their export licence applications was still outstanding at up to twelve months (radiation detection equipment for India) and another company mentioned that their licence application had been rejected after waiting for twelve months when the application relating to it was discussed at Cabinet level.
Finding 3

- Companies surveyed have reported that the advice and guidance, concerning the classification of products, from both the ECO and from UKTI recommended consultants is unclear and confusing.
  - Companies have reported that they have been advised to apply for licences only to find out that they are not required while in other cases, a licence type has been recommended, applied for and granted, only to find that it is not suitable for the goods to be shipped.
  - Those companies that have used consultants, including those recommended by UKTI, have found that their services can be expensive and unreliable when giving advice about licence applications for electronic components.

This finding may be symptomatic of Finding 1, where companies are observing a different enforcement regime in other EU countries and the US based upon the interpretation of the EU legislation, and the ‘catch all’ wording within the UK lists.

As a result, some of the companies interviewed have turned to third party consultants/experts for guidance. They reported that the consultancy services are expensive, especially for SMEs, but more importantly that the outcomes often do not clarify or resolve the issues highlighted in this report. Ultimately, the consultants default to the strictest interpretation driving companies to test whether or not they require a licence by making a SIEL application.

Feedback received from one consultant to a company was as follows:

‘At the moment we are unsure as to whether [Company Name] goods require a licence or not therefore until such time as you have received confirmation from BIS (either by a licence being issued or returned as ‘no licence required’) I must advise that the items are not exported to prevent any breach. It is not particularly helpful that the ‘rating’ service has been suspended by BIS, and has been for a number of months, as in the past we would have submitted a rating request in the first instance and would have received a response fairly quickly as to whether your items were licensable or not.’

Whilst the consultant above has referred to the issue that the ECO currently have (that the ECO online system for rating whether or not a licence application is required has been suspended since June 2014 due to IT issues), it should be noted that companies using consultants also mentioned that the lack of clarity and clear guidance was evident prior to the systems suspension. The consultant interviewed advised that licence applications were prioritised over requests for advice because the ECO has a statutory need to process them in a timely manner.

One company interviewed has invested in a third party software package ‘Amber Road’ (cost estimated to be approximately £17k excluding training etc.). Once again, although this was an expensive investment for the SME, the software package did not resolve the issue of interpretation.

Interviews with other companies highlighted a different strategic approach in that they accepted that all their product would require licensing and were prepared to manage the
current process 'as-is', accepting the issues concerning delays and requests for end user declarations from their customers.

Where companies have paid for bespoke training directly from the ECO, this was seen as very professional and beneficial and yet other companies interviewed said that they were not aware that this training service was available and that the schedule of training courses from the ECO is not readily accessible or visible online.

Companies reported that online guidance on the Gov.UK website is comprehensive, yet somewhat circular when following the recommended links. Ultimately, companies have still to assess whether or not their product requires a licence which means searching through the lists or testing the process by making a licence application.

Due to the uncertainty of whether a product is within scope (of requiring an export licence) or not, companies choose (or are advised by consultants) to use the SIEL application process to test this issue. This scenario is placing additional demands upon both the exporter and the ECO.

They reported that costs to administer the export licence process within companies varied according to size (and number of licences required), and ranged from 10-20 days per annum to 2-3 FTE's per annum for an SME. Often, senior Directors from the companies were engaged in the process due to the nature and purpose of the process. However, more importantly, the companies interviewed highlighted the lost business due to uncertainty over whether a licence is required to export their product.
Annexes

Annex 1 – Glossary of terms

Commercial off-the-shelf (COTS)
This term originated over 10 years ago in the USA as efforts were made to source software and components for US Government projects from commercial sources and significantly reduced cost to bespoke components. The term COTS is originally attributed to William Perry in 1994. The changes in specifying and sourcing components has significantly eroded the market for electronic components manufactured to military specifications such that the majority of electronic components used for military equipment are now exactly the same as used in commercial equipment. Drilling down from the equipment to the component level reveals a variety of components that are inherently dual-use – restricting export from the UK has virtually no impact on the end user since these components could be sourced from elsewhere outside of the UK.

Even where equipment has been designed specifically for military use (in missiles, aircraft or battlefield equipment) the electronic components used are COTS and can be sourced globally.

Controlled Goods
These are strategic goods that include military equipment, dual-use goods (goods that can be used for both civil and military purposes), products used for torture and radioactive sources. The export of these goods is controlled by a licensing system to ensure that they do not fall into the wrong hands. Data related to these controlled goods, including software or information transmitted by electronic means, is also controlled and covered by the licensing system.

Export Licence terms used

Standard Individual Export Licence (SIEL)
This is the most common form of licence and is applied for to export controlled goods or an item or component used in the manufacture of controlled goods. It applies to a specific order or group of orders for a specified total quantity to a specific customer and is valid for 2 years. This is the easiest licence to apply for and some companies use this application process to enquire whether a particular product or destination requires a licence.

Open Individual Export Licence (OIEL)
Where a number of SIELs have been granted for a specific product and destination country, an exporter may apply for an OIEL. An OIEL covers multiple shipment of products to multiple named destinations. An OIEL takes approximately 3 months to be processed but is valid for 5 years. An exporter must have a track record of several (20+) SIEL applications of the type of product expected to be exported to destinations in the OIEL to be considered.

Open General Export Licence (OGEL)
A company can apply to use an Open General Export Licence if the products that they export are listed. An OGEL can be used immediately after application, but the application
itself takes about 6 months to process and requires an assessment of the exporters control systems. An exporter is required to keep detailed records of the products and destinations for items covered by the OGEL and the ECO visit periodically to check these records. Product may be exported under the licence while the application is processed and the licence may be reviewed by the ECO and revoked where necessary. In addition to specific OGELs, there are a number of OGELs that cover specific products and/or destinations which any exporter may apply to use.
Annex 2
The following email has been kindly provided by one of the companies that was interviewed and is typical of the sort of email that is being received from overseas customers. The company details have been removed for reasons of confidentiality.

admin system - SV: URGENT - Export Licence

From:
To:
Date: 20/11/2014 13:04
Subject: SV: URGENT - Export Licence
CC:

Hi ,

I'm so sorry, but it's too much time for us regarding all the specifications problems and license questions so unfortunately we want to cancel the entire order 54264. Please confirm thanks.

Med vänlig hälsning/Best regards,

---

Från:
Skickat: den 20 november 2014 11:31
Till: L
Ämne: URGENT - Export Licence

Hi Mikael,

Our UK export control would like to know a bit more about the products:

Please provide full details of the specific surveillance radar/data link for which the printed circuit boards to be exported are specially designed. Please could you also clarify the specific piece of equipment which they are incorporated into, as it is unclear, and whether the data link is part of the surveillance radar or separate.

Please could you provide a response as fast as possible as this will delay the delivery of your board.

If you are having some difficulties to get the answer please let me know and I will contact directly.

With many thanks
L

Best regards / Cordialement

file://C:\Documents and Settings\User\Local Settings\Temp\GWJ00004.HTM 04/12/2014