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REFORMING EXPORT CONTROLS

Major review of long-standing rules could yield benefits to U.S. manufacturers, NAM says

A SIGNIFICANT REFORM of U.S. export controls long criticized as deeply flawed and counterproductive is in the works, and exporters hope for major changes in the regulations.

Frank Vargo, vice president for international economic affairs at the National Association of Manufacturers, an outspoken opponent of the system, calls export controls "a great promotion program for our competitors," but not for U.S. export-

vent the Soviet Union from gaining access to high-technology products the U.S. alone produced. But many of the products on the controlled list are no longer state-of-the-art or exclusively produced by the U.S.

"The system controls a lot of products where the technology is obsolete," Vargo said. "And a lot of these products are not controlled by our competitors," who already manufacture them. Vargo said

Choice Logistics, which manages those logistics processes for companies such as Avaya, Hitachi and Pitney Bowes, just unveiled a free tool that facilitates compliance with export control rules. Michael Notarangeli, vice president of field operations at Choice, said many shippers are frustrated about the arcane complexities of export compliance.

The new service does not determine whether an exporter needs a particular license; that's up to the exporter. But the Choice service does match customers' exports against lists of foreign denied parties and restricted entities.

Choice doesn't charge for its new service, but it hopes it will strengthen the loyalty of old customers and win new ones. "We have to eliminate any delay in getting to market," Notarangeli said, "and export compliance is another delay."

This is "an emerging issue" for many U.S.-based manufacturers, Notarangeli said, not only because supply chains are getting leaner during hard times but because customers increasingly fear they will be slapped with costly and embarrassing penalties if they fail to comply. With this kind of service, customers can view online their inventory balance anywhere in the world so they can tell when and where they need to ship a controlled (or uncontrolled) export on short notice.

Growing demand for services such as these provides "more proof that the export control system is broken and obsolete," Vargo said. The good news, he added, is the NAM and its allies "are getting an open door in this (Obama) administration." In talks with officials at Commerce, State, the National Security Council and with Congress, "we are getting a remarkable level of agreement that the time has come to change the system." **JOC**

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ers. "To survive in today's market, you've got to be quick," he said, but U.S. exporters alone must comply with complex rules that make it harder for them to sell to foreign markets.

A remnant of the Cold War, the regulations have remained in place for decades because U.S. exports were growing at a brisk pace in response to strong demand overseas. With the global economy mired in recession, U.S. Commerce Secretary Gary Locke recently ordered a review of export control regulations, making it a key part of an upcoming, comprehensive plan to boost U.S. exports.

It's a long overdue step, Vargo said. "The current system is inadequate, and needs to be changed," he said. "It is hurting U.S. national security, not helping it."

Although export controls are unlikely to vanish, the scope and details of the program could change significantly. The export control system was designed to pre-

vent the resources of the State and Commerce departments "are finite," and are being used to control obsolete technologies, "instead of protecting what is really sensitive."

On the positive side, the complexities of U.S. export controls have opened plenty of business opportunities in recent years for technology providers that offer automated denied-party and screening tools for U.S. exporters who must comply with the rules. Major suppliers include TradeBeam, Management Dynamics and GT Nexus.

More recently, concern about export compliance rules also has been spreading among manufacturers that need to export key U.S.-made replacement or service parts to their overseas customers quickly, often overnight. Uncertain about how long the recession will last, many U.S.-based manufacturers are postponing their purchases of expensive capital goods in favor of shipping vital replacement parts from the U.S. to their foreign-based operations.