AEB

Transforming your ERP system into an export powerhouse

Four benchmarks for putting your ERP system to the test in export controls – and ten tips to ensure it passes with flying colors

Contents

1. Executive Summary

Companies that engage in international trade rely on effective export controls processes throughout their supply chain. The legal ramifications of violating export control laws can really hit businesses hard. Punishments range from monetary fines to the loss of customs privileges. You can examine the key issues of export controls by asking yourself the following four questions:

Who am I shipping to?
Your business has an obligation to conduct proper sanctions list screening. This means checking all your business partners to ensure they are not on any restricted party list.

Where am I shipping to?
Your business is responsible for performing embargo checks. Shipments to countries under embargo must comply with the restrictions and licensing requirements in place for the destination country.

What am I shipping?
Asking this question helps your business ensure it's checking the goods going out the door. All goods must be classified according to export control lists.

What will the goods be used for?
If you know that the designated end-use of the goods is classified as critical under export control laws, you need to apply for an export license.

To minimize costs, maximize efficiency, and reduce delays, it is best to integrate such controls directly into your existing workflow.

ERP systems show their strengths in the areas of production, distribution, accounting, finance, and human resources – but they reach their limits when it comes to export controls. Experience has shown that export control functionalities are best managed with specialized programs connected through standardized interfaces rather than directly in the ERP system itself. This white paper helps you determine whether your ERP system is up to the task of export controls and offers tips for achieving this goal.

2. Your business is ready to export ...

With strong competition and economic uncertainty in many domestic markets, companies continue to expand internationally to benefit from business growth and to diversify risk, as well as enhance their business reputation. Free trade agreements, the continued trend in growth in emerging markets along with reduced barriers through better e-commerce make the step into exporting ever more desirable.
Companies who are already exporting report increased sales and business growth following their entry into international markets.

International trade however relies on the goods being able to move freely. Geo-political tensions for example see newly imposed sanctions which can impede global trade. This is just one reason why a keen understanding of export processes is so important. Which products are best suited to the various markets? What is the best go-to-market strategy for my business? How do I find the right partners and agents? Which customs and foreign trade regulations do I need to follow? What are the potential pros and cons for my business?

Compliance is a topic of growing importance in foreign trade legislation. If you export, you must verify that your shipments comply with all embargo regulations and licensing requirements under export control regulations. The key regulations to keep an eye on are the EU embargo regulations, the EC Dual-Use Regulation 428/2009, whilst also keeping in mind any national regulations that may be applicable. If your activities fall under US jurisdiction, you may also have to comply with the US Export Administration Regulations (EAR) or even the International Traffic in Arms Regulations (ITAR).

... but is your ERP system ready?

The challenges associated with sales and distribution, business administration, and of course legal compliance have given the export sector a level of complexity that has long since transcended the capabilities of manual processes. IT support is both a good idea and a necessity here.

Most companies turn to ERP systems to address all the relevant issues under a common IT umbrella. ERP systems model all basic business processes, from ordering to invoicing, with a focus on the four key categories of administration, material planning, information, and analysis.

ERP systems are deployed primarily in the areas of production, sales, accounting, finance, and human resources.

Several providers have also developed logistics modules – and export control solutions. The benchmark for export control modules is the ability to reliably manage the four-step export control process and alert the user when a compliance officer needs to intervene. They should also be seamlessly integrated into the other business processes to ensure fast, efficient export processes.

3. Export controls – rules you (and your ERP system) should know

"Check before you ship" – that's the golden rule of export controls. But what exactly do you need to check? And what exactly must your business do to ensure compliant exports?

The four pillars of export controls are as follows:

- **Check shipments to critical business partners (sanctions list screening)**
- **Check shipments to critical countries (embargo check)**
- **Check shipments of critical goods (goods check)**
- **Monitor certain designated uses through export controls (end-use check)**

Each of the four pillars focuses on a specific theme and requires its own tools and screening lists. So what are the key facets of each pillar?

Sanctions list screening:
Sanctions list screening is always cited in conjunction with export controls, but it is not actually specific to international transactions. You must screen your business contacts against sanctions lists even if the transaction is purely domestic.

Sanctions list screening means checking business contacts for any possible current financial sanctions. You are prohibited from directly or indirectly providing financial or economic resources to the persons and organizations named in the applicable sanctions lists. Every company is responsible for ensuring its own compliance by screening all their business transactions against applicable sanction lists (possibly multiple times during the life of a transaction) .

If your activities fall under US jurisdiction, you must also comply with a series of US blacklists in addition to applicable European and national lists.

The vast scope of these lists and the frequency of changes to them make it entirely impractical to try to carry out the proper screening and maintain the system manually. Software solutions give you access to the latest lists, ensuring a
reliable, automated screening process.

Country check:
The country check in the context of export controls means checking against the countries under embargo. Embargoes are economic sanctions imposed on certain countries for foreign policy or security reasons. Foreign trade with countries under embargo is restricted according to the terms of the current embargo regulations. Embargoes are special legal regulations that take precedence over general export control regulations for international trade with the countries in question.

Each provision of an embargo, depending on its intent, can affect very distinct economic sectors of the country under embargo. If you wish to do business with a country under embargo, you need to carefully study the embargo regulations in effect for that country. The embargo regulations define which bans and restrictions apply to a particular country.

Goods check:

Export control laws apply not only to military goods but also to dual-use goods: items with the potential to be used for both military and civilian purposes. Product lists are the traditional instrument of export controls. They serve as a point of reference for legislation and thus the basis of licensing requirements.

Your first responsibility is to check your own product portfolio to determine whether it contains any of the items on the product lists that are subject to export controls. Typically the lists of controlled goods include precise technical specifications of each product. The primary distinction is between the product lists for military goods and those for dual-use. If your activities fall under US jurisdiction, you must comply with the United States Commerce Control List (CCL) for dual-use goods and the United States Munitions List (USML) for US munitions in addition to national and EU product lists.

End-use check:

Export control laws may contain "catch-all clauses" that trigger licensing requirements even for non-listed goods if the exporter is aware of an intended use for example:

- **Use for biological, chemical, and nuclear weapons or missile technology**
- **Military use in a country under an arms embargo**
- **Use in conjunction with earlier illegal munitions exports**
- **Use for nuclear technology in certain countries**

They key is always what your employees know, so it's important to properly sensitize those who have any contact with customers. If an export control check finds restrictions, your company must comply with the terms of the export control laws. If a ban is in place, the planned transaction must be aborted. If a license is required, you must apply for one.

4. Limits of ERP systems in export controls – and the smart way to get around them

ERP systems are veritable all-rounders in the world of IT. Their strength lies in maintaining data across the various functional areas of a business. This means you always have quick access to the business transactions and analyses you need.

But there's a downside to this: The solutions currently available do not always offer the depth you need for highly specialized tasks. This is evident in the area of export controls as well. The major ERP providers offer a variety of export control features, but nowhere on the market will you find ERP systems with a "turnkey" export control functionality.

So how can you secure global trade compliance with ERP systems? There are different possible approaches here.

Your business can hire an expert to program the export control functionality into your ERP system. But an IT project of this magnitude is prohibitively expensive and complex – a disincentive to many businesses. Besides, follow-up programming will be needed whenever the laws change.

Another point to consider: ERP providers do not supply the content needed for export controls to function properly – the current sanctions lists, embargoes, and product lists – so it typically falls to businesses themselves to obtain this essential information elsewhere and feed it into the system manually. That's why it is common practice to supplement the ERP system with a specialized solution for export controls that can be integrated with the ERP system using standard interfaces. This approach is user-friendly and can be implemented without major reconfigurations of the ERP system.

Specialized solutions designed as plug-ins take this a step further, as they can be integrated seamlessly into the standard processes and user dialogs of the ERP system. In the best-case scenario, you won't even notice that another program is working in the background to manage export controls.

The specialized export control solutions work hand in hand with the ERP systems, stopping any transaction that is subject to export controls – blocking further processing of a shipment, preventing an invoice from going out, etc. – until the transaction can be properly checked. Once all the necessary data is available, authorized users can remove the block with a single click. This ensures compliant processes.

ERP systems are veritable all-rounders in the world of IT. Nevertheless, it often makes sense to turn to the

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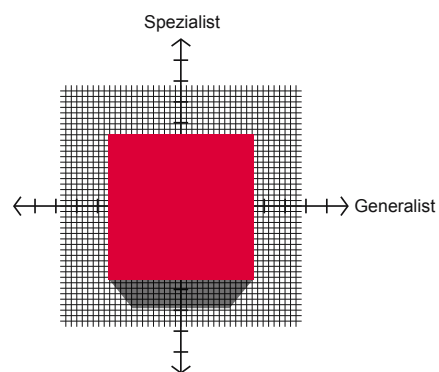
functionality of specialized solutions.

5. Checklist: Is your ERP system designed to make exports easy?

IT support of the export control process should meet two basic benchmarks. First, IT should help your business comply with its legal responsibilities and reliably identify any applicable licensing requirements and bans. Second, your IT solution should run the complex export control checks efficiently and with as little manual intervention as possible – and be optimally integrated into your workflow.

But how can you tell whether your own ERP system is up to the task? The following checklist can help you put your system to the test:

01. The sanctions lists are automatically updated, virtually eliminating manual tasks. ◯ Yes ◯ No

02. The system sets a delivery block whenever it identifies any irregularities during export controls. ◯ Yes ◯ No

03. The ERP system can launch ad hoc queries of sanctions lists (when you enter new customer data, for example) and run them automatically in the background. ◯ Yes ◯ No

04. The compliance officer is automatically notified (e-mail, etc.) of any irregularities in the export controls. ◯ Yes ◯ No

05. You are notified of the results of export control checks early on in the process – not only right before the goods are shipped. ◯ Yes ◯ No

06. The ERP system does not need to be reprogrammed every time the export control regulations change. ◯ Yes ◯ No

07. The system alerts when licenses are due to expire. ◯ Yes ◯ No

08. Export authorizations are automatically attached to the export declarations and sent to customs in a single transmission. ◯ Yes ◯ No

09. The system checks whether licenses are already available or need to be requested. ◯ Yes ◯ No

10. If a shipment is flagged during export controls, the system generates a link to the underlying legislation, eliminating the need for a manual search. ◯ Yes ◯ No

If you answered "No" to one or more of the above questions, you may benefit from better integration of your export control processes into your ERP system. Consult an advisor or specialist to talk through the issues, identify where improvement is needed, and ensure greater legal protection for your exports.

6. Ten tips for improving your export performance

Tip 1

Ensure the data in your ERP system is of high quality. The efficacy and efficiency of export controls depend on proper maintenance of the underlying master data (commodity codes, export control numbers) in your ERP system.

Tip 2

Incorporate the timing of export controls into your process design. Remember that if you run export control checks too late, you may delay order processing and create unnecessary work for yourself.

Tip 3

The ERP system should automatically stop processing a transaction – blocking further processing of a shipment, for example – in the event of non-compliance or if a necessary export authorization is missing. This block should only be lifted by a properly authorized person after all open questions have been resolved.

Tip 4

Your compliance officer should automatically be notified of any match during a sanctions list screening or export control check. This ensures complete awareness of any bans or licensing requirements in effect at your company.

Tip 5

Experience has shown that it is a good idea to have the export control logs link to the relevant legislation when irregularities are identified. This eliminates the need for a lengthy search, lets you better assess the problem, and helps you decide what course of action to take.

Tip 6

Integrate your exports and export controls. You work more efficiently if the results of the export controls – export authorizations, etc. – are automatically attached to the export declaration sent to the customs office.

Tip 7

Make sure that your operational and organizational procedures are always up to date.

Tip 8

Make sure that the lists you rely on for export controls (sanctions lists, product lists, etc.) are regularly updated. Updates should be automated.

Tip 9

Export license expiry alerts will reduce the risk of shipments being delayed while waiting for license applications.

Tip 10

Effective export controls require a combined effort between human users and IT systems. Train and sensitize the employees of all relevant departments, including sales and administration – not only those who process your export transactions. Your sales team may have information readily available that those processing the order would otherwise have to track down.

7. What is a white paper?

AEB defines a white paper as a document providing qualified, unbiased information on a particular topic. White papers may deal with laws and regulations, standards, technologies, solutions, or processes – analyzed and explained by our experts. A white paper reflects current understanding at the time it is written – subsequent changes in the underlying circumstances cannot be ruled out.

8. About AEB: Expertise for SCM, customs, and IT

AEB is a global enterprise with over 400 employees and 5,000 customers. AEB helps businesses standardize and automate supply chain processes with the ASSIST4 integrated software suite and through consulting and other professional services. AEB solutions integrate global trade and logistics processes, embedding customs clearance, export controls, and preference management in solutions that manage the global supply chain.
The result is a faster, smoother, more efficient flow of goods. ASSIST4 also brings greater transparency to the supply chain and makes it possible to monitor and control shipments all the way to their final destination.
AEB is headquartered in Stuttgart, with offices in Hamburg, Düsseldorf, Munich, and Soest and development centers in Mainz and Lübeck.
AEB has international offices in the United Kingdom (Leamington Spa), Singapore, Switzerland (Zurich), Austria (Salzburg), Sweden (Malmö), the Netherlands (Rotterdam), the Czech Republic (Prague), France (Paris), and the United States.

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