

**Export Control Reform Initiative Factsheet #5:**  
**Improvements for Small Businesses**

**Does the Initiative address the needs of small companies?**

The President's Export Control Reform Initiative is designed to facilitate secure trade by all U.S. exporters, particularly small businesses. Small firms account for 99.7 percent of all employers, comprise 98 percent of all identified exporters, and account for 33 percent of export value,<sup>1</sup> yet the smallest firms (those with fewer than 20 employees) spend 36 percent more per employee than larger firms to comply with federal regulations.<sup>2</sup> Small businesses are the engine of technological innovation. It is in U.S. national security interests to ensure that these small businesses can successfully navigate the nation's export control system.

**How will reform assist small firms?**

The Administration's reform plan will assist small firms in all four areas of the initiative:

*In what we control*

- Rebuilding the two control lists will result in moving – but not de-controlling – large numbers of items, mostly parts and components predominantly manufactured by small businesses, from State's munitions list to the more flexible Commerce Control List.
- Clarifying what is controlled on which list, ending jurisdictional confusion and making it easier for exporters, especially small businesses, to comply and harder for unauthorized or illicit procurement of U.S. controlled items contrary to U.S. national security and foreign policy interests.
- The transfer of items to the Commerce Control List will significantly ease the regulatory and compliance burdens on small businesses by:
  - Removing the annual registration requirement and the related annual registration fee for an estimated 60 percent of current State Department registrants. Currently 68 percent of all registrants never export.
  - Removing the requirement for a multitude of authorizations – whether individual export licenses, Technology Assistance Agreements to tell customers how to incorporate the exported item, or Manufacturing Licensing Agreements to produce near the customer.
  - Removing the “see through” rule which requires the manufacturer to inform all domestic and foreign customers that the U.S. item is controlled as a defense article and never loses its identity, regardless of what it is incorporated into, thus making all of those customers' products U.S. munitions items as well until the original item is destroyed or permanently returned to the United States.

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<sup>1</sup> Small Business Administration, Office of Advocacy, [www.sba.gov/advo](http://www.sba.gov/advo), September 2012.

<sup>2</sup> Small Business Administration, Advocacy Small Business Statistic and Research; <http://web.sba.gov/faqs/faqIndexAll.cfm?areaid=24>

- Largely eliminating the design-out of U.S. origin items, particularly parts and components, because of the scope and complexity of the current U.S. export control system.
- Bolstering the health and competitiveness of the U.S. industrial base, as Allies will no longer need to second source parts and components elsewhere to eliminate the “taint” of U.S. munitions control, which will help maintain and create jobs.

#### *How we control items*

- The movement of items from one list to the other will allow predominantly parts and components to be exported under the more flexible Commerce statutory authorities, including under a license exception, which is a type of U.S. Government authorization that allows a controlled item to be exported under defined conditions without a transaction-specific license.
- Most parts and components moved to the Commerce list will be automatically eligible for License Exception Strategic Trade Authorization (STA)(see Factsheet #4), which will permit their export without a specific license but with enhanced compliance requirements for ultimate government end-use in 36 countries which are Allies and partners.
- It will also allow for end-items to be considered for comparable treatment after one-time U.S. Government review.
- Any items exported under License Exception STA includes an additional compliance measure that includes a requirement that every recipient of these items to sign a written certification that they understand and accept the U.S. export control requirements. This will assist small firms in their compliance and the U.S. Government will continue to have a paper-trail to ensure compliance and to enforce U.S. controls.
- These improvements will:
  - enhance the long-term health and competitiveness of the U.S. industrial base, which includes maintaining and creating jobs;
  - bolster the security of supply from small companies that are second- and third-tier suppliers to the U.S. and Allied militaries;
  - help to create reliable supplier relationships between U.S. exporters and foreign customers; and
  - make it easier for U.S. companies, especially small businesses, to engage in secure trade, ensuring that the nation’s export control system is working as intended to prevent items from ending up where they should not.

#### *How we enforce*

- The complexity of the current system is especially challenging for small businesses, which must implement complex compliance programs. The Administration’s efforts in rebuilding the control lists, to include standardizing terms, will make such systems easier to administer.
- The Administration consolidated the multitude of screening lists of the Departments of Commerce, State, and the Treasury into one electronic list to help exporters, especially small businesses, to evaluate parties to transactions. Most small businesses do not have the resources to hire a screening service or to read the *Federal Register* every day.

- Exporters can download and screen proposed transactions against the consolidated list, which has almost 24,000 entries, making it easier for exporters to comply. In 2013, the average number of monthly downloads is 34,000.

*How we utilize Information Technology (IT)*

- Prior to Export Control Reform, all the departments involved in export licensing operated on a number of separate IT systems, requiring companies to engage each system separately. Filing with the wrong department or agency results in an exporter losing weeks or months and, in some cases, starting the process all over again.
- All the departments are moving to a single, secure licensing IT system administered by the Department of Defense. The Department of State moved to the Department of Defense system in July 2013, and the Department of Commerce will follow by early 2014. In the near-term this will ensure that a small company's licensing application is sent to the appropriate licensing agency without the need to start the process over again.
- In the long-term the Administration will build a single electronic portal for exporters, allowing for one place where exporters can file and receive export licenses. This will be especially beneficial for small businesses that do not have the resources to navigate multiple systems.
- The Administration has already developed a single license application form, to replace up to 13 separate documents used across the three licensing agencies. Once fully developed, it will be used as the basis for building the single electronic portal.

*To follow developments on the reform initiative, visit [www.export.gov/ecr/](http://www.export.gov/ecr/)*