

Owner:	Group Legal	
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SPECTRIS plc

6 TRADE CONTROLS COMPLIANCE

6.1 Export Controls Policy

It is the express policy of Spectris plc that all Spectris businesses shall at all times fully comply with all applicable export controls, including (where applicable) US reexport controls. Strict adherence to export control laws is required of every Spectris officer, employee and agent.

Failure to comply with export controls can subject Spectris businesses—as well as their officers, employees and agents—to severe criminal and civil penalties or other sanctions, as well as damage Spectris’ reputation as a good corporate citizen. Because of the fundamental importance of complying with all applicable export controls, employees who knowingly violate such controls, or who violate this compliance policy, will be subject to appropriate disciplinary action, up to and including possible discharge from employment.

The designated Export Controls Compliance Officer at each of the Spectris companies has primary responsibility for ensuring compliance with all applicable export controls. These Export Controls Compliance Officers are also responsible for the development, implementation and updating of a local Export Controls Compliance Manual, regularly training employees on export controls, ensuring that products are classified for export control purposes, determining licensing requirements and auditing their company’s compliance with export controls. Any employee aware of or suspecting questionable conduct or potential violations of export control laws should immediately report these concerns to the local designated Export Controls Compliance Officer.

The following requirements set out the minimum expectation of Spectris plc. The particular products or technologies of individual businesses may mandate the need for additional processes or controls.

6.2 Background to Export Controls Requirements

Under the Wassenaar Arrangement, 41 countries (including the US and EU member states) have agreed to maintain national export controls on conventional arms and dual-use goods, technologies and software (collectively “items”) that are identified on mutually agreed upon lists. The Wassenaar Arrangement ensures a degree of uniformity among the export controls imposed by cooperating countries, although these controls are implemented under national legislation and thus the actual implementation can vary from country to country.

The following documents provide the general basis for EU and US export controls implemented pursuant to the Wassenaar Arrangement:

- EU Council Regulation (EC) No. 428/2009 of 5 May 2009 setting up a Community regime for the control of exports, transfers, brokering and transit of dual-use products (most recent update, EC 6321/2017, adopted by the Council on 26 September 2017).

- Council Common Position 2008/944/CFSP, governing exports of military technology and equipment, and the Common Military List of the EU (most recent update adopted by the Council on 9 February 2015).
- US Export Administration Regulations, US Department of Commerce, Bureau of Industry and Security, 15 CFR parts 730-744.
- US International Traffic in Arms Regulations (ITAR), 22 CFR parts 120-130.

The United Nations also plays a role in the control of exports by its members. The UN Security Council has on multiple occasions called for the imposition of mandatory sanctions (including export embargos) targeting countries, entities and persons that threaten global peace and security. UN members are obligated to implement such sanctions under their national laws.

In addition, UN members, such as the US and the member states of the EU, may also impose unilateral sanctions involving export restrictions to achieve national foreign policy objectives.

6.3 Required Export Controls Procedures

To fully comply with applicable export controls, Spectris businesses are required to adopt all “best practices” necessary to control exports of goods, technology, software and services in accordance with all applicable regulations, both general and specific to particular products, technologies or applications. This requirement includes but is not necessarily limited to observance of the following practices, taking professional advice as necessary:

- a) Immediately notify Group Legal and the Group Export Control Advisor of any communications received from an export control authority (other than routine classification or licensing communications), whether involving a subpoena, request for information, notice of an outreach visit or other form of communication.
- b) Establish the appropriate export classification (*e.g.*, Export Commodity Classification Number (ECCN), Munitions List category, Dual Use code) for all items subject to export (*e.g.*, finished products, spare parts, replacement components, software), as well as the services and technology associated with such goods, document such classifications in a regularly updated matrix and notify the company’s distributors of such classifications. Where applicable, ensure the US ECCN as well as the country ECN in which you are located, is also held on record.
- c) Identify all applicable licensing requirements for exported items and services and obtain any required licenses before exporting.
- d) Screen all transactions (export and domestic) against all schedules of “listed entities” published by the EU, UN, US, UK and Japan, in addition to those of the local jurisdiction and, wherever appropriate, decline transactions with these entities. These schedules can currently be found as follows:

<https://www.un.org/sc/suborg/en/sanctions/>

https://eeas.europa.eu/headquarters/headquarters-homepage_en/8442/Consolidated%20list%20of%20sanctions

<http://www.hm-treasury.gov.uk/d/sanctionsconlist.htm>

http://export.gov/ecr/eg_main_023148.asp

http://www.meti.go.jp/english/press/2015/0415_01.html

Please note that the Internet location of these schedules is subject to change by their administrators. Such changes do not relieve the Spectris businesses from screening against relevant schedules. Difficulties determining the new location of any schedules should be reported to Group Legal for resolution. Spectris plc strongly encourages each Spectris company to subscribe to an automated software service that provides access to a centralized and updated list of sanctioned entities.

At a minimum, and to the extent known, the names and addresses of the following transaction parties must be screened against the above schedules: end-user, distributor/representative, freight forwarder/intermediate consignee, and financial institution. In addition, all suppliers, service providers, contractors, and potential new employees should be screened.

- e) Review corporate affiliations to determine whether any parties to the transaction are owned or controlled by an entity on the U.S. List of Specially Designated Nationals or similar list and, if appropriate, decline transactions with these parties.
- f) Review the country of destination of all export transactions and adhere to all applicable country-based export prohibitions or embargoes.
- g) Whether or not explicitly required by local regulations, Spectris companies will view the export of any item, (including EAR/NLR items), to the critical countries/region in the table below as a “red flag” requiring inquiry into the end user/end use; this needs to be fully documented and, where applicable, an end-user assurance obtained.
- h) In addition, an “X” indicates that Spectris policy requires receipt (before shipment) of written end-user assurances¹ that the item will not be exported, reexported, or otherwise disposed of contrary to governing export controls:

Control status of item	Countries subject to trade embargoes (Cuba, Iran, , North Korea, Sudan and Syria) (Russia – partial; Crimea Region of the Ukraine)	Countries subject to arms embargoes (Afghanistan, Argentina (UK), Armenia, Azerbaijan, Belarus, Burma a/k/a Myanmar, Central African Republic, China, Congo, Cyprus, Eritrea, Haiti, Iraq, Ivory Coast a/k/a Côte d’Ivoire, Libya, Lebanon, Liberia, Republic of Guinea (Conakry), Russia, Somalia, Sri Lanka, Venezuela, and Zimbabwe)	Countries with high risk of diversion (or high WMD concern) (Kazakhstan, Turkmenistan, Kyrgyzstan, Uzbekistan, Tajikistan, China, Singapore, Hong Kong, India, Yemen, Malaysia, Lebanon, Pakistan, Russia, Turkey, UAE and Ukraine)
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¹ Written end-user assurances are distinguishable from “end user statements” or “import certificates,” which are more formal documents issued by the government of the importing country. The export authorities of some countries, including the United States, require government-issued end-user statements or import certificates as support documentation only for export license applications for items on the Wassenaar Arrangement’s Very Sensitive List.

Non-sensitive (EAR99 or unclassified)	X		
Controlled dual-use items	X	X (except for items subject only to anti-terrorism AT controls)	X

Spectris companies are required to apply for an export license (or, where available, a “no licence required” response or similar rating)

- (i) where the written end-user assurances are inadequate to definitively rule out the possibility of military end use and
- (ii) for all exports to Iran, North Korea, Sudan or Syria.

The term “written end-user assurances” refers to a written document obtained from the end-user of the exported item(s) that assures the exporter that the end-user will not use, sell, or distribute the item contrary to the governing export controls. Written assurances from the end-user should take the following form:

- Letter printed on end-user’s company letterhead
- Description of the exported items, including purchase order number
- Quantity of exported items
- Indicate how the exported items will be used:
 - As capital equipment in [country]
 - Processed and incorporated into another product in [country]
 - Held in stock for resale in the same form as received in [country/countries][in the case of a reseller/distributor].
- Assurances that the exported items will not be exported, reexported, or otherwise disposed of contrary to governing export control laws
- Confirmation that the exported items will not be used for purposes associated with chemical, biological or nuclear weapons or missiles capable of delivering such weapons; or in the case of a reseller/distributor holding the items in stock for resale: will not be resold if the consignee has knowledge or suspects that they are intended or likely to be used for such a purpose
- Signed by a responsible official of the end user/consignee, which is defined as someone with personal knowledge of the information included in the statement, the authority to bind the end user/consignee for whom they sign, and the power and authority to control the use and disposition of the items

A sample template for such written assurances is included as an Appendix 1 to Chapter 6. Local requirements/regulations may require different formats.

- i) Irrespective of country of destination or licensing requirements, seek an export authorization for the export of any items or services known or suspected to be intended to be used in the design, manufacture, maintenance or use of weapons of mass destruction (*e.g.*, chemical or biological weapons), missiles, rockets or drones/unmanned air vehicles (UAVs).
- j) Adhere to US regulations concerning the *reexport* of US-origin items, including US-origin items incorporated into finished goods manufactured outside of the United States.
- k) Adhere to US regulations concerning participation of US persons in boycotts that are unsanctioned (not followed or accepted) by the US, the so-called anti-boycott regulations.

- l) Develop procedures to minimize the possibility of diversion of shipments (export and domestic) to a prohibited country or end-user. The Spectris businesses must be satisfied that all orders (export and domestic) appear appropriate in functionality and size to the apparent end-user and end-use. Export license applications, or where available requests for export authorization such as "No License Required" ratings or similar, must be submitted for all shipments where concern about the risk of diversion cannot be reasonably eliminated through due diligence and investigation.
- m) Develop procedures to ensure compliance with applicable export controls by employees who export company property (e.g., laptops) and technical information during the course of business-related travel.
- n) Develop procedures to ensure compliance with applicable export controls with respect to access to company facilities by foreign nationals (including employees and visitors) that might result in the release of controlled technology.
- o) Develop procedures to control access to electronic files by foreign nationals (including employees and representatives/agents) and to ensure adherence to applicable export controls with respect to such access by foreign nationals.
- p) Develop a training programme that includes an introduction to export controls for new employees, focused training for employees in critical export-related functions and annual refresher training for all employees.
- q) Develop audit procedures and an audit schedule that encompasses activities at sales offices.
- r) Adhere to instructions issued by Group Legal concerning the acceptance or fulfillment of orders for customers who have been found to pose an unacceptable export controls compliance risk or related business risk.
- s) Develop a company policy regarding compliance with export controls, and display that policy on the company website. Such policy must be endorsed and signed by the highest ranking person within the company, i.e. President, CEO, Managing Director etc.

6.4 Background to Import Regulations Procedures

Customs tariff codes classify goods for import and export for taxation and other purposes. These codes are known as Harmonized Tariff Schedule (HTS) codes in the United States and Harmonized System (HS) codes elsewhere (Europe, Canada, etc.). HS codes are set and maintained by the World Customs Organization and adopted by many countries including the EU member states, Canada, Switzerland and elsewhere, whereas HTS codes, similar but not identical to HS codes, are maintained separately by the United States. Countries who use HS codes "personalize" them by adding digits. The global standard HS code is comprised of six digits whereas Canada's Customs Tariff and the EU's Combined Nomenclature, both based on the HS, contain eight digits where the last two carry customs duty information. Individual EU countries add a further two digits in order to apply their own specific import measures.

All companies that import or export finished products, components or raw materials are responsible for assigning the correct HTS/HS codes to these goods. As alluded to above, US and EU/other tariff codes are not always interchangeable, and therefore it is necessary for companies to assign HTS codes as well as HS codes to products they import into the US as well as other countries such as EU member states.

It is also worth noting that there is no consistency between customs tariff codes and export control classification numbers, meaning it is necessary to separately determine both the correct customs tariff code(s) and the correct export control classification number for all products. Customs officials regularly assess the accuracy of tariff codes assigned by importers; for example, US Customs and Border Patrol conducts audits that encompass compliance with export controls as well as correct assessment of import duties owed.

6.5 Procedures Regarding Import Regulations

- a) Spectris companies are required to develop and maintain a written policy and work procedures regarding customs tariff code classifications, including:
 - Documented ownership of customs tariff code classification responsibility at management level and ultimate oversight of the process at senior management level
 - Assignment of classification duties to positions/job roles as opposed to named individuals
 - Procedures outlining how and by whom classifications are to be assigned for products developed in-house and products or components sourced externally
- b) Individuals who assign customs tariff codes must attend external training courses at regular intervals, those who fulfil related duties such as entering codes on shipping documents must be trained internally at regular intervals
- c) Regular internal audits must be conducted of customs tariff codes assigned internally and of the codes reported to import officials by internal shipping department/external customs broker, as applicable
- d) All relevant (EU, US, etc.) customs tariff codes must be maintained in company ERP system or separate database and easily available to all who use them to import or export goods, be they external or internal to the company
- e) Spectris companies are required to develop and maintain written procedures for obtaining and determining country of origin.
 - Country of origin is generally defined as where the item was last “substantially transformed”.
 - i. Non-preferential origin is the primary method for determining origin. There are two principal methods for determining origin under the substantial transformation method: (i) a product-specific process (technical or production) or (ii) the tariff-shift method in which there is a change in the tariff (import) classification.
 - ii. Preferential origin: All Free Trade Agreements or Special Trade Programs have specific rules of origin defined. A product must meet a specific rule of origin of the particular agreement in order to qualify for reduced duty benefits. Most preference rules require a tariff-shift, have a regional value content requirement, or require both in order to qualify for preferential treatment.

- f) All Spectris companies must follow the World Trade Organisation valuation rules, (methods 1 through 6), and/or local Customs valuation rules, as appropriate. Generally speaking, this will be either the transfer pricing policy plus any ScRAPP or the transaction value plus any **ScRAPP**.
- **ScRAPP** refers to the various additions that, where applicable to the transaction, must be added to the price paid or payable prior to declaring to Customs:
 - i. **Selling Commissions** – A commission paid by the buyer to the seller or an agent of the seller related to the imported merchandise
 - ii. **Royalties and Licence Fees** – Royalty or licence fees the the buyer is required to pay, directly or indirectly, as a condition of the sale
 - iii. **Assists** – Value of items (e.g. tooling, parts, raw materials, design work) which are provided by the buyer to the seller free of charge or at a reduced cost
 - iv. **Packing costs** – Packing costs incurred by the buyer
 - v. **Proceeds** – Proceeds or subsequent resale, disposal, or use in involving a payment to the seller

6.6 Freight Forwarders / Customs Brokers

Regardless of any Spectris global agreement/contract or global agreement/contract at the OpCo global level, each OpCo should have a local level agreement/statement of work which acts as an addendum to the global agreement/contract.

Instructions should be given to the broker as to how an import/export should be cleared for customs.

Auditing: As a minimum, 10% of all import and 10% of all export transactions should be audited, together with all licensable shipments, to ensure they have been entered to Customs correctly.

6.7 Group Reporting

Spectris companies shall immediately report to the local Export Controls Compliance Officer and Group Legal (i) any breaches of export control regulations, (ii) diversions of shipments or (iii) any inquiries, investigations or audits by the export control authorities of any country.

Spectris companies shall report to Group Legal any contract/purchase order or other activity involving Iran and Cuba prior to any activity taking place.

Spectris companies shall immediately report to Group Legal any contact from the Customs authorities of any country regarding audits of assigned customs tariff codes or other investigations.

Appendix 1: Sample Written End-User Assurances

[INSERT TEXT ON COMPANY LETTERHEAD]

Spectris Company Addressee

Dear [____]:

We, [name and address of buyer], certify that we are the purchaser of the items described below and will not export, reexport, resell, transfer or otherwise dispose of such items contrary to applicable export controls.

The products covered by this undertaking are:

[insert description of goods, quantities and purchase order no.]

We declare that these items will not be used, directly or indirectly, in their entirety or in part, in any activities related to the design, development, production, use or stockpiling of chemical, biological or nuclear weapons, or of missiles capable of delivering such weapons; nor will we re-sell these items if we know or suspect that they are intended or likely to be used for such purposes.

We certify that the items:

- Will be used by us (as capital equipment) in the form in which received in [country] for civil applications and will not be reexported or incorporated into an end product.
- Will be processed or incorporated by us into the following product(s): _____
_____ to be manufactured in [country].
- Will be resold by us in the form in which received in [country/countries].
- Other (describe fully) _____

Authorized Signature: _____

Name Printed: _____

Company: _____

Contact Information: _____

Position Printed: _____

Date Signed: _____

Appendix 2: Current Iran Policy (Subject to change – Please check latest email alert)

Iran Policy Update – August 2017

Further to Roger Stephens' email of 18 January, 2016, I would like to clarify the Spectris Policy with regards to dealing with Iran:

- Iran remains a US embargoed country. Our US businesses cannot trade with Iran. No US citizens, even if working for our European businesses, can be involved with any sale to Iran. No US products can be re-exported to Iran except under certain confined exceptions. US sourced components within products exported to Iran by our non-US businesses must not exceed 10% by value. You must ensure there is absolutely no US nexus, including reviewing any financial flows within the business.
- The EU Iran arms embargo and missile technology and human rights sanctions remain in place, and any nuclear-related goods and technology proposed to be exported to Iran are subject to a UN approval regime.
- Multiple military related entities within Iran remain sanctioned. Indeed, both the US and EU continue to list additional denied parties. Diversion attempts continue. These may be from apparently legitimate Iranian businesses in addition to the widespread global efforts we have seen over recent years. We must continue to be even more alert to "red flags". You need to have full visibility to the full supply chain, i.e. all parties involved in the transaction and the ultimate end-use.
- All major non-US banks continue to have a policy of no financial dealings with Iran, directly or indirectly; (this means that no funds even indirectly from Iran can be transferred to the HSBC, the group's principal bankers, account. The same restrictions would equally apply to any other multinational bank used by the group entities, e.g. RBS). In addition, US sanctions continue to apply to any transactions which have any nexus with the US, including for example trading in US dollars or funds cleared through the US. Many banks were heavily punished for inadvertent transgressions prior to the nuclear-related sanctions and may be very unwilling to put themselves into risk again; (HSBC are under a deferred prosecution agreement until December 2017).

There remains a risk that the EU and US sanctions will "snap back", indeed, whilst not a "snap back" the US is soon to introduce further secondary sanctions against Iran. However, the execution of contracts concluded whilst sanctions relief applies will be permitted.

The provisions of our Export Controls Policy remain in force. In particular:

- All customers, agents, distributors, freight forwarders and other parties to a transaction with Iran must be screened against the various schedules of "listed entities".
- A written end user assurance, as set out in the Policy, must be obtained from all intended Iranian end users.
- An export licence or other regulatory clearance must be sought, wherever possible, for any intended contract with an Iranian customer.

Additionally:

- Check ownership regarding any links to an SDN or the Iranian Revolutionary Guard Corps.

- A bank must be identified who is willing to process Iranian transactions.
- Payment terms should be payment in advance.
- Any funds received can only be used for “local” transactions and cannot be transferred to the regular bank account. Note, that although such funds could in theory be used for local purchases or equivalent, they cannot be used in this manner if such purchases involve payment to a multinational bank account.
- All transactions must be reported to Spectris as we have to report to our insurance company.

Note: Except for the most significant projects, Iran probably falls into the “too difficult” category and the efforts involved may be better devoted to opportunities elsewhere in the world.

I would also like to draw your attention to the OFAC violation and \$12 million penalty in the link below. Whilst the transfers were conducted in US dollars, it does highlight the issue where you may conduct business with Iran through your entity overseas, e.g. China, and general company policy is for intercompany transfers to be made in US dollars.

<http://www.strtrade.com/news-publications-FCPA-penalty-Iran-Singapore-financial-073117.html>

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