



AFRA Regulatory Challenges in the Industry

Cross-Border Issues

AFRA
SEATTLE, WA
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DIRECTOR OF [TRADE] COMPLIANCE
VAS AERO SERVICES LLC



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Company History



- Started with three employees in 1979
- VAS Aero Services now has over 200 resources world-wide
- Over 30 years of aviation trading, sales and leasing experience

Top Import-Export Challenges

1. Export/Re-Export Controls
2. Customs Classification
3. Civil Aircraft Provisions
4. Origin Determinations
5. Valuation in a Non-Sale Environment

Pillars of Cross-Border Trade:

- What is it? (HTS/ECCN)
- How much is it Worth? (TV, Other)
- Where was it Made (Preferential or Non-Preferential)
- No Business with “Bad Guys” (DPL/RPL)
- Control the Secret Recipe (License Controls)
- Record Keeping
- Control Environment

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Export/Re-Export Controls

- All Products, Software & Technologies are Subject to National, Regional & Various Global Export Control Regimes
- Policy Objectives:
 - Don't Do Business with Bad Guys
 - Denied/Restricted Parties
 - General Prohibitions
 - Embargoes/Sanctions
 - Don't Share the Secret Recipe
 - Jurisdiction Determination (C-J)
 - Classification
 - ECCN
 - USML
 - Country Chart
 - License Requirement
 - License Application
 - License Processing
- Wassenaar Arrangement
- US Department of Commerce
- US Department of State
- (EC) REGULATION 428/2009
- JAPAN METI/MOFA
- NUCLEAR SUPPLIERS
- AUSTRALIA GROUP
- MT CONTROL REGIME

AVIONICS/NAVAGATION
IRUs QRS-11 CHIP



Microsoft Word
Document

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VAS
AERO SERVICES

Customs Classification

- Harmonized Commodity Description & Coding System (WCO)
- Theory vs. Reality
- Legal Rules for Classification
 - General Rules of Interpretation
 - Section Notes
 - Chapter Notes
 - Rulings within Jurisdiction
 - Court Decisions within Jurisdiction
 - Note Dispositive: Explanatory Notes

Read from Left to Right, Not Right to Left

<http://www.usitc.gov/tata/hts/bychapter/index.htm>

http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en

- GATT/WTO/WCO
- BTN -> HTS
- GRI 1 – *eo nomine*
- GRI 2 – Disassembled
 - “Essential Character”
- GRI 3(a) – Specific over general
- GRI 3(c) – Last where equal merit
- Parts:
 - Conjunctive:
 - Made for
 - Must have



Civil Aircraft Provisions



- What?
 - WTO Plurilateral Agreement, 1980, 31 Signatories
 - It eliminates import duties on all aircraft, other than military aircraft, as well as on all other products covered by the agreement — civil aircraft engines and their parts and components, all components and sub-assemblies of civil aircraft, and flight simulators and their parts and components.***
- Why?
- To promote trade in this globally-important trade sector
- ***How?
 - FREE TRADE ISNT FREE**
 - Statement to Government (Transactional, Blanket) AND
 - Documentary Evidence that Supports the Claim
 - Type Certificate, Supplemental certificate, Production Certificate, Airworthiness Certificate
 - <http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=297>
 - <http://www.law.cornell.edu/uscode/text/49/44702>

Origin Determinations



- All Exports and All Imports must declare the factual country of origin
- Non-preferential
 - Last Country of Substantial Transformation
- Preferential
 - Per specific rules
 - On disassembled goods:
 - US Ruling for USGR/GR/9801 provisions
 - <http://rulings.cbp.gov/index.asp?ru=563353&qu=engine+honeywell&vw=detail>
 - Still need:
 - » Proof of Export
 - » Foreign Shipper's Declaration
 - » Importer's Declaration
 - » Manufacturers Affidavit
- Other jurisdictions?
- WCO Sub-Committee – DRAFT – Country of Disassembly

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Valuation in a Non-Sale Environment

- Customs Valuation – GATT Article VII
 - http://www.wto.org/english/docs_e/legal_e/20-val.pdf
 - US 19 USC
 - US 19 CFR 152.102
 - Transaction Value
 - Transaction Value of Identical
 - Transaction Value of Similar
 - Computed Value
 - Deductive Value
 - **“Fallback”**
- Statutory Additions and Deductions
- Related Party Transactions
 - Definitions, Declarations, Pitfalls between Tax & Customs

Not Applicable in a
Consignment Model

Risks & Penalties for Violations

- Legal Standard = “reasonable care”, “due diligence”
- Violations yield:
 - Increased Risk of Search
 - Increased Risk of Seizures
 - Revocation of Export or Import Privileges
 - Damage to Reputation
 - Civil (Monetary) Damages/Penalties
 - Criminal Penalties

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U.S. Customs Penalties

Without Prior Disclosure	With Prior Disclosure
Fraud: <ul style="list-style-type: none"> Up to 100% of the domestic value 	Fraud: <i>Penalties for Revenue Loss Violations</i> <ul style="list-style-type: none"> 1 times the loss of duties
	Fraud: <i>Penalties for Non-Revenue Loss Violations</i> <ul style="list-style-type: none"> 10% of the dutiable value
Gross Negligence: <i>Penalties for Revenue Loss Violations</i> <ul style="list-style-type: none"> The lesser of 100% of the domestic value or 4 times the loss of duties 	Gross Negligence: <i>Penalties for Revenue Loss Violations</i> <ul style="list-style-type: none"> Interest on any loss of duties
Gross Negligence: <i>Penalties for Non-Revenue Loss Violations</i> <ul style="list-style-type: none"> 40% of the dutiable value 	Gross Negligence: <i>Penalties for Non-Revenue Loss Violations</i> <ul style="list-style-type: none"> No penalties
Negligent Violations: <i>Penalties for Revenue Loss Violations</i> <ul style="list-style-type: none"> The lesser of 100% of the domestic value or 2 times the loss of duties 	Negligent Violations: <i>Penalties for Revenue Loss Violations</i> <ul style="list-style-type: none"> Interest on any loss of duties
Negligent Violations: <i>Penalties for Non-Revenue Loss Violations</i> <ul style="list-style-type: none"> 20% of the dutiable value 	Negligent Violations: <i>Penalties for Non-Revenue Loss Violations</i> <ul style="list-style-type: none"> No penalties

Export Penalties – FACTOR BASED

- **Increasing Penalties for Violations of the AECA/ITAR**

– 2003 - Hughes Electronics Corp./ Boeing Satellite Systems	\$ 32,000,000
– 2004 - General Motors	\$ 20,000,000
– 2006 - Boeing	\$ 15,000,000
– 2007 - ITT Corp.	\$ 100,000,000
– 2008 - Qioptiq	\$ 25,000,000
– 2008 - Northrop Grumman	\$ 15,000,000

- **Cost of Internal Investigation = ?**

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AERO SERVICES



Q & A

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Appendix

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Business Processes

Business
Development

Program
Management

Sales &
Marketing

Quality Assurance and Control

Operations and Processes

Support Areas

- **Leading provider of aftermarket aviation component services and distribution**
 - **Sourcing relationships with major OEM, MRO, and airlines**
 - **State-of-the-art Program Management infrastructure and processes**
 - **Worldwide Sales and Distribution network**
- **Currently managing over 900,000 parts [\$3.0 Bn of aftermarket value]**

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Corporate Strengths



- Leading independent distributor of aviation surplus components
 - 22% market share airframe components
 - 7% market share engine parts
- Established, loyal customer base
- Preferred supplier to major Airlines, MRO's and OEM's
- Strategic relationships with large industry OEMs
- Industry Leading Quality Assurance

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Aftermarket Service Provider

Service Offerings

- Distribution / Re-Distribution
 - Spare parts
 - Whole Aircraft
 - Airframes
 - Engines
- Program Management
- Supply Programs
- Repair Management
- Supply Chain Solutions



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Major Industry Partnerships

OEM Distribution



Honeywell

Re-Distribution



BRITISH AIRWAYS



Horizon Air

SR Technics



Preferred Supplier



UNITED

DELTA

BRITISH AIRWAYS

Lufthansa Technik



AIRFRANCE KLM

AIR CANADA

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Major OEM Reciprocal Partnerships

Commercial Aircraft



- Exclusive distribution services for Boeing surplus spare parts
- All Boeing models - more than 300,000 line items
- All New Distribution Parts retain FAA conformance and Boeing production certification
- FAA 145 Recertified Boeing Assets

Regional Aircraft



- Inventory management services for the distribution of new and used surplus material (EMB120 to EJET190 models)
- Aircraft Teardown Services
- Spares support for Embraer's customers
- Joint marketing campaigns

Engines



- Preferred distributor of surplus engine parts inventories
- 5-year agreement covers parts distribution of new and used CF34, CFM56, and CF6 engine families
- Asset management support: forecasting, planning, and marketing

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VAS Distribution Center – Seattle



20 Years of Distribution Experience	Boeing Asset Management – Aircraft Dismantlement's	FAA ODA Designee
Boeing BDS	MD11, MD80, 737, 747, 757, 767, 777 = +11,000 Aircraft Worldwide	Boeing Regional Distribution Center
Aftermarket Solutions	Joint Marketing, Brochures, Coordination	Integrated Service Solutions, CEP
Financing of Boeing Equipment	Integrated IT Systems	Boeing PART Page Listing
Boeing Capital	Boeing Excess Lease Inventory	Boeing FAA 145 Repair Center

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Key Program Success

Boeing Aircraft Trading – VAS teardown trade-in aircraft in support of Boeing sales campaigns **\$150M**

25,000 part numbers in stock – 120 aircraft teardowns

Boeing Asset Management – Consignment of NEW production material - ODAR **\$200M**

100,000 part numbers in stock

Boeing Asset Management – Consignment of recertified production material **\$100M**

350,000 part numbers in stock

Boeing Aftermarket Parts Support – VAS provides aftermarket material to Boeing customers (formerly SPRS). **\$150M**

800 airlines registered for service

Boeing Defense and Space – Consignment of military surplus **\$ 50M**

50,000 part numbers in stock

525,000 part numbers in stock and \$650M of value provided to Boeing

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Boeing / VAS System Integration



MyBoeingFleet
The Boeing PART Page

Home PART Page Site Map Contact Us Help Logoff
Parts - Search Results Search For Part Number Go

OEM Trade Support,
Verified by VAS

Parts
[Search](#)
[Catalog](#)

Orders
[Search](#)
[Enter](#)
[Revise](#)
[Cancel](#)

Quotes
[Search](#)
[Request](#)
[Cancel](#)

Returns
[Search](#)
[Request](#)

Ship To
[Search](#)
[Add](#)
[Revise](#)

[Info Desk](#)

Part Number 65-11904-353

[Search for Replacement](#)

Part Number	Noun	Unit of Measure	US Harmonized Tariff	Export Control Classification Number
65-11904-353	TUBE	EA	7304515060	9A991

Boeing Inventory

Select	Price	Reorder Lead Time	Lease
<input type="checkbox"/>	Request Quote	1 (in calendar days)	No

Available Inventory

London	Seattle	Volvo-Seattle
2	0	1

Available Parts Due in to Boeing

Qty Due In
0 N/A

Notes

- NOTE!** The US Harmonized Tariff is for reference only and is not to be used for conducting Customs business as defined under 19 CFR Part 111
- NOTE!** 1 day reorder lead time based on available inventory
- NOTE!** This part is [not eligible for return](#).

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Boeing / VAS System Integration

BOEING MyBoeingFleet
The Boeing PART Page

Home PART Page Site Map Contact Us Help Log Off

Parts - Search Results Search For Part Number Go

Part Number **183A8100-4** ORDER THIS PART [Search for Replacement](#)

Part Number	Noun	Price	Unit of Measure	Reorder Lead Time	Lease
183A8100-4	TAB AY		EA	450	No

Current Inventory

Seattle
0

Available Parts Due in to Boeing

Qty	Due In
0	N/A

Notes

NOTE! Price listed is for a new PC-700 part. This is not the price for a SPRS part.

NOTE! Reorder Lead Time listed is for a new PC-700 part. This is not the Lead Time for a SPRS part.

SPRS Inventory

SPRS Seattle	SPRS Price		Note: Only the priced or unpriced line will display
5	\$15,470	Non PC-700 - SPRS. See note below	ORDER this SPRS excess inventory part number
5	N/A	Non PC-700 - SPRS. See note below	Click here to request a SPRS quote for the excess inventory

← Long Reorder Lead Time

← Zero Boeing Stock

OEM Trade Support,
Analyzed by VAS

Stock at Volvo

← New Condition is Priced

OH and SV Require a Quote



Aviation Parts Outlet – Material Distribution

Strategy

- Full inventory visibility.
- APO allows you to have what you need to make purchasing decisions at your fingertips with:
 - Real-time inventory updates
 - Paperwork available in PDF format
 - Fixed pricing for any material for which VAS is the OEM distributor or with a price of \$2,500 dollars and below
 - Self service to review account order history and status of current orders

Searching

- There are two ways of searching for material:
 - A search bar is provided throughout the site
 - Advanced search, which allows you to use wildcards and search multiple part numbers simultaneously

The screenshot displays the APO website interface. At the top, there is a navigation bar with links for Home, Program Reporting, Browse by Platform, and Specs. A search bar is located in the top right corner. The main content area features a large banner with the APO logo and the text 'WWW.APO.AERO'. Below the banner, there are several sections: 'Support' with contact information for AGG and APO, 'VAS Aero Services' with a world map and a description of the service, and 'APO Specials' with images of aircraft parts like wheels and fuel pumps. The footer includes the text 'FAQ | © 2011 VAS Aero Services'.

www.APO.aero

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Aviation Parts Outlet – Program Management

The screenshot shows the APO VAS website interface. At the top, there are logos for APO (WWW.APO.AERO) and VAS, along with navigation links for Home, Program Reporting, Browse by Platform, and Specials. A shopping cart icon shows 0 items, and there are links for Register and Login. The main content area is titled "About Program Reporting" and includes a "Part Search" box with an "Advanced Search" button. Below the search box are "Support Options" for AOG support and assistance with APO, including phone numbers and email addresses. The "About Program Reporting" section describes the benefits of the reporting tools and includes a screenshot of the "Company Name, Inc Reporting" user interface. At the bottom, there are three contact boxes for Don Grimm, John Brooks, and John Coles.

Part Search

Advanced Search

Support Options

For AOG support:
+1 561-843-7729
+1 866-865-8623

For assistance with APO:
+1 561-995-5858

Or Email Us:
Sales
Customer Service
Technical Support

About Program Reporting

As a VAS Program customer, you will benefit from world class and proprietary reporting tools customized to your individual requirements. Our online Program portal allows our customers to run reports detailing sales information such as customers, revenue share, and quotes. Our proprietary analysis tool shows how well your program is performing to plan and in comparison to the marketability of the product.

In addition, our algorithms provide in depth information regarding remaining inventory value, marketability and upgrade potential. The combination of tools allow for our customers to have full transparency to your overall program performance and provides confidence in our asset knowledge and capabilities.

Program Reporting User Interface

To learn more about how VAS can provide Program Management for you, contact:

Don Grimm VP Programs - Americas don.grimm@vas.aero +1-561-995-5801	John Brooks VP Programs – Boeing john.brooks@vas.aero +1- 425-2514687	John Coles VP Programs – Europe john.coles@vas.aero +44 1483 523784
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- **Daily Customer Service & Support**
- **Weekly Program Monitoring**
- **Monthly Reporting & Revenue Sharing**
- **Quarterly Strategic Meetings**

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