



Globalization of Corporate Compliance Management

Global Trends in Export Controls



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September 19, 2012





Three world-class growth businesses

Building Efficiency



Providing HVAC equipment, control systems and services to improve energy and operational efficiencies and reduce greenhouse gas emissions in buildings for commercial and government customers

Involved in more than 500 renewable energy projects including solar, wind and geothermal technologies

Manages 1.8 billion square feet of commercial real estate for the world's largest companies



Three world-class growth businesses

Automobile Interiors



Leading global provider of systems and components for seats, overhead systems, doors, cockpits and electronics

Support all major automakers in the Americas, Europe, Asia;

Range from single components to complete interiors;

Supplies more than 50 million cars per year

Just-In-Time manufacturing organization (similar to the Japanese Kanban scheduling system - - What/When/How much to produce)



Three world-class growth businesses

Automotive Batteries



Lead-acid and advanced applications for gas, diesel, hybrid and electric vehicles;

Supplies more than one third of the world's lead-acid batteries to major automakers and aftermarket retailers,

First company in the world to produce lithium-ion batteries for mass-production hybrid vehicles

Integrated recycling capabilities support environmental stewardship



Global Compliance Management

Manage compliance with a global staff of . . .

- nine (9) internal legal professionals,
- supported by external counsels,
- hundreds of operational subject matter experts,
- using four (4) independent business operation systems with regional diversity.

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As Tom Friedman described in his book, *The Lexus and the Olive Tree*, globalization is a continual struggle to balance the drive for improvement, prosperity, and modernization with those traits that identify us as communities and individuals, such as the warmth of family, the intimacy of personal rituals and private relationships. This human conflict exists not only within ourselves and our own society, but also across societies. Others (individuals and societies) may well strike a different balance than we do and may even view the forces of globalization as an irreconcilable threat to their fundamental values.

Could this be one reason why our jobs have so many challenges and opportunities?



Expert Observations

- More countries under international standards today than in the past
 - WTO, WCO, Wassenaar Arrangement, Australia Group, Missile Technology Control Regime, Nuclear Suppliers Group, American Society for Testing and Materials
- Increased importance in managing the flow of knowledge and information
- Increased data sharing between country agencies (networked customs agencies)
 - EDA Consortium member companies are sharing export classifications for products (CCATS) to promote uniformity of treatment and greater export compliance
- More important that companies with cross-border transactions be aware of the overseas and regional regulations that may apply to them
 - Establish an infrastructure; local relationships and resources are critical



Expert Observations (continued)

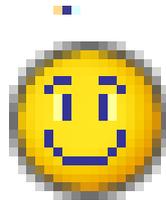
- Increased focus on commercial Supply Chain Management
 - Challenge is consistency in applying a company's compliance expectations
- Growing recognition on the part of firms they have responsibilities in export controls
- Export controls are no longer just an operational issue
 - Our company acknowledged this by forming Global Procurement and Global Logistics councils



Expert Observations (continued)

- Acknowledge importance of identifying export control issues when planning global trade strategies
 - Customers and suppliers in the U.S. and Europe are demanding compliance by Asian businesses
- There are real benefits from effective export control management

No kidding





“My Export is your Import”

- 1985** - (100 yr anniversary) in 21 countries, 6 plants (No. America only), 126 branch offices (No. America only) and 20,000 employees, Revenue ~\$2B (Hoover acq) centralized export function
- 2006** - in 52 countries, 224 plants, 390 branch offices, 136,000 employees, Revenue ~\$32B (York acq) decentralized export function
- 2011** - in more than 150 countries, 275 plants, 500 branch offices, 162,000 employees, Revenue ~\$40B moving back to centralized function, in key control areas



Overview: Launched our International Trade Compliance Program in 2011

The Program will expand and improve Johnson Controls' existing trade compliance infrastructure through business policies, procedures, controls and related training and communications programs designed to satisfy all applicable laws and regulations. The Program will identify, assemble and enhance these existing processes into a cohesive and globally consistent program implemented in all Business Units and regions.

The Program will include:

- Periodic risk assessments**
- A written manual with internal trade compliance controls embedded in policies, procedures and work instructions**
- Periodic targeted training**
- Monitoring and auditing**
- A system for tracking and reporting compliance inquiries and failures**
- Remediation and continuous improvement**



Targeted Business Risks

- Civil or criminal fines and penalties
- Revocation of export/import privileges
- Debarment (U.S. federal contracting)
- Financial loss through fraud/theft and/or shipping delays
- Reputational damage through adverse publicity
- Costly and time consuming administrative inquiries and audits
- Multiple system platforms impact means of identifying risk, means of implementation and monitoring



Critical Success Factors

- Business driven program with Legal as advisor (*fosters sustainability*)
- Leadership and clear messaging from Business Unit Executive Team (*Tone-at-the-Top*)
- Adequate staffing at Business Unit level within appropriate functions and regions
- Central Corporate oversight to assure key elements are consistently integrated across all three Business Units
- Central Business Unit oversight to assure consistent integration across regions and sub-business units



Getting Started

- Footprint identification - Sourcing, Manufacturing, Distribution
- Key controls identified for import & export transactions
 - **Classification, Valuation, Country of Origin, Anti-boycott, Licensing, Embargoes, Quantity, Preference Programs, Recordkeeping, Government Agency Interfaces, Risk Mitigation Protocols**
- Informed by WTO and WCO data, and the U.S. FCPA
 - **100% of the 150 countries we do business in are members of either or both WTO and WCO**

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List of additional control topics developing; informed by country surveys; consists of other requirements exporters need to know that impact cross border transactions - -

- ISPM-15 Solid Wood Packaging Material
- Hazmat permitting and licensing
- Energy efficiency labeling requirements
- China's Compulsory Certificate mark, commonly known as CCC Mark

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- **Classification** - Share Commodity Classification [6-digit HS#, ECCN, EU Dual-Use #] information between affiliates to assist in proper product classification, ensuring companies are "on the same page"
- **Valuation** – found we use only 3 valuation methods globally; Diversity in interpretations of valuation elements; Opportunity to enhance offshore understanding of the Company's transfer pricing policy.
- **Preference Programs and Country of Origin** – evaluating operational understanding of GATT, FTA, customs union and trade bloc rules – goals of compliance and economic benefit
- **Anti-boycott** – created policies/procedures that (a) inform operational and finance staff of rules, (b) identify what constitutes nexus, (c) support systematic review of export transaction that have nexus

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- **Licensing** – multiple systems with diverse controls that stop export orders; automated messaging to request licensing; master data management, the ‘future state’; one source for classifications, origin determination, value and transfer pricing rules
- **Embargoes** – global screening capability – character recognition (China/Japan)
- **Recordkeeping** – validation that facilities are complying with existing global record retention policy; Vendor retention of records prevalent
- **Government Agency Interfaces** – Global policy under development; Subject Matter Experts manage interfaces and tracks metrics & trends for continuous improvement; quarterly reviews by Compliance Manager
- **Risk Mitigation** – Monitor risks – develop action plans -- centralize management



No export control system can be effective without knowledgeable and willing participation by management ('Tone-at-the-Top') and employees in export compliance programs.

Effective export controls are one method by which governments and industry can work together to ensure responsible exports and advance trade.



Thank You