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Chinese National Pleads Guilty to Illegal Exports to Northwestern Polytechnical University

Defendant conspired with Chinese military university on the Department of Commerce's Entity List

BOSTON – A Chinese national pleaded guilty today in federal court in Boston in connection with illegally procuring and causing the illegal export of \$100,000 worth of U.S. origin goods to Northwestern Polytechnical University (NWPU), a Chinese military university that is heavily involved in military research and works closely with the People's Liberation Army (PLA) on the advancement of its military capabilities.

Shuren Qin, 44, a Chinese national residing in Wellesley, who gained admittance into the United States through the EB-5 Immigrant Investor Visa Program in 2014, pleaded guilty to one count of conspiracy to unlawfully export items from the United States to NWPU without first obtaining the required export licenses; one count of visa fraud; two counts of making false statements to law enforcement agents regarding his customers and the types of parts he caused to be exported from the United States to the People's Republic of China (PRC); four counts of money laundering; and two counts of smuggling hydrophones from the U.S. to the PRC. U.S. District Court Judge Denise Casper scheduled sentencing for Sept. 8, 2021.

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“The People’s Republic of China has an insatiable appetite for our country’s most sensitive products and technologies – particularly those with military applications,” said Acting United States Attorney Nathaniel R. Mendell. “By exporting key anti-submarine warfare products to a Chinese military university, Mr. Qin created a threat to our national security and broke the law. That warrants federal prosecution, without a doubt.”

“Qin took advantage of the open marketplace in the United States to purchase sensitive technologies for a Chinese military university. In addition, he lied on his visa application and to U.S. customs officers,” said Assistant Attorney General for National Security John Demers. “When individuals illegally pursue personal profit at the expense of U.S. national security, DOJ will disrupt such conduct and punish those involved.”

Qin established LinkOcean Technologies, LTD., which he used to import goods and technology with underwater and marine applications into the PRC from the United States, Canada and Europe. NWPU has been involved in the development of unmanned aerial vehicles, autonomous underwater vehicles and missile proliferation projects. Since 2001, the U.S. Department of Commerce (DOC) has designated NWPU on its Entity List for national security reasons.

Qin communicated with and received taskings from NWPU to obtain items used for anti-submarine warfare. Between approximately July 2015 and December 2016, Qin caused at least 60 hydrophones (devices used to detect and monitor sound underwater) to be exported from the United States to NWPU without obtaining the required export licenses from the DOC. Qin and his company, LinkOcean, did so by concealing from the U.S. manufacturer of the hydrophones that NWPU was the true end-user and by causing false end-user information to be filed with the U.S. government. In addition, on four occasions in connection with the export of hydrophones to NWPU, Qin engaged in money laundering by transferring or causing the transfer of more than \$100,000 from Chinese bank accounts to bank accounts located in the United States with the intent to promote and facilitate his unlawful export scheme.

Additionally, in July 2016, Qin engaged in visa fraud in connection with his application to remove conditions on his U.S. Permanent Resident Status (Form I-829) by falsely certifying that he had not committed any crime for which he was not arrested since becoming a conditional permanent resident when, in fact, he had caused the illegal export of hydrophones from the United States to NWPU in December 2015. In addition, Qin made false statements to federal agents on two occasions regarding LinkOcean’s customers and its export activities. Specifically, during a November 2017 interview with Customs and Border Protection (CBP) Officers, Qin falsely stated that he only exported instruments that attach to a buoy.

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However, Qin had exported and caused the export of remotely-operated side scan sonar systems, unmanned underwater vehicles, unmanned surface vehicles, robotic boats and hydrophones.

The items that Qin concealed from CBP during this interview have military applications and several of these items were delivered to military end-users in China. For instance, Qin exported a U.S.-manufactured remotely-operated side scan sonar system to a PLA Troop in November 2015. On or about July 21, 2018, Qin lied to investigators during an interview when he stated that he did not have any customers on the DOC’s Entity List. In fact, Qin had at least two such customers – NWPU and the National University of Defense Technology (NUDT). NUDT is involved in national defense research for the PLA and responsible for modernizing the PRC’s armed forces. Since 2015, it has been designated on DOC’s Entity List.

Prior to entering his guilty plea in this case, Qin moved to suppress evidence seized from his laptop and iPhone during a border search and statements he made to CBP officers during a secondary inspection upon his return to the United States from the PRC at Logan Airport in November 2017.

On Nov. 30, 2020, after eight days of evidentiary hearings, Judge Casper issued a decision denying Qin’s motion, finding that “at a minimum, the agents had reasonable suspicion for the search and seizure on November 24, 2017 and, any statements made by Qin were non-custodial statements not in contravention of the Fifth Amendment.” In so doing, Judge Casper found that the “Chinese Navy” was one of Qin’s customers according to LinkOcean’s website and when the border search occurred, agents had testified that they were “concerned that Qin was involved [in] working on behalf of the Chinese Navy to procure items from the United States, export them to China so that they could be used or incorporated in systems the Chinese Navy or research institutes were developing to be used in electronic warfare, anti-submarine warfare.” Judge Casper further found that by the end of the summer of 2017, investigators had learned that Qin was interested in procuring both AUVs and sonobuoys, which raised concerns for the agents as they learned that Ultra Electronics was at that same time developing “an AUV that worked in conjunction with [a] sonobuoy ... strictly for military use by the U.S. Navy.” Qin also lied when questioned during the secondary inspection at the border regarding the types of parts he exported, concealing his “interest in procuring side scan sonar systems, AUVs, and sonobuoys.”

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The charge of conspiring to violate U.S. export laws provides for a sentence of up to 20 years in prison, three years of supervised release and a fine of \$1 million. The charges of visa fraud and smuggling both provide for a sentence of up to 10 years in prison, three years of supervised release and a fine of \$250,000. The charge of making false statements provides for a sentence of up to five years in prison, three years of supervised release and a fine of \$250,000. The charge or money laundering provides for a sentence of up to 20 years in prison, five years of supervised release and a fine of \$500,000 fine. Sentences are imposed by a federal district court judge based upon the U.S. Sentencing Guidelines and other statutory factors.

Acting U.S. Attorney Mendell; NSD AAG Demers; William S. Walker, Acting Special Agent in Charge of the Homeland Security Investigation, Boston Field Office; Patrick Hegarty, Special Agent in Charge of the Defense Criminal Investigative Service, Northeast Field Office; William Higgins, Special Agent in Charge of the Department of Commerce, Office of Export Enforcement, Boston Field Office; Joseph R. Bonavolonta, Special Agent in Charge of the Federal Bureau of Investigation, Boston Field Division; and Michael West, Special Agent in Charge of the Naval Criminal Investigative Service, Northeast Field Office made the announcement today. Assistant U.S. Attorney B. Stephanie Siegmann, Chief of Mendell's National Security Unit, and Assistant U.S. Attorney Jason Casey, also of National Security Unit, are prosecuting the case



BIS 2021 Virtual Update Conference on Export Controls and Policy - Save the Date

The Bureau of Industry and Security (BIS) will offer a virtual Update Conference on Export Controls and Policy on Thursday September 2, 2021. This 34th annual conference will be a full day virtual experience that will include keynote speakers, plenary sessions, breakout sessions, and live Q&A with BIS and other agency experts. A virtual Exhibit Hall will also be available to attendees.

The planned agenda for this conference includes sessions on:

- Interagency update (Plenary session)
- Military End Use and End User Controls
- The Foreign Direct Product Rule
- Emerging and Foundational Technologies
- Semiconductors: reports/ITA/licensing
- Regulatory Updates
- Anatomy of an Export Enforcement Investigation
- Operating Committee Insights
- Foreign Policy-based Controls: Promotion of Democracy and Human Rights
- License Processing Basics – What the Regulations Require
- Export Compliance
- DDTC Updates (proposed)
- Census Updates

On Thursday, September 2, 2021 the conference times will be from 8:30 a.m. until 5:30 p.m. EDT (UTC-04:00). Registered attendees will be able to access recorded sessions for a month after the date of the conference.

For additional information on the BIS 2021 Virtual Update Conference, you may contact the Outreach and Educational Services Division at: virtualevent@bis.doc.gov.

Declaration of emergency for these states due to Colonial Pipeline Cyber Attack

Alabama, Arkansas, District of Columbia, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, New Jersey, New York, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia.

Boeing announces \$10 million package to help India fight Covid-19

Boeing has announced a \$10 million emergency assistance package for India to support the country's response to the current surge in Covid-19 cases. The assistance from Boeing will be directed to organisations providing relief, including medical supplies and emergency healthcare for communities and families battling Covid-19. The Boeing team in India totals 3,000 employees, in addition to valued local customers, suppliers, and business partners.

"The Covid-19 pandemic has devastated communities across the globe, and our hearts go out to our friends in India who are going through a very difficult time. Boeing is a global citizen, and in India we are directing our pandemic response to the communities most impacted by this recent surge of cases," said Dave Calhoun, president and chief executive officer of The Boeing Company.

Boeing will partner with local and international relief organisations to deploy the \$10 million to the areas of greatest need in consultation with medical, government and public health experts.

Boeing employees also have an opportunity to donate personally to charitable organisations supporting Covid-19 relief in India. As part of the Boeing Gift Match program, the company will match monetary donations dollar for dollar, extending the reach of assistance being provided to the Indian people.



Col Ralph Puckett (Ret) to Receive Medal of Honor, 70 Years After Battle

November 25, 1950 was a hellish day on Hill 205 in Korea. The 8th Army Ranger Company was under the Command of then 2nd Lieutenant Ralph Puckett, who was fresh out of the Military Academy. They were Rangers but not infantry troops, so they had little experience with combat...and neither did their commander. But because of courage and valor, Col Ralph Puckett (Ret) is now up for the Medal of Honor, 70 years after the battle of Hill 205.

The United States military was surprised at the massive entry of Chinese troops into the Korean War, and was ill prepared. Puckett had been a champion boxer in the Military Academy, but Korea was a whole different situation. When 2nd Lt Ralph Puckett was told that he would be in command of the 8th Army Ranger Company he told himself:

"Dear, God. Don't let me get a bunch of good guys killed."

Ralph Puckett's first thought when told he'd be in command He volunteered for the duty that had barely six weeks to train service troops for combat. The mission was an incredibly dangerous one: it would later be known as the Battle of the Chongchon River. Hill 205 simply meant that it was 205 feet above sea level. Puckett was wounded by a hand grenade in the first day of the battle, but remained in command.

The Army credits Puckett with leading his soldiers across an open field to take the hill under intense fire, braving enemy fire repeatedly to check on his soldiers after he was wounded the first time, and directing "danger close" artillery strikes near his own position to ward off advancing Chinese soldiers.

Throughout the night, the American and Korean soldiers were attacked five more times by the Chinese before they finally had to withdraw.

"I had been wounded three times by then, and I was lying there in my foxhole unable to do anything. I could see three Chinese about 15 yards away from me, and they were bayoneting or shooting some of my wounded Rangers who were in the foxholes."

Col Ralph Puckett, Ret

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He ordered his men to leave him there in the foxhole, but they refused. Two of them, Billy Walls and David Pollock, carried him to safety. Why did they disobey a lawful order?

“When they overran us, I had sent my squad back to get ammo. I had five foxholes that I covered. They never made it back. They got cut off. So, they were overrunning us and Puckett called in the artillery on us – on all of us. And it’s what saved us. ... We’d have got wiped out...The boys thought so much of him, they wouldn’t leave him.”

Ranger Merle Simpson, 92- wrbl interview

Puckett’s leadership style was that he was with his men, no matter what was going on around them. “Be there” was his method, which he carried into his 22 year military career. He went on to be awarded the Distinguished Service Cross for Hill 205, the nation’s second-highest award for valor in combat. He was the recipient of a second Distinguished Service Cross and two Silver Stars for valor in Vietnam. Puckett was awarded five Purple Hearts for injuries suffered in combat and two Bronze Star Medals with the V device for valor. The upgrade to Medal of Honor will make him one of the most decorated rangers in history. He is a legend among Ranger troops and even made an appearance at the recent “Best Ranger” competition.

Though Biden called him to tell him of the award, no date for the ceremony has been set.

Ransomware attack leads to shutdown of key pipeline system, U.S. official says. The system carries 45% of fuel consumed on East Coast.

Federal law enforcement and homeland security officials do not yet know whether the attack on Colonial Pipeline was carried out by foreign government hackers or a criminal group.

Jury Convicts Iranian National for Illegally Exporting Military Sensitive Items

SAN ANTONIO – In San Antonio, a federal jury convicted Mehrdad Ansari, a 39-year-old Iranian citizen and a resident of the United Arab Emirates and Germany, for scheming to obtain military sensitive parts for Iran in violation of the Iranian Trade Embargo. These parts had dual-use military and civilian capability and could be used in such systems as nuclear weapons, missile guidance and development, secure tactical radio communications, offensive electronic warfare, military electronic countermeasures (radio jamming), and radar warning and surveillance systems.

The jury convicted Ansari of one count of conspiracy to violate the Iranian Transaction Regulations (ITR), one count of conspiracy to commit wire fraud, one count of conspiracy to defraud the U.S. Department of the Treasury and two counts of aiding and abetting the making of false statements. Evidence presented during trial revealed that Ansari attempted to transship cargo obtained from the U.S. by co-defendants Taiwanese citizen Susan Yip, aka Susan Yeh, and Iranian citizen Mehrdad Foomanie, aka Frank Foomanie, using Ansari’s companies, Gulf Gate Sea Cargo L.L.C. and Global Merchant L.L.C., located in Dubai, United Arab Emirates.

From October 9, 2007, to June 15, 2011, primarily Yip and Foomanie obtained or attempted to obtain from companies worldwide over 105,000 parts valued at approximately \$2,630,800 involving more than 1,250 transactions. The defendants conducted 599 transactions with 63 different U.S. companies in which they obtained or attempted to obtain parts from U.S. companies without notifying the U.S. companies these parts were being shipped to Iran or getting the required U.S. government license to ship these parts to Iran.

At no time did Yip, Foomanie or Ansari, individually or through any of their companies, ever apply for or receive either a required U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) license or Department of Commerce export license to ship any item listed in this indictment to the Republic of Iran.

Iranian Transaction Regulations prohibit, among other things, the exportation, re-exportation, sale or supply, directly or indirectly, to Iran or the Government of Iran, of any goods, technology or services from the U.S. or by a U.S. person. The embargo also prohibits any transaction by any U.S. person or within the U.S. that evades or avoids, or has the purpose of evading or avoiding, any prohibition set forth in the Executive Orders.

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John C. Demers, Assistant Attorney General for National Security; U.S. Attorney Ashley C. Hoff; FBI San Antonio Division Special Agent in Charge Christopher Combs; Homeland Security Investigations (HSI) Acting Special Agent in Charge Craig Larrabee; Defense Criminal Investigative Service (DCIS) Southwest Field Office Special Agent in Charge Michael Mentalvos; and Acting Special Agent in Charge John Ruiz, U.S. Commerce Department's Bureau of Industry and Security's Office of Export Enforcement, Dallas Field Office, made today's announcement.

Ansari faces up to 20 years in federal prison for conspiracy to violate Iranian Trade Regulations; up to five years for conspiracy to commit wire fraud; up to five years for conspiracy to defraud the U.S. Department of the Treasury; and up to five years on each count of aiding and abetting the making of false statements. Sentencing is scheduled for September 1, 2021.

In October 2012, Yip was sentenced to two years in federal prison after pleading guilty to conspiring to violate the ITR by acting as a broker and conduit for Foomanie to buy items in the U.S. and have them unlawfully shipped to Iran. Mehrdad Foomanie remains a fugitive.

FBI, HSI, the Department of Commerce, Bureau of Industry and Security and the Defense Criminal Investigative Service investigated this case. Assistant U.S. Attorneys Mark Roomberg, William R. Harris and Kelly Stephenson are prosecuting this case.

Jury convicts Iranian national for illegally exporting military parts for Iran

by SBG San Antonio Staff Reports
Saturday, May 8th 2021

SAN ANTONIO - A federal jury convicted an Iranian citizen of scheming to sensitive military parts for Iran.

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Evidence presented during trial revealed that Ansari attempted to transship cargo obtained from the U.S. by co-defendants Taiwanese citizen Susan Yip, aka Susan Yeh, and Iranian citizen Mehrdad Foomanie, aka Frank Foomanie, using Ansari's companies, Gulf Gate Sea Cargo L.L.C. and Global Merchant L.L.C., located in Dubai, United Arab Emirates.

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These parts had dual-use military and civilian capability and could be used in such systems as nuclear weapons, missile guidance and development, secure tactical radio communications, offensive electronic warfare, military electronic countermeasures (radio jamming), and radar warning and surveillance systems.

From October 9, 2007, to June 15, 2011, primarily Yip and Foomanie obtained over 105,000 parts valued at approximately \$2,630,800 involving more than 1,250 transactions from companies worldwide. The defendants obtained or attempted to obtain parts from U.S. companies without notifying the U.S. companies these parts were being shipped to Iran or getting the required U.S. government license to ship these parts to Iran.

At no time did Yip, Foomanie or Ansari, individually or through any of their companies, ever apply for or receive either a required U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) license or Department of Commerce export license to ship any item listed in this indictment to the Republic of Iran.

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US-China tech war: Beijing's secret chipmaking champions

CHENG TING-FANG and LAULY LI, Nikkei staff writers
MAY 5, 2021 06:16 JST

TAIPEI -- Once a month, senior executives of Yangtze Memory Technologies Co. fly to Beijing for a flurry of meetings with China's top economic management bodies. They focus on the company's efforts to build some of the world's most advanced computer memory chips -- and its progress on weaning itself off American technology.

Based in the central riverside city of Wuhan, Yangtze Memory is considered at the vanguard of the country's efforts to create a domestic semiconductor industry, already mass-producing state-of-the-art 64-layer and 128-layer NAND flash memory chips, used in most electronics from smartphones to servers to connected cars.

These marvels of nanoengineering stack tiny memory cells in ever-greater densities, rivaling industry leaders such as U.S.-based Micron Technology and South Korea's Samsung Electronics.

That would be hard enough for a company that only opened its doors in 2016. But added to the challenge is the ambitious, state-directed aim of weeding out the company's American suppliers, along with those reliant on U.S. technology. The equipment used to manufacture high-end computer chips is virtually an American global monopoly. Eighty percent of the market in some chipmaking and design processes such as etching, ion implantation, electrochemical deposition, wafer inspection and design software is in the hands of U.S. companies.

It is a frustrating area of dependence for China, which imported \$350 billion worth of semiconductors last year, according to the China Semiconductor Industry Association. Removing this source of U.S. leverage over its economy became a national priority two years ago, when Washington put sanctions on China's biggest telecommunications equipment maker, Huawei Technologies, amid spying allegations that the Chinese company has constantly denied.

This was followed by sanctions on several other major Chinese technology companies, from its top contract chipmaker, Semiconductor Manufacturing International Co., to Hikvision, the world's biggest surveillance camera maker. Over a hundred companies in total have been placed on a trade blacklist prohibiting most U.S. technology to be sold to them without a license. That has spurred an aggressive effort by Beijing to identify and replace risky parts and suppliers.

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The result has been an unprecedented flourishing of chip-related companies within China. Dozens of Chinese companies, with specializations mirroring U.S. incumbents in key areas from ion implantation to etching, have sprung into prominence over the past few years, accelerating as the state realizes the enormity of the self-sufficiency project.

"The clock is ticking because they still know that the U.S. could hit the local industry hard," said Roger Sheng, a chip analyst at consultancy Gartner. "New chip competition is evolving as all the major economies, not just China, now recognize the importance of semiconductors."

Plan B

So far, Yangtze Memory, also known as YMTC, has remained under the radar of the U.S. government. But the company is taking no chances. With the guidance of Beijing, it has launched a massive review of its supply chain in an effort to find local suppliers -- or, at least, non-U.S. ones -- to replace the current dependence on American technology.

The collective effort has occupied over 800 people, full time, and including staff from its multiple local suppliers, for two years. And they have not finished yet.

YMTC is seeking to learn as much as it can about the origin of everything that goes into its products, from production equipment and chemicals to the tiny lenses, screws, nuts and bearings in chipmaking machinery and production lines, multiple sources familiar with the matter said. The audit extends not only to YMTC's own production lines, but also to suppliers, suppliers' suppliers, and so on.

"The review is as meticulous as knowing where the screws and nuts are coming from, the lead time, and if those parts have alternatives," one person familiar with the matter told Nikkei Asia.

Each supplier is assigned a score for geopolitical risk, identified in many pages of documents detailing the components they use in its machines. YMTC has sent engineers to audit local equipment suppliers' production sites to verify that the origins of parts have been truthfully reported, one of the people told Nikkei.

American-made parts are scored highest for risk, followed by parts bought from Japan, Europe and those made locally, the person said. Meanwhile, suppliers are asked to provide corrective action reports to explain how they can together diversify procurement and find alternatives.

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"Previously, when China talked about self-sufficiency, they were thinking about starting to cultivate some viable chip developers that could compete with foreign chipmakers," a chip industry executive told Nikkei. "However, they did not expect that they would need to do all that, starting from fundamentals.

"It's like when you want to drink milk -- but you not only need to own a whole farm, and learn how to breed dairy cows, and you have to build barns, fences, as well as grow hay, all by yourselves."

The purge of YMTC's supply chain has been handled with the spirit of a national emergency. Based in the city of Wuhan, the effort did not pause even when the virus epicenter was ravaged by COVID-19 last spring.

While the rest of the city endured a brutal quarantine, high-speed trains remained in service to ferry YMTC employees to its \$24 billion 3D NAND flash memory plant that began producing chips in 2019. All the while, delivery trucks for critical chipmaking materials drove to and from the production campus.

After Wuhan reopened last April, YMTC mobilized hundreds of engineers, including many from little-known emerging local semiconductor equipment suppliers. They were stationed inside the production campus, laboring for three shifts a day with the aim of overhauling all of its production processes and replacing as many foreign tools as possible, sources said.

"Senior management is raising targets of using locally built chip production machines almost every month, and they hope we could at least know what kind of alternatives we have and have a Plan B of the production line that will be free from U.S. control," one of the people told Nikkei.

YMTC declined multiple requests by Nikkei to interview the company about its supply chain reviews, progress and capacity expansion plans, as well as its localization efforts.

'Secure and controllable'

This effort to localize production has been the opportunity of a lifetime for a new generation of Chinese chip champions like YMTC and their suppliers, whose fortunes have risen sharply following the start of the U.S.-China trade war. While the threat of sanctions hangs over them, so too does the largesse of state aid -- subsidies and investment from local governments and the private sector have amounted to at least \$170 billion since 2014, according to the state-backed China Securities Journal. There are also guaranteed orders with other Chinese chipmakers and domestic tech giants like Xiaomi, Oppo, Vivo and Lenovo.

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"It's not like it has been written down on a public posting or an official announcement," another Chinese chip executive told Nikkei, "but everyone in the industry now has a mutual understanding that if anyone is building a new chip plant or expanding a semiconductor manufacturing line, at least 30% of production tools must be from local vendors."

Every U.S. market leader in the computer chip industry now has a Chinese doppelganger that is being positioned to take its place as a vendor to the Chinese chip industry. YMTC, for example, is strikingly similar in its approach and strategy to Boise, Idaho-based Micron, while Beijing-based Naura Technology Group represents China's hope to later challenge Applied Materials, which is headquartered in Santa Clara, California, and makes a wide range of chip production equipment.

Shanghai's Advanced Micro-Fabrication Equipment (AMEC) is China's version of Lam Research of the U.S., renowned for building essential etching machines. Tianjin-based Hwatsing Technology produces cutting-edge chemical-mechanical planarization equipment and is set to break Applied Materials' monopoly on the technology.

These and dozens of other state and private companies have become the focus of an industrial policy known by the slogan "secure and controllable," which has found its way onto posters and into speeches, backed up by immense state investment and guaranteed contracts.

"We have to strengthen self-innovation and to make breakthroughs in some core technologies as soon as possible," Chinese President Xi Jinping told a group of economic and social experts in remarks published in January.

YMTC, for one, is followed closely by China's leadership, supervised by officials in the State Council -- the country's top administrative authority -- as well as the China Integrated Circuit Industry Investment Fund, the nation's premium seed fund for the semiconductor industry, which also owns a 24% stake, two people with direct knowledge told Nikkei.

"We are not sure how fast and how well they could build their own independent semiconductor industry, but certainly they will try," said Chad Bown, a senior fellow with Peterson Institute for International Economics.

'The whole country is rooting for this.'

In fact, the U.S. trade war and Huawei sanctions have arguably given China's government the necessary cover for something it has long desired. Since the revelations by Edward Snowden in 2013 that detailed the participation of American tech companies in U.S. government surveillance, Beijing has seen dependence on American technology as a national security threat.

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But grand plans to end this dependency have been made in the past, and, despite massive injections of state investment, progress has been slow. For example, when China's State Council set out its "Made in China 2025" industrial policy in 2015, aimed at promoting China's high-tech exports, it set a goal of 70% self-sufficiency in semiconductors by 2025.

But the industry has so far fallen short of this goal, according to U.S.-based research firm IC Insights. In 2020, China-based chip production accounted for only 15.9% of the domestic market, the firm estimated in January, predicting it would reach only 19.4% in 2025. Of the 2020 total, China-headquartered companies accounted for only 5.9% of domestic sales, while foreign companies headquartered in China accounted for the rest of the China-based sales.

However, the U.S. sanctions may have removed the main domestic obstacle to the goal of China's chip self-sufficiency effort, which is the lack of cooperation by China's own local buyers. They have always preferred buying from tried-and-tested foreign vendors rather than inexperienced local companies. But that, crucially, has now changed.

"Previously, domestic chip manufacturers only used leading production equipment that all the other top global chipmakers like Samsung and Intel also use in their production lines," another manager with a China-based chipmaker told Nikkei, preferring not to be named. "Who would bother to use and try these local-made machines that could possibly affect production quality?"

As the threat of sanctions hits close to home, however, these same producers are increasingly exploring domestic-made alternatives to the top-end U.S.-made technology, the manager said. "That also means these local players finally have a chance to practice and really upgrade their products in an atmosphere that the whole country is rooting for this," he said.

Sheng of Gartner told Nikkei that U.S.-China tensions have consolidated industry opinion around the necessity to localize production. "It's the whole country's consensus now that building a viable semiconductor industry and boosting self-reliance is the top priority. ... The top policymakers know, company executives know and even local people know," said Sheng.

U.S. Department of State Concludes \$13 Million Settlement of Alleged Export Violations by Honeywell International, Inc.

MAY 3, 2021

The U.S. Department of State has concluded an administrative settlement with Honeywell International, Inc. (Honeywell) of Charlotte, North Carolina, to resolve alleged violations of the Arms Export Control Act (AECA), 22 U.S.C. § 2751 *et seq.*, and the International Traffic in Arms Regulations (ITAR), 22 C.F.R. Parts 120-130. The Department of State and Honeywell have reached this settlement following an extensive compliance review by the Office of Defense Trade Controls Compliance in the Department's Bureau of Political-Military Affairs.

The Department of State and Honeywell have reached an agreement pursuant to ITAR § 128.11 to address alleged unauthorized exports and retransfers of ITAR-controlled technical data that contained engineering prints showing dimensions, geometries, and layouts for manufacturing castings and finished parts for multiple aircraft, gas turbine engines, and military electronics to and/or within Canada, Ireland, Mexico, the People's Republic of China, and Taiwan.

The settlement demonstrates the Department's role in strengthening U.S. industry by protecting U.S.-origin defense articles, including technical data, from unauthorized exports. The settlement also highlights the importance of obtaining appropriate authorization from the Department for exporting controlled articles.

Under the terms of the 36-month Consent Agreement, Honeywell will pay a civil penalty of \$13 million. The Department has agreed to suspend \$5 million of this amount on the condition that the funds will be used for Department-approved Consent Agreement remedial compliance measures to strengthen Honeywell's compliance program. In addition, for an initial period of at least 18 months, an external Special Compliance Officer will be engaged by Honeywell to oversee the Consent Agreement, which will also require the company to conduct one external audit of its compliance program during the Agreement term as well as implement additional compliance measures.

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Honeywell voluntarily disclosed to the Department the alleged violations that are resolved under this settlement. Honeywell also acknowledged the serious nature of the alleged violations, cooperated with the Department's review, and instituted a number of compliance program improvements during the course of the Department's review. For these reasons, the Department has determined that it is not appropriate to administratively debar Honeywell at this time.

The Consent Agreement and related documents will be available for public inspection in the [Public Reading Room of the Department of State](#) and on the [Penalties and Oversight Agreements](#) section of the Directorate of Defense Trade Controls' website.

For additional information, please contact the Bureau of Political-Military Affairs' Office of Congressional and Public Affairs at pm-cpa@state.gov.

New Frequently Asked Questions FAQ's released about FMS

The contents of this document do not have the force and effect of law and are not meant to bind the public in any way. This document is intended only to provide clarity to the public regarding existing requirements under the law or agency policies.

Last updated: 5/12/21

FMS FAQs: Exports of items that would otherwise be "subject to Export Administration Regulations (EAR),"¹ but are authorized under the Foreign Military Sales (FMS) Program of the Arms Export Control Act (AECA) pursuant to a Letter of Offer and Acceptance (LOA).

Introduction:

These Joint FMS FAQs were developed by the Bureau of Industry and Security (BIS) and the U.S. Census Bureau at the Department of Commerce; the Directorate of Defense Trade Controls (DDTC) and the Office of Regional Security and Arms Transfers (RSAT) at the Department of State; the Defense Security Cooperation Agency (DSCA) at the Department of Defense; and U.S. Customs and Border Protection (CBP) at the Department of Homeland Security.

These Joint FMS FAQs address questions that have been received about items that would otherwise be "subject to the EAR," but are not "subject to the EAR" because they will be exported under FMS authority. The agencies that developed the FAQs are posting them to provide information to exporters.

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These FAQs were created because BIS, DDTC, RSAT, DSCA, and CBP continue to receive questions from the public regarding the export of items that were moved from the USML to the CCL that are being exported under FMS authority. Exporters are having difficulty in understanding how the EAR, the International Traffic in Arms Regulations (22 CFR 120-130) (ITAR) and the FMS Program relate to each other for items transitioned from the ITAR to the EAR. The movement of these items to the EAR did not change the FMS Program. However, once the "600 series" military items were moved to the EAR, application questions about the FMS Program increased because the number of FMS exports of items that would otherwise have been subject to the EAR increased significantly. These FAQs will provide guidance to address common questions the agencies have received on this aspect of the FMS Program.

Questions specific to the application of the FMS Program, the International Traffic in Arms Regulations (22 CFR 120-130) (ITAR), security cooperation programs, or the Export Administration Regulations (15 CFR 730-774) (EAR) should be directed to the relevant agencies, as applicable:

Questions on the FMS Program should be directed to RSAT:

- Email: PM_RSATFMSTeam@state.gov
- Tel: (202) 663-3030
- <https://www.state.gov/bureaus-offices/under-secretary-for-arms-control-and-international-security-affairs/bureau-of-political-military-affairs/office-of-regional-security-and-arms-transfers/>

Questions on the retransfer or change of end use of defense articles acquired via the FMS Program should be directed to the third party transfer (TPT) team in RSAT:

- Email: PM_RSAT-TPT@state.gov
- <https://www.state.gov/bureaus-offices/under-secretary-for-arms-control-and-international-security-affairs/bureau-of-political-military-affairs/office-of-regional-security-and-arms-transfers/>

Questions specific to the ITAR should be directed to DDTC:

- Email: ddtcresponseteam@state.gov
- Tel: (202) 663-1282
- https://www.pmddtc.state.gov/ddtc_public

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Questions specific to a security cooperation program administered by DSCA should be directed to DSCA:

- Email: dsca.ncr.lmo.mbx.info@mail.mil
- Tel: (703) 697-9709
- <http://www.dsca.mil/>

Questions specific to the EAR should be directed to BIS:

- www.bis.doc.gov

Q.1: I will be exporting an item normally “subject to the EAR,” under FMS authority. Section 734.3(b)(1)(vi) of the EAR specifies that the export of items exported under FMS authority are not “subject to the EAR.” Does this mean I may apply (or do I have to apply) for a license or other approval from the Department of State under the ITAR for this export?

A.1: Items that will be exported under FMS authority are not “subject to the EAR” pursuant to

§ 734.3(b)(1)(vi) of the EAR because they are “defense articles” pursuant to section 47 of the AECA (22 U.S.C. 2794). The Department of State has the authority to license the export of defense articles or services as described in section 38 of the AECA (22 U.S.C. 2778) and described on the United States Munitions List (USML), which is contained in part 121 of the ITAR. The Department of State may also authorize items not described on the USML if the requirements of § 120.5(b) have been met, including that the item “is for use in or with a defense article and is included in the same shipment as any defense article.” **The Department of State has determined that it has the authority to authorize items normally “subject to the EAR” but that will be exported under FMS authority if the item will be used in or with a USML defense article.** Thus, an applicant may include such items on a DDTC application as USML paragraph (x) items when for use in or with USML defense articles listed on the same DDTC application and will be included in the same shipment as those USML defense articles.

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“Your success and happiness lie in you” –
Helen Keller

Q.2: I understand the ITAR section 120.5(b) approval process. However, in my export scenario, the items will not be exported “in or with” any defense articles that are enumerated or otherwise described on the USML. Because DDTC will not issue a license or other approval, may I apply (or do I have to apply) for a license from BIS to authorize these types of exports?

A.2: As noted in Q.1, items that are “subject to the EAR,” but will be exported under the FMS authority, are not “subject to the EAR” pursuant to § 734.3(b)(1)(vi) of the EAR. Therefore, BIS will not issue a license for the export of these items. When exported under FMS authority, these items are “defense articles” under section 47 of the AECA (22 U.S.C. 2794) but are not defense articles described on the USML. **Therefore, no license or other approval under the ITAR or EAR is required for the export of defense articles that would otherwise be “subject to the EAR,” but are not because they are exported under the FMS authority.** If a license application is submitted to BIS for the export of such items, BIS will generally include the following statement in its RWA notification:

Continue here: [Click Here](#)

Web Notice: The Directorate of Defense Trade Controls (DDTC) is currently in the process of modernizing its IT systems. During this time period, we anticipate there may be delays in response times and time to resolve IT related incidents and requests. We apologize for any inconvenience, and appreciate your patience while we work to improve DDTC services. If you need assistance, please contact the DDTC Service Desk at (202) 663-2838, or email at DtradeHelpDesk@state.gov (06.28.16)

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