

**Precision Tube Company  
Foreign Compliance Case Study, May 2017  
(Company Names Changed to Protect Confidentiality)**



## **BACKGROUND**

Precision Tube Company (PTC) manufactures precision, small diameter tubing using dozens of high quality metals and alloys. It has very few competitors. Primary markets include aerospace, nuclear, medical, chemical, and oil & gas. It has roughly 200 employees and international is less than 10% of sales. It has sold product into 35 countries. After being an 80-year-old family business through four generations, the company was acquired by a diversified \$4 billion multinational two years ago.

## **EUROPEAN AEROSPACE MARKET**

PTC has had a sister company in Europe since the 1950's. They have overlapping capabilities and the sister company has naturally focused its international expansion in Europe and Asia, while PTC has been more focused on the Western Hemisphere. However, the European sister company has also helped PTC to develop relationships in Europe. According to PTC, the culture in Europe differs from that of the US and it can be difficult to "get in front of Airbus." However, when Airbus decided it wanted to geographically diversify its supply base (in part to support US manufacturing), the sister company helped PTC develop a relationship with the OEM.

For many of PTC's industry segments, "US requirements are the biggest hurdle. Once you are in compliance in the US, the rest is easier." From the company's point of view, foreign *regulatory* compliance is not the major challenge, but rather *customer* compliance requirements. For example, it got AS9100 certification (a global aerospace standard) because Airbus required it. AS9100 certification was managed primarily in-house. (Interestingly, Embraer, a Brazilian aerospace company, did not require it to be AS9100 certified, though PTC did go through an Embraer qualification process.) In addition, there are some auditing and testing requirements, particularly for European customers.

## **OTHER MARKETS**

***Aerospace in Brazil.*** PTC sells to Embraer in Brazil, but not directly. Its products go through distribution. Suppliers must be on the OEM's qualified list. Embraer only has three approved suppliers for PTC's product, which must pass fatigue tests and inspection, as well as meet specific OEM specs. The qualification process is done directly with the OEM. The process is similar for Airbus and Boeing. (PTC also sells to these OEMs through distribution.)

***Nuclear.*** There are no particular *foreign* compliance challenges. For PTC, compliance is US regulatory based. For example, the US Nuclear Regulatory Commission has a list of countries that US companies can sell to under a general license. The US manufacturer simply needs to report that it sold to those countries. Outside of those approved countries, the manufacturer needs an export license from the NRC. PTC sells to Argentina (through a Canadian customer), which is not on the NRC list, so the company needs an export license from NRC. PTC did not require outside assistance in getting the export license. Its in-house legal department submitted documentation, which PTC described as being fairly simple: company information, product

information, etc. For nuclear customers in Canada, PTC ships under the general license. (As Argentina does not have its own nuclear technology, there are no Argentinean compliance requirements that flow down to PTC.)

In addition, PTC's parent company limits the countries PTC can sell to in the nuclear market, because of liability concerns. The parent company will only allow shipments to countries that are part of international nuclear treaties such as the Paris Convention<sup>1</sup> and the Vienna Convention<sup>2</sup>, which afford some liability protections. Selling to countries outside of these treaties involves undue risk or costly insurance, and requires specific approval by the NRC. This policy forced PTC to drop out of pursuing business in the South Korean and Indian nuclear markets. Liability concerns also impact its ability to supply the nuclear market in China, which is served through a 3<sup>rd</sup> party in Europe rather than direct. Though it has not yet made sales into the nuclear market in China, it believes there is opportunity and is better protected to sell in China than South Korea or India.

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<sup>1</sup> Paris Convention on Nuclear Third Party Liability

<sup>2</sup> Vienna Convention on Civil Liability for Nuclear Damage