

\$8 Million Penalty for Weak International Traffic in Arms Regulations (ITAR) Compliance: How the Price of Maintenance Beats the Cost of Repair

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On April, 30, 2013, Raytheon Company, a major military electronics and weapons manufacturer, agreed with the U.S. Department of State to pay \$8 million in civil penalties and remedial expenditures to settle alleged violations of the International Traffic in Arms Regulations (ITAR). The size of the penalty catches the eye, but beyond the whopping number is a sizeable lesson to be drawn from such enforcement actions: when a company forgoes the expense of maintaining its ITAR compliance system, it risks paying a much greater price if a breakdown occurs.

Folks tend to gripe about the money they shell out to have oil changed, filters replaced, or tires rotated. But the smart vehicle owners among us know that, however much we may complain at the time, we are paying only a pittance in the present to prevent a future fiasco. Maintenance and upkeep of a vehicle are key to long-term performance and, maybe more importantly, critical to avoiding that terrible day where your ride gives out on you, leaving you alone and stranded on the highway-side, your engine billowing smoke, while all the other drivers cruise past you, smug in their well-kept cars.

Similarly, the breakdowns that allegedly led to the Raytheon settlement were eminently avoidable. According to a [State Department press release](#), the Office of Defense Trade Controls Compliance (DTCC) determined that “numerous violations demonstrated a recurring, corporate-wide weakness in maintaining effective ITAR controls.” The alleged violations included, among other lapses:

- “Inaccurate tracking, valuation and documentation of temporary exports and imports of controlled hardware;”
- “Manufacture of such [ITAR-controlled] hardware by Raytheon’s foreign partners in excess of the approved amounts;” and
- “Failures to timely obtain and submit required documents”

These correctible oversights are precisely the type of ITAR policy implementation failure that give compliance personnel migraines.

From the point of view of compliance counsel, the most forehead-smacking of the company's gaffes is that the company, in some cases, found that "previously reported remedial measures failed to prevent and detect additional similar violations." DTCC is saying that the company had seen the problem, taken an inadequate measure as a response, and then, predictably, found that the problem continued. This is the compliance equivalent of finding that your bumper has fallen off your car, duct-taping the bumper back onto the car, then speeding down the highway only to find, to no one's but your surprise, that your bumper is no longer attached to your car.

To its credit, Raytheon disclosed nearly all the ITAR violations in this settlement, acknowledged their serious nature, and cooperated with State. For this reason, the company avoided more serious penalties. Nevertheless, the company learned a very expensive lesson.

The rest of the ITAR-compliance community may learn free of charge, however, from Raytheon's unfortunate circumstance: a company may feel temporary pain as it expends resources to ensure its ITAR compliance systems run smoothly; it will feel so much better, however, when that company rolls smoothly on down the road, passing by those whose unmaintained policy engines have stalled out.

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