

## **End-Use Monitoring of Defense Articles and Defense Services Commercial Exports FY 2010**

This report summarizes the Department of State's implementation of its "Blue Lantern" end-use monitoring program in FY 2010. The program is operated in accordance with section 40A of the Arms Export Control Act (AECA) (22 U.S.C. 2778), as amended. It monitors the end-use of defense articles and defense services exported through commercial channels and subject to Department of State licenses or other approvals under section 38 of the AECA and the International Traffic in Arms Regulations (ITAR) (22 C.F.R. Parts 120-130), which implement the AECA. The Blue Lantern program is managed by the Research & Analysis Division (RAD), Office of Defense Trade Controls Compliance (DTCC), Directorate of Defense Trade Controls (DDTC), Bureau of Political-Military Affairs (PM). The program has been in existence since 1990.

Blue Lantern end-use monitoring entails pre-license, post-license, or post-shipment inquiries or "checks" undertaken to verify the bona fides of proposed foreign consignees and end-users, to confirm the legitimacy of proposed transactions, and to provide "reasonable assurance that –

- i) the recipient is complying with the requirements imposed by the U.S. Government with respect to use, transfers, and security of defense articles and defense services; and
- ii) such articles and services are being used for the purposes for which they are provided.”<sup>1</sup>

PM/DDTC's operational budget for FY 2010, in addition to American salaries, was approximately \$1.96 million. Five State Department personnel and two contract personnel currently manage the Blue Lantern program in RAD, among other duties. End-use checks are conducted by U.S. embassy personnel in country.

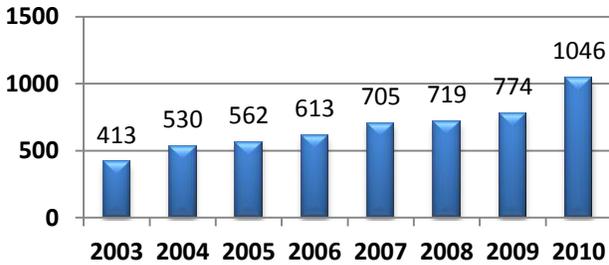
### Blue Lantern End-Use Inquiries in FY 2010

For the eighth year in a row, the Blue Lantern program set a new record by initiating 1046 inquiries in FY 2010 (Figure 1). These checks were conducted in 111 countries, also a record. Of the 723 Blue Lantern cases closed in FY 2010, 150 (21%) were determined to be "unfavorable," which means the findings of fact were not consistent with the license application or approval. Unfavorable Blue Lantern cases may result in the rejection, denial, or revocation of a license application, removal of a party, update of the DTCC Watch List, or referral to the

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<sup>1</sup> See section 40A(a)(2) of the AECA, 22 U.S.C. 2785(a)(2).

**Figure 1:  
Total Blue Lanterns Initiated  
FY 2003 - FY 2010**

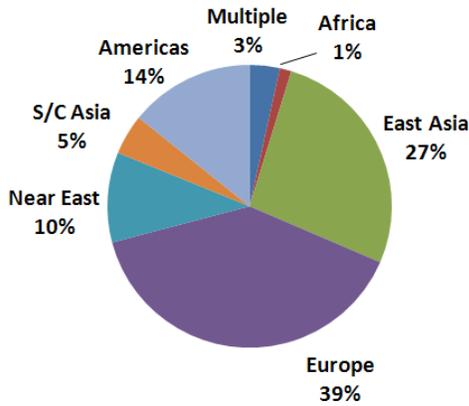


office’s Enforcement Division (END) for appropriate action. In FY 2010, of the 74 referrals to END, 18 resulted in directed disclosures and 26 went to federal law enforcement for possible criminal investigation. As of January 2011, there were 7 open law enforcement investigations related to Blue Lantern checks.

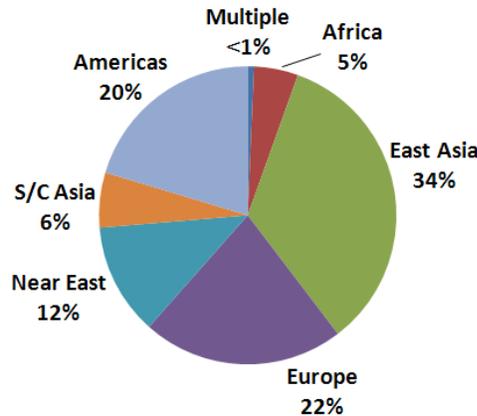
Figures 2 and 3 illustrate the regional distribution of license applications and Blue Lantern inquiries, respectively. For statistical purposes, PM/DDTC attributes a Blue Lantern check to the region of the end-user listed on the application or license. Blue Lantern inquiries, however, may be initiated or determined to be “unfavorable” due to foreign intermediaries in third countries.

The number of Blue Lantern checks initiated is generally consistent with license approvals by region with the exception that fewer checks are done among NATO countries with long-established trade patterns, whereas there are more in the Americas, East Asia and Africa.

**Figure 2: Total License Applications By Region FY 10**



**Figure 3: Total Blue Lanterns Initiated By Region FY 10**



In fiscal year 2010, PM/DDTC completed action on over 83,000 license applications and other requests. Blue Lantern inquiries are not conducted randomly, but are carefully selected to identify transactions that appear most at risk for diversion or misuse. License applications and other requests undergo review by licensing officers and compliance specialists, who check case details against established criteria for determining potential risks: unfamiliar foreign parties, unusual routing, overseas destinations with a history of illicit activity or weak

export/customs controls, commodities not known to be in the inventory of the host country's armed forces, and other indicators of concern. The information derived from Blue Lantern checks helps PM/DDTC licensing officers and compliance specialists assess risks associated with the export of certain defense articles and services to various countries and regions, and provides significant insight into the reliability of companies and individuals involved in defense procurement overseas.<sup>2</sup>

**Figure 4: Total Unfavorable Blue Lanterns By Region FY 10**

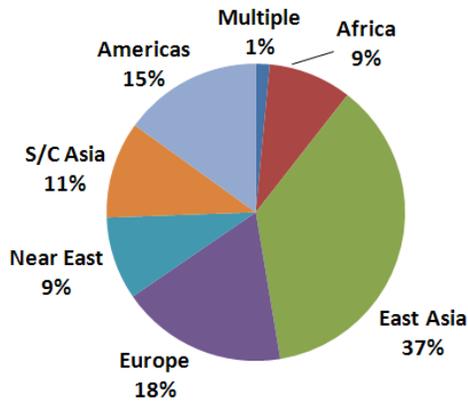
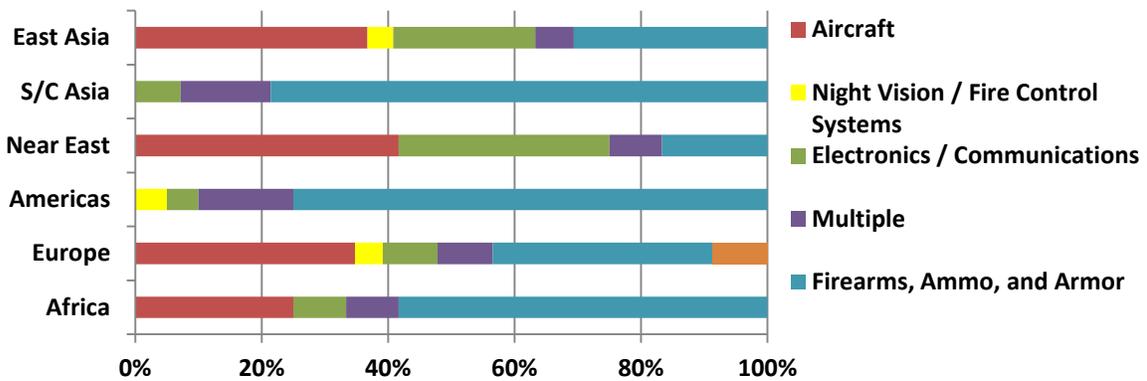


Figure 4 illustrates the regional distribution of unfavorable Blue Lantern checks. There were two notable trend changes from the previous two fiscal years. First, South Central Asia had proportionally more unfavorable checks compared to the number initiated in that region. Second, there were proportionally fewer unfavorable Blue Lanterns in the

Americas relative to the total number of checks conducted in that region. As has been seen in previous fiscal years, East Asia continues to be among the leading regions for unfavorable Blue Lantern checks.

Figure 5 provides a breakdown of unfavorable Blue Lantern checks by region and commodity.

**Figure 5: FY 2010 Unfavorable Blue Lanterns: Leading Commodity Types by Region**



<sup>2</sup> Because Blue Lantern checks are selected based on potential risk and not a random sampling across all PM/DDTC licenses, data on unfavorable checks should not be regarded as statistically representative of all license applications.

Reasons for Unfavorable Checks in FY 2010

The primary reasons for unfavorable Blue Lantern results from FY 2008 to FY 2010 are illustrated in Figure 7. The leading cause of an unfavorable Blue Lantern result in FY 2010 was *Derogatory information / foreign party deemed unreliable*. This issue was a factor in nearly the same percentage of unfavorable cases in FY 2010 (29%) as in FY 2009 (30%). This is a broad category that includes issues such as criminal records, negative intelligence information, and other varying concerns regarding a company’s *bona fides*.

	FY 2010	FY 2009	FY 2008
Derogatory information / foreign party deemed unreliable recipient of USML	29% n = 43	30% n = 26	5% n = 4
Unable to confirm order or receipt of goods by end-user	18% n = 27	10% n = 9	18% n = 15
Foreign party involved in transaction but not listed on license/application	11% n = 16	6% n = 5	23% n = 19
Indications of diversion or unauthorized retransfer or re-export	9% n = 13	13% n = 11	24% n = 20
Unauthorized brokering	9% n = 13	6% n = 5	9% n = 7
Refusal to cooperate	5% n = 7	36% n = 31	5% n = 4

Figure 6: Primary Reasons for Unfavorable Checks FY 2008 - FY 2010

The other leading categories for unfavorable determinations in FY 2010 are generally similar to those seen in the previous two fiscal years, with the exception of *Refusal to cooperate*. While this category was the leading cause of an unfavorable Blue Lantern results in FY 2009, the figure was inflated by numerous unfavorable checks on a single company during that year. In FY 2010, this category returned to the same level seen in FY 2008 (5%).

Other, less prevalent, reasons for unfavorable determinations in FY 2010 included *Lack of adequate facilities to securely store U.S. Munitions List Hardware, Regional*

*instability and security concerns*, and *Inability to confirm existence of party listed on license*. In FY 2010, no cases were closed unfavorable due to *unauthorized Warehousing or stockpiling*, a category that garnered, on average, 7% of unfavorable results in FY 2008 and FY 2009. The cause of the fluctuations year-

over-year is not necessarily due to a change in behavior among foreign parties. Rather, they are likely due to, in part, a combination of factors weighing into individual Compliance Analyst targeting decisions, such as regional diversion concerns, commodity sensitivity, and unfamiliar foreign parties.

### Blue Lantern Case Studies FY 2010

#### **Case Study #1: Use of Falsified End-User Documentation to Request USML (Pre-License Check)**

##### **Request for Permanent Export**

*Items:* Various aircraft spare parts  
*End-User:* Southeast Asian Air Force  
*Foreign Consignee:* Southeast Asian Company

##### **Reasons for Check**

- Concerns about private Southeast Asian company
- Authenticity of end-use documentation in doubt

##### **Findings**

- End-User confirmed that it did not place an order for the parts
- Case referred to law enforcement

#### **Case Study #2: Firearms Dealer Tied to Criminal Organization (Pre-License Check)**

##### **License for Permanent Export**

*Items:* Firearms  
*End-user:* Three Firearms Dealers

##### **Reasons for Check**

- Three companies were listed as end-users on three separate export license requests. The specific items and quantities were identical for all three licenses and all three purchase orders issued by the companies used the same template.

##### **Findings**

- Two of the companies are owned and operated by the same individual and the third is run by the individual's relative.
- The companies and their owners are affiliated with a transnational criminal organization