This report summarizes the Department’s administration of the Blue Lantern end-use monitoring program for fiscal year (FY) 2017. The Blue Lantern program fulfills requirements stipulated in section 40A of the Arms Export Control Act (AECA) (22 U.S.C. 2785) and delegated to the Department in E.O. 13637 (March 8, 2013). The program monitors the end-use of defense articles, technical data, services, and brokering activities exported through commercial channels and subject to Department licenses or other approvals under section 38 of the AECA and the International Traffic in Arms Regulations (ITAR) (22 CFR Parts 120-130), which implement section 38 of the AECA. The Blue Lantern program is managed by the Regional Affairs and Analysis Division (RAA), Office of Defense Trade Controls Policy, Directorate of Defense Trade Controls (DDTC), Bureau of Political-Military Affairs.¹

Blue Lantern’s mission is to help ensure the security and integrity of U.S. defense trade. The program minimizes the risk of diversion and unauthorized use of U.S. defense articles, combats gray arms trafficking, uncovers violations of the AECA, and builds confidence and cooperation among defense trade partners.

Blue Lantern end-use monitoring includes pre-license, post-license/pre-shipment, and post-shipment checks to verify the bona fides of foreign consignees and end-users, confirm the legitimacy of proposed transactions, and provide “reasonable assurance that – (i) the recipient is complying with the requirements imposed by the United States 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.”²

In FY 2017 DDTC had a full-time complement of approximately 89 full-time employees, which was supplemented by eight active-duty military officers, approximately 97 contract personnel, a DHS Special Agent, and a FBI Special Agent who supported DDTC offsite. In FY 2017 DDTC had a budget of approximately $45.1 million and received approximately $36.3 million in registration fees. Five RAA employees and four contractors in RAA managed the Blue Lantern program, among other duties. U.S. embassy personnel conducted end-use checks. RAA staff also conducted overseas outreach visits to meet with embassy personnel, host government officials, and meet foreign businesses engaged in defense trade of ITAR-controlled items. These visits educated foreign defense trade partners about the Blue Lantern program and U.S. defense trade controls and policy, as well as fostered cooperation with U.S. end-use monitoring and compliance with U.S. defense trade controls. In FY 2017 RAA conducted outreach trips to Bahrain, Brazil, Egypt, El Salvador, Jamaica, Kuwait, Oman, Republic of Korea, Taiwan, and Thailand. In FY 2017 RAA’s Blue Lantern Post Support Program, which facilitates end-use monitoring efforts by funding in-country travel costs associated with site visits as well as outreach efforts, supported a Near-Eastern regional training seminar for Blue Lantern Officers in

¹Section 40A(c) of the AECA, requires the submission to the Congress of a report describing actions taken to implement the end-use monitoring of defense articles and defense services exported abroad, including a detailed accounting of the costs and number of personnel associated with the monitoring program. The end-use monitoring program for transfers made pursuant to direct commercial sales is commonly known as “Blue Lantern.”
Muscat as well as end-use checks in Australia, Finland, Germany, India, Taiwan (AIT-Taipei), and Ukraine.

**Blue Lantern End-Use Inquiries Initiated in FY 2017**

In FY 2017 DDTC authorized 36,092 export license applications. RAA initiated 429 Blue Lantern checks (247 pre-license, 79 post-license/pre-shipment, and 103 post-shipment) in 92 countries in FY 2017. This represents approximately 1.2 percent of adjudicated license applications, which is consistent with the prior year’s averages. Figures 1 and 2 illustrate the regional distribution of authorization requests and Blue Lantern inquiries, respectively.  

- **Figure 1: Authorization Requests By Region FY 2017**
  - Americas: 15%
  - Europe: 35%
  - S/C Asia: 4%
  - E. Asia + Pacific: 22%
  - Near East: 10%
  - Multiple: 12%
  - Africa: 2%

- **Figure 2: Blue Lantern Initiated By Region FY 2017**
  - Americas: 20%
  - Africa: 17%
  - S/C Asia: 10%
  - E. Asia + Pacific: 23%
  - Near East: 7%
  - Europe: 23%

**Blue Lantern End-Use Inquiries Closed in FY 2017**

RAA closed 539 Blue Lantern cases in FY 2017. Figure 3 illustrates the number of Blue Lantern cases closed, broken down by region. Of the cases closed, 382 (71 percent) reported “favorable” results. These favorable checks verified that defense articles were received and secured by authorized end-users, verified the bona fides of parties, especially foreign intermediaries, and enhanced understanding of U.S. export laws and regulations.

RAA closed 157 (29 percent) cases as “unfavorable,” meaning that the findings of fact were inconsistent with information in the license application, or that information could not be verified. Some of these checks prevented or uncovered illicit transactions or nefarious procurement practices. Blue Lantern checks are selected based on several risk factors, including unfamiliar foreign parties, sensitive technology, or unusual shipping routes. Because of this risk-based selection process, transactions targeted for Blue Lantern checks are more likely to result in unfavorable findings than a random sampling of license applications. The average global unfavorable rate over the four fiscal years before 2017 was 23.3 percent. The likely reasons for this year’s above-average unfavorable rate were improved targeting and an increase in unfavorable findings in Africa and South and Central Asia. The number of cases closed as

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3 For statistical purposes, RAA attributes a Blue Lantern check to the country of the end-user listed on the license application request. Blue Lantern inquiries, however, may be initiated due to concerns over foreign intermediaries in third countries.
unfavorable in Africa jumped from 9 percent in FY 2016 to 38 percent in FY 2017, attributed largely to indications of potential diversion or unauthorized re-exports/retransfers. South and Central Asia (S/C Asia) also saw a 21 percent increase in unfavorable cases in FY 2017 due to unresponsive government end-users. Nearly half of all cases in the East Asia and the Pacific were closed as unfavorable in FY 2017, largely due to the inability to verify the bona fides of the authorization request.

DDTC’s Watch List is an internal screening tool containing over 172,000 entities, ranging from the suspect to the sanctioned. DDTC uses this database to flag export license applications for possible Blue Lantern checks. In FY 2017 RAA reviewed 12,394 Watch List name matches, or “hits” (including false hits), and made 1,957 new entries and 2,104 modifications to the Watch List.

Reasons for Unfavorable Checks in FY 2017
While Blue Lantern cases may be unfavorable for multiple reasons, for statistical purposes each case is assigned a single, predominant reason for an unfavorable determination. As in years past the leading cause of an unfavorable finding in FY 2017 was inability to confirm order or receipt of goods (68 cases). This broad category includes criminal records, derogatory information from various sources, and concerns regarding an entity’s bona fides. The second most common reason for an unfavorable check in FY 2017 was the derogatory information/unreliable foreign party (47 cases). This broad category includes unconfirmed foreign end users or foreign consignees that were either misrepresented or omitted from an authorization request.

The third most common reason for an unfavorable check in FY 2017 was the involvement of an unlicensed party (28 cases). This is often because of poor due diligence on the part of the U.S. exporters or the failure of foreign consignees to properly disclose the full chain-of-custody. Most
of these cases in FY 2017 involved unlisted entities or incorrect end-users in the East Asia Pacific and Europe regions.

Since FY 2015 RAA has disaggregated the previously used category *indications of diversion or unauthorized retransfer or re-export* into two categories in order to differentiate unauthorized transfers due to poor compliance from intentional or nefarious actions. In FY 2017 RAA documented one case of *indications of potential or actual diversion* and two cases of *unauthorized re-exports/retransfers*. Thus less than one percent of Blue Lantern cases closed in FY 2017 discovered indications of willful diversion tactics. This suggests that the incidence of observed illicit procurement attempts through licensed defense trade channels remains very infrequent. One example involved a post-shipment check on the export of firearms to an uncooperative European end-user near a war zone where the U.S. applicant failed to report missing portions of the shipped U.S. Munitions List items. The case resulted in an unfavorable Blue Lantern check and was referred to law enforcement.

Unfavorable Blue Lantern cases resulted in several types of actions, including returning or denying license applications, removing parties from licenses, revoking licenses, updating the Watch List, or referring cases to DDTC’s Office of Defense Trade Controls Compliance and/or U.S. law enforcement agencies for appropriate civil and/or criminal enforcement investigation and action. Blue Lantern checks and Watch List screening led RAA to recommend denial, removal of an entity, revocation, or return without action on 50 license applications. RAA referred three unfavorable Blue Lanterns to DTCC, which in turn directed companies to disclose information related to suspected ITAR violations.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unable to confirm order or receipt of goods</td>
<td>68</td>
</tr>
<tr>
<td>Derogatory information/foreign party deemed unreliable recipient of USML</td>
<td>47</td>
</tr>
<tr>
<td>Unlicensed party</td>
<td>28</td>
</tr>
<tr>
<td>Uncooperative/failure to respond</td>
<td>25</td>
</tr>
<tr>
<td>Unauthorized brokering</td>
<td>6</td>
</tr>
<tr>
<td>Physical security concerns</td>
<td>4</td>
</tr>
<tr>
<td>Indication of potential or actual diversion</td>
<td>3</td>
</tr>
<tr>
<td>Evidence of stockpiling</td>
<td>1</td>
</tr>
<tr>
<td>Inability to confirm existence of a foreign party</td>
<td>1</td>
</tr>
</tbody>
</table>

*Figure 4: Reasons for Unfavorable Results and Number of Instances (FY 2017) / multiple reasons maybe associated with the same case*