**Report to Congress on
End-Use Monitoring of Defense Articles and Defense Services
22 USC 2785(c): End-Use Monitoring of Defense Articles and Defense Services**

This report summarizes the Department of State's administration of the Blue Lantern end-use monitoring program for Fiscal Year (FY) 2022. 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 of State in Executive Order 13637 (March 8, 2013).[1] The program monitors the end-use of defense articles, including technical data, and defense services exported through commercial channels, as well as brokering activities, subject to Department of State 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 Country and End-Use Analysis Division (CEA), Office of Defense Trade Controls Policy, Directorate of Defense Trade Controls (DDTC), Bureau of Political-Military Affairs.

The Blue Lantern program's mission is to help ensure the security and integrity of U.S. defense trade. The program is designed to minimize the risk of diversion and unauthorized use of U.S. defense articles, combat gray arms trafficking, uncover violations of the AECA, and build confidence and cooperation among defense trade partners.

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[1] Section 40A(c) of the AECA requires the annual submission to 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 and the numbers, range, and finding of end-use monitoring of U.S. transfers of small arms and light weapons. The end-use monitoring program for transfers made pursuant to direct commercial sales is commonly known as the "Blue Lantern" program.

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 to the extent possible, 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 2022 five Department of State full-time employees and four contractors managed the Blue Lantern program, among other duties, at a total cost of approximately $1,600,000. End-use checks are largely conducted by U.S. embassy personnel, who reported an estimated cost of over $69,000 for inquiries closed in FY 2022. The higher cost in FY 2022 over FY 2021 reflects a gradual return to in-person site visits and inventory checks as risk posed to personnel by the pandemic was somewhat attenuated over the year. As a result, CEA's Blue Lantern Post Support Program, which facilitates end-use monitoring efforts by funding in-country travel costs associated with in-person site visits or end-use monitoring training, expended over $2,700 in FY 2022 (compared with no expenses in FY 2021). CEA staff also resumed in-person overseas outreach visits to meet with embassy personnel, host government officials, and foreign businesses engaged in 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. They also fostered increased cooperation and compliance with U.S. defense trade controls. In FY 2022, CEA expended over $5,700 conducting outreach trips to Canada and the United Arab Emirates.

Due to Russia's full-scale invasion of Ukraine, in February 2022, routine Blue Lantern checks were suspended for safety and staffing reasons. Instead, DDTC began consulting with the Ukrainian Embassy in Washington, DC, to confirm

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[2] Section 40A(a)(2)(B) of the AECA (22 U.S.C. 2785(a)(2)(B)).

the details of certain transactions. These verification efforts, while aiming to achieve some of the objectives of pre-license checks, are not intended to reflect a permanent change in operations and are not included in the total number of checks for FY 2022. In-country end-use checks in Ukraine resumed in FY 2023 with limited site visits, as security conditions allow, and will be counted as part of the report for the next fiscal year.

Blue Lantern End-Use Inquiries Initiated in FY 2022

In FY 2022, DDTC approved 18,143 export authorization requests. CEA initiated Blue Lantern checks on 305 export authorizations or authorization requests (74 pre-license checks, 190 post-shipment checks, and 41 checks that involved both pre-license and post-shipment elements) in over 60 countries, an increase from FY 2021 largely attributed to an expanding interest in potential vulnerabilities posed by academic institutions. Blue Lantern checks in FY 2022 were performed on nearly two percent of the license applications approved, a higher rate than in previous fiscal years. Figures 1 and 2 illustrate the regional distribution of export authorizations and Blue Lantern inquiries, respectively.[3] Note that several Blue Lantern checks not only reviewed specific transactions but also analyzed the management structure and security controls of foreign companies that may pose a risk of diversion due to their acquisition by another foreign entity.

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[3] The regions are based on the areas of responsibility of State Department regional bureaus: AF for African Affairs (Sub-Saharan), EAP for East Asian and Pacific Affairs, EUR for European and Eurasian Affairs, NEA for Near Eastern Affairs (North Africa and the Middle East), SCA for South and Central Asian Affairs, and WHA for Western Hemisphere Affairs.
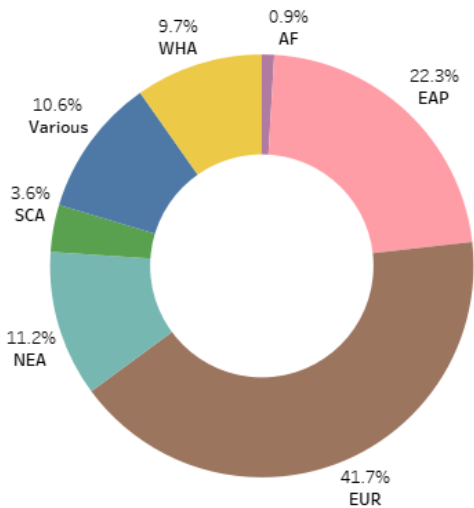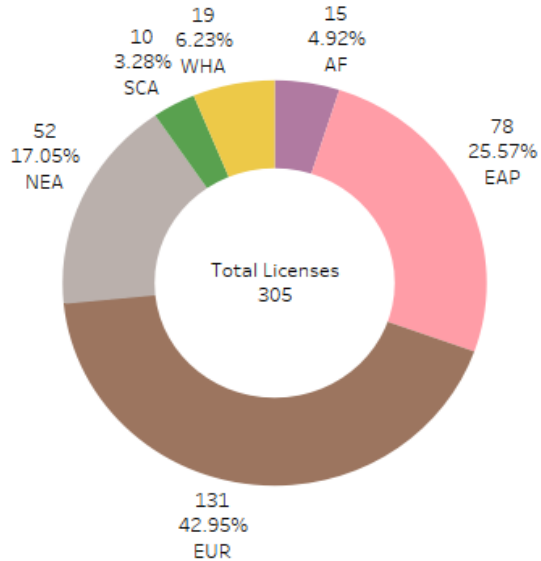
Figure 1 – FY 2022 DCS Authorizations by Region

Figure 2 – FY 2022 Blue Lantern Checks Requested by Region

Blue Lantern End-Use Inquiries Closed in FY 2022

CEA closed 226 Blue Lantern checks in FY 2022. Figure 3 illustrates the number of Blue Lantern cases closed, by region. Of these, 159 (70 percent) reported "favorable" results. These favorable checks verified defense articles were received and secured by authorized end-users, confirmed the bona fides of parties (primarily foreign intermediaries), and enhanced the parties' understanding of U.S. export laws and regulations.
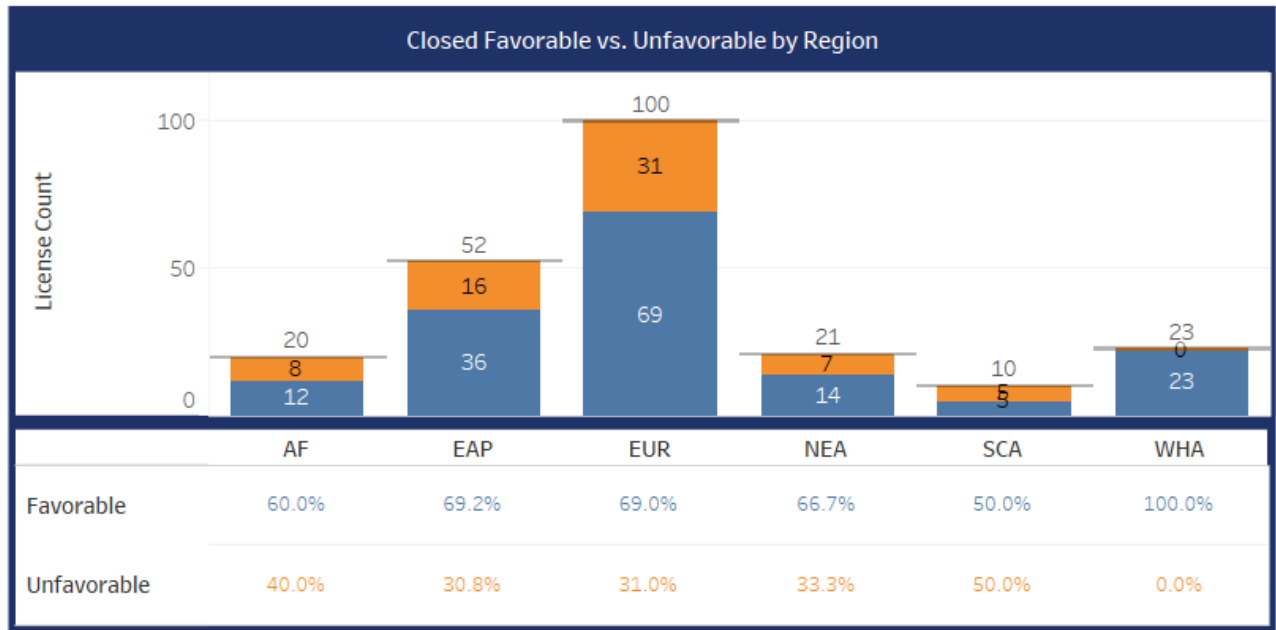

Closed Favorable vs. Unfavorable by Region

	AF	EAP	EUR	NEA	SCA	WHA
Favorable	60.0%	69.2%	69.0%	66.7%	50.0%	100.0%
Unfavorable	40.0%	30.8%	31.0%	33.3%	50.0%	0.0%

Figure 3 – Checks Closed in FY 2022 by Region

Unfavorable Checks in FY 2022

CEA closed 67 cases (or 30 percent of all closed cases) as "unfavorable" in FY 2022. This finding applies to cases where the findings of fact are inconsistent with information in the license application, or where certain information could not be verified. Common reasons for closing cases as "unfavorable" included the unresponsiveness of a foreign party or the identification of discrepancies between the information the foreign party provided and what was authorized in the license.

FY 2022 unfavorable findings were in line with the average rate of unfavorable outcomes for the past five fiscal years (30 percent). Blue Lantern checks are selected based on several risk factors, including unfamiliar foreign parties, sensitivity of the technology involved in the transaction, and unusual shipping patterns. Because the selection process is risk-based, transactions targeted for closer scrutiny are more likely to result in unfavorable findings than a random sampling of license applications.

Figure 4 depicts the various reasons checks were closed as unfavorable. Because a case may be designated "unfavorable" for more than one reason, the cumulative total for this table exceeds the total number of unfavorable cases recorded for the year. In FY 2022, the leading causes of an unfavorable finding were ***derogatory information/foreign party deemed unreliable recipient of USML*** (25 checks), meaning the check generated information calling into question the foreign party's ability to comply with the ITAR, and ***refusal to cooperate*** (25 checks), where the foreign party failed to provide a comprehensive response in a timely manner. Excluding the category "Other," which includes a range of reasons that do not neatly fall into the categories in Figure 4, the next most common reason was ***unlicensed party*** (8 checks), where the Blue Lantern officer identified the participation of an entity not listed on the license or authorization request. For FY 2022, CEA documented no instance of ***indications of potential or actual diversion*** (i.e., intentional actions to change end-use or end-user for nefarious purposes) and three instances of ***unauthorized reexports/retransfers*** (i.e., poor compliance arising from a misunderstanding of, or lack of sufficient training in, the ITAR).

Derogatory information/unreliable foreign party	25
Refusal to cooperate	25
Unlicensed party	8
Unable to confirm order or receipt of goods	6
Unauthorized reexport/retransfer	3
Lack of secure storage facilities	2
Other	11

Figure 4 – Reasons for Unfavorable Results and Number of Instances (FY 2022)[4]

Unfavorable Blue Lantern cases resulted in several types of actions, including returning without action or denying license applications, removing parties from licenses, updating the DDTC Watch List, or referring cases to DDTC's Office of Defense Trade Controls Compliance (DTCC) and/or U.S. law enforcement agencies for appropriate civil and/or criminal enforcement investigation and action. CEA referred seven unfavorable Blue Lantern checks to DTCC in FY 2022. Blue Lantern checks and DDTC Watch List screening led CEA to recommend removal of at least one entity on 166 license applications.

Regional Distribution of Unfavorable Cases in FY 2022

33 percent of all checks conducted in the **NEA** region in FY 2022 were closed as unfavorable. Much as in past fiscal years, a main reason for an unfavorable check was derogatory information on the foreign party that called into question its ability to comply with the terms and conditions of a license or U.S. export control laws generally. The **EUR** and **EAP** regions saw around 30 percent of checks closed as unfavorable, with the primary reasons being, respectively, lack of full cooperation from the foreign party and derogatory information on the foreign party. The unfavorable rates in the **AF** and **SCA** regions were 40 and 50 percent, respectively, with the main reason in AF being derogatory information on the foreign party and in SCA the inability or unwillingness of foreign parties to respond in a timely manner. CEA has targeted those parties subject to an unfavorable check for outreach, further end-use inquiries, referral to DTCC, or addition to the Watch List. There were no unfavorable checks in **WHA** in FY 2022.

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[4] Multiple reasons may be associated with a single case.

Blue Lantern Checks on Firearms Closed in FY 2022

Of the 226 Blue Lantern checks closed by CEA in FY 2022, 36 cases involved U.S. Munitions List (USML) Category I (Firearms). Three of these cases were closed as unfavorable. Figure 5 depicts the regional breakdown of firearms cases. The unfavorable rate for checks involving USML Category I articles was 8 percent for FY 2022.
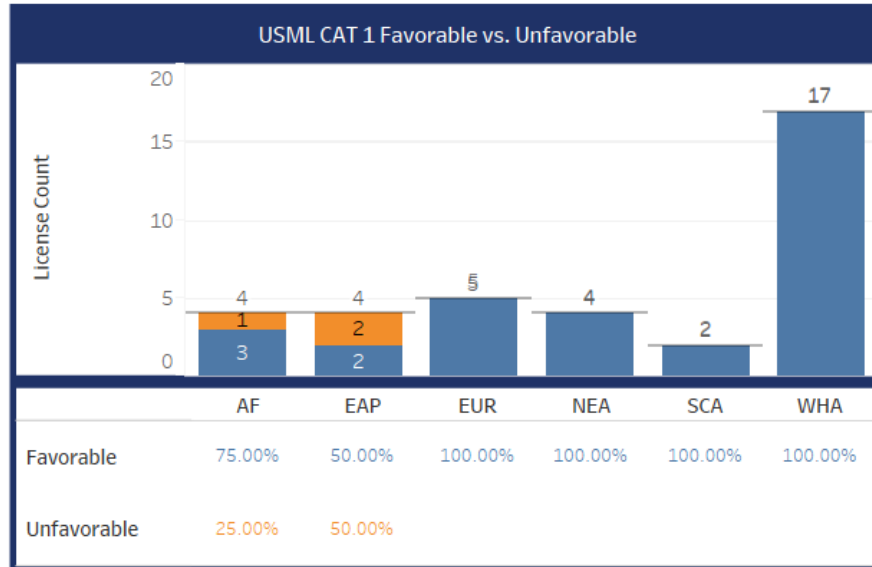

Figure 5: Checks Closed by Region (USML Category I)

DDTC Watch List

In FY 2022 CEA reviewed 65,677 DDTC Watch List name matches, or "hits" (including false hits), and made 1,536 new entries and 2,096 modifications to the DDTC Watch List. DDTC's Watch List is an internal screening tool containing over 229,000 entities, ranging from entities that require further review to restricted or denied parties. CEA uses this database to flag export authorization applications for possible Blue Lantern checks. Since FY 2020, CEA has systematically shared the DDTC Watch List with the Department of Commerce's Bureau of Industry and Security. This sharing improves Commerce's ability to regulate items it controls, especially those items formerly controlled on the USML.