

End-Use Monitoring of Defense Articles and Defense Services Commercial Exports FY 2018

This report summarizes the Department of State's administration of the Blue Lantern end-use monitoring program for fiscal year (FY) 2018. 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). The program monitors the end-use of defense articles, technical data, services, and brokering activities 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 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.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, 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

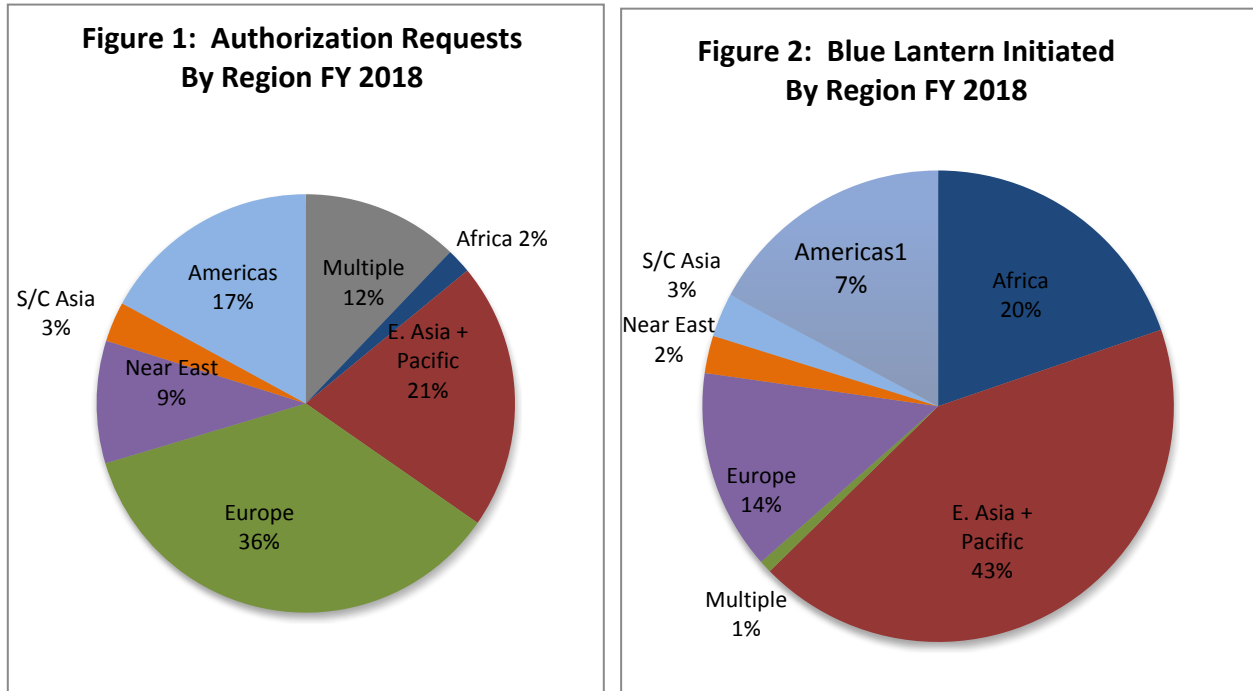
In FY 2018, five State Department full-time employees and six contractors in CEA managed the Blue Lantern program, among other duties, at a total cost of \$1,632,300. End-use checks are largely conducted by U.S. embassy personnel. CEA staff also conducted overseas outreach visits to meet with embassy personnel, and host government officials and 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 2018, CEA expended over \$59,700 conducting outreach trips to Argentina, Brazil, Canada, the Republic of Korea, Singapore, and Ukraine. In FY 2018, CEA's Blue Lantern Post Support Program, which facilitates end-use monitoring efforts by funding in-country travel costs associated with site visits, expended \$11,443.

¹ Section 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."

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

Blue Lantern End-Use Inquiries Initiated in FY 2018

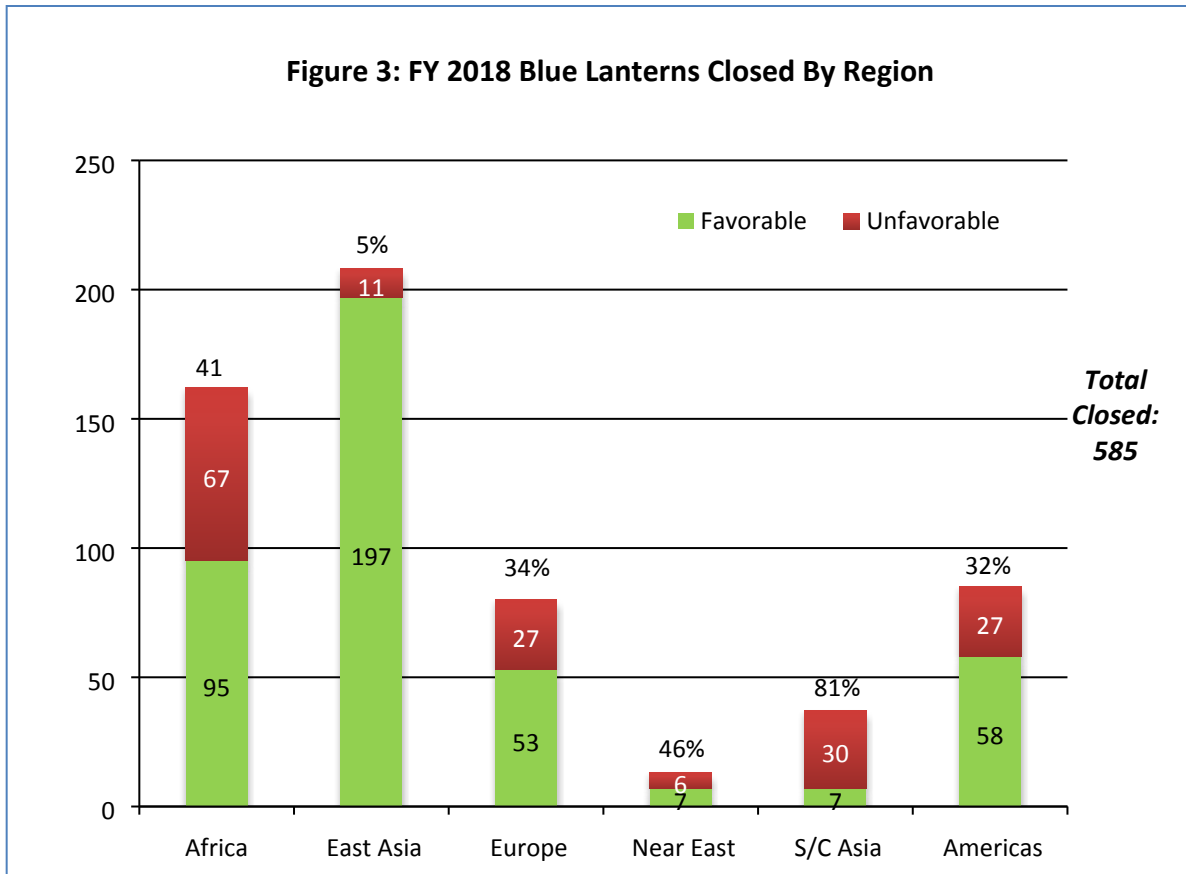
In FY 2018, DDTC authorized 35,779 export license applications. CEA initiated 466 Blue Lantern checks (268 pre-license, 89 post-shipment, and 109 containing both pre-license and post-shipment checks) in over 70 countries. This represents approximately 1.3 percent of adjudicated license applications, 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.³



Blue Lantern End-Use Inquiries Closed in FY 2018

CEA closed 585 Blue Lantern cases in FY 2018. Figure 3 illustrates the number of Blue Lantern cases closed, broken down by region. Of the cases closed, 417 (71 percent) reported “favorable” results. These favorable checks verified defense articles were received and secured by authorized end-users, confirmed the bona fides of parties (especially foreign intermediaries), and enhanced the parties’ understanding of U.S. export laws and regulations.

³ For statistical purposes, CEA 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 Checks in FY 2018

CEA closed 168 (29 percent) cases as “unfavorable,” meaning the findings of fact were inconsistent with information in the license application, or that certain information could not be verified. Common reasons for closing cases as “unfavorable” include the unresponsiveness of a foreign party or the identification of discrepancies between the information provided by the foreign party and the details of a license application. Additionally, one of these checks uncovered potential indications of an illicit transaction or nefarious procurement practice.

FY 2018 saw an increase in unfavorable ratings (29 percent compared with 24.7 percent average from previous years). CEA attributes this to several factors, including an increase in overall arms sales, changes to State’s Blue Lantern procedures, enhanced targeting, and improved guidance to embassy personnel responsible for conducting Blue Lantern checks. 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 would a random sampling of license applications.

Figure 4 depicts the number of checks closed as unfavorable for a given reason. Because a case may be designated “unfavorable” for a variety of factors, the cumulative total for this table far exceeds the total number of unfavorable cases recorded for the year. In FY 2018, the leading cause of an unfavorable finding was *uncooperative/failure to respond* (68 checks), meaning a foreign party

failed to provide requested information in response to an end-use check. The second most common reason for an unfavorable check was the ***inability to confirm order or receipt of goods*** (54 checks). This broad category includes cases where the information provided by the foreign consignee or end-user did not match up with the details in the authorization request. Examples include inconsistencies regarding the quantity ordered by the final end-user or the reported end-use. The third most common reason for an unfavorable check in FY 2018 was ***derogatory information/foreign party deemed unreliable recipient of USML*** (52 checks), meaning a foreign party failed to provide requested information in response to an end-use check. In some cases, the entity may not have responded at all to repeated inquiries from U.S. government representatives.

Uncooperative/failure to respond	68
Unable to confirm order or receipt of goods	54
Derogatory information/foreign party deemed unreliable recipient of USML	52
Unlicensed party	12
Physical security concerns	7
Inability to confirm existence of a foreign party	3
Unauthorized reexports/retransfers	3
Indications of potential or actual diversion	1
Evidence of stockpiling	1

In its FY 2015 report, CEA began disaggregating a previously used category, ***indications of diversion or unauthorized retransfer or re-export***, into two separate categories in order to differentiate unauthorized retransfers due to poor compliance from intentional or nefarious actions. For FY 2018, CEA documented one instance of ***indications of potential or actual diversion*** and three instances of ***unauthorized reexports/retransfers***. Thus, less than one percent of Blue Lantern cases closed in FY 2018 led to the discovery of indications of willful diversion tactics. This suggests that the incidence of observed illicit procurement attempts through licensed defense trade channels remains infrequent.

Unfavorable Blue Lantern cases resulted in several types of actions, including returning or denying license applications, removing parties from licenses, revoking 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. Blue Lantern checks and DDTC Watch List screening led CEA to recommend denial, removal of an entity, revocation, or return without action on 57 license applications. CEA referred nine unfavorable Blue Lanterns to DTCC, including three to that office's Law Enforcement Liaison Division, which is responsible for referring potential criminal cases involving violations of the AECA and ITAR to U.S. law enforcement agencies.

Figure 4: Reasons for Unfavorable Results and Number of Instances (FY 2018) / multiple reasons maybe associated with the same case

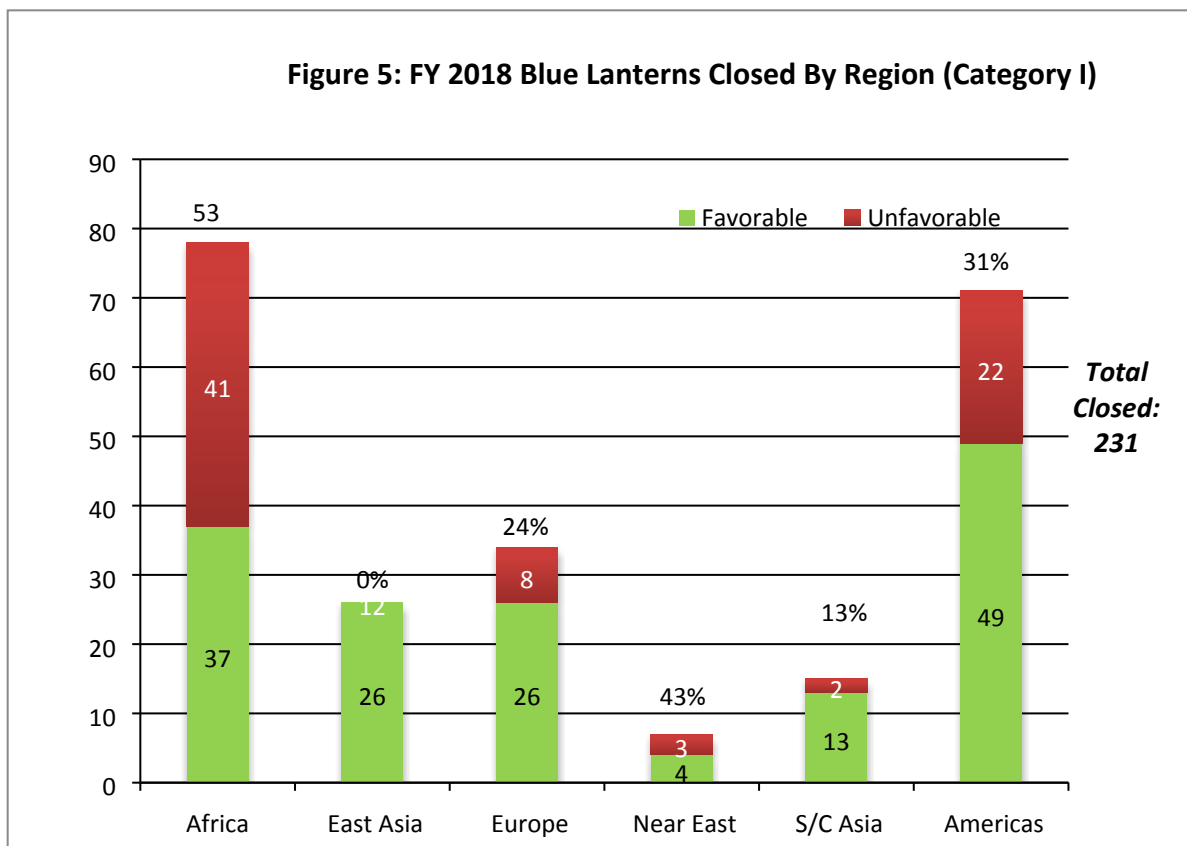
Regional Distribution of Unfavorable Cases in FY 2018

The number of cases closed as unfavorable in Africa jumped from 38 percent in FY 2017 to 41 percent in FY 2018, largely due to the identification of several affiliates of a foreign end-user deemed by DDTC to be an unreliable recipient of U.S. defense articles. The unfavorable rate of checks conducted in the Near East increased from 22 percent in FY 2017 to 46 percent in FY 2018,

with many of these negative checks involving foreign intermediate consignees, including transportation firms, that were unaware of their requirements to maintain records of the shipment or were otherwise found to be unsuitable parties to the proposed transactions. South and Central Asia also saw an increase in unfavorable cases in FY 2018 from 47 percent to 81 percent due to missing documents or unresponsive government end-users. Around one-third of all cases in the Western Hemisphere region were closed as unfavorable in FY 2018; many of these cases involved pre-license checks on unfamiliar retail firearms vendors who were determined to have insufficient weapons security, inventory controls, or compliance policies and/or procedures. Unfavorable checks in Europe grew from 20 percent in FY 2017 to 34 percent in FY 2018, largely due to better targeting of checks by CEA, while the unfavorable rate in East Asia and Pacific shrank from 31 percent to 5 percent owing to a small number of cases with multiple licenses and agreements being closed as favorable.

Blue Lantern Checks on Firearms Closed in FY 2018

Of the 594 Blue Lantern checks closed by CEA in FY 2018, 231 cases involved U.S. Munitions List (USML) Category I (Firearms), including 76 cases that were closed as unfavorable. Figure 5 shows the regional breakdown of these cases. The unfavorable rate for checks involving Category I articles (nearly 33 percent) was slightly higher than the rate of unfavorable cases involving all USML categories (29 percent) for FY 2018. The difference was in part due to the higher unfavorable rate for checks involving Category I articles in Africa (53 percent for checks involving Category I articles in Africa as opposed to 44 percent for all USML Categories in that region).



DDTC Watch List

In FY 2018 CEA reviewed 11,856 DDTC Watch List name matches, or “hits” (including false hits), and made 2,168 new entries and 2,646 modifications to the DDTC Watch List. DDTC’s Watch List is an internal screening tool containing over 223,000 entities, ranging from the suspect to the sanctioned. CEA uses this database to flag export authorization applications for possible Blue Lantern checks.