



Blue Lantern Program

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Three End-Use Monitoring Programs

Blue Lantern – State Department

- Direct Commercial Sales (DCS) of United States Munitions List (USML) items

Extranchek – Commerce Department

- Dual-Use (CCL) Items

Golden Sentry – Defense Department

- Foreign Military Sales (FMS) (Gov't-to-Gov't)



Blue Lantern: Overview

- End-use monitoring program required by Section 40A of the Arms Export Control Act (AECA), formalized 1990
- Verifies end-users and end-uses of U.S. exports of defense articles and services
- Pre-license and post-shipment checks
- Performed worldwide by U.S. Embassy personnel in cooperation with host governments
 - 84 countries in FY 2006
- High interest by Congress, media, and non-governmental organizations (NGOs)



Objective 1: Build Confidence in Defense Trade Relationship

- Ensure security & integrity of defense trade
- Foster cooperation/confidence among U.S. government, host government, and industry
- Improve understanding of U.S. export controls (e.g., authorization required to re-export)
- **NOT a law enforcement action or “investigation”**



Objective 2: Regulate Technology Transfer

- Favorable Blue Lantern checks may facilitate the transfer of more advanced technology overseas
- Unfavorable Blue Lantern checks may result in decreased exports of sensitive items



Objective 3: Impede Gray Arms Trade

Gray Arms Trafficking =
Use of legitimate means for illicit ends

Tools and Techniques

- False end-use documentation
- Front companies
- Brokers
- Covert payments
- Hidden intermediaries/end-users



How Blue Lanterns Begin: Targeting, Referrals, and the Watchlist

Targeted, not random:

613 Blue Lantern checks out of 70,000+ export
authorization requests in FY 2006

- Referrals
 - DDTC Licensing and Compliance Officers
 - State Department Bureaus
 - Other USG Agencies (e.g. Department of Defense)
 - Government Accountability Office (GAO) studies
- Watchlist



Basic Warning Flags

- **End-User/End-Use Indicators**

- Unfamiliar end-user
- Reluctance or evasiveness by U.S. applicant or purchasing agent to provide information
- Payment in cash or at above-market rates
- Scanty, unavailable, or derogatory background information on end-user's business
- Incomplete/suspect supporting documentation
- Unfamiliarity of end-users with the product or its use
- End-user declines usual follow-on service, installation, warranty, spares, repair, or overhaul contracts

- **Commodity Indicators**

- Commodities/services appear excessive or inconsistent with end-user's or consignee's inventory or needs
- Commodities in demand by embargoed countries
- Especially sensitive commodities (e.g., night vision equipment, unmanned aerial vehicles, or cruise missile technologies)

- **Country/Shipment Indicators**

- Unusual routing, trans-shipment through multiple countries or companies
- Location of end-user or consignee in a Free Trade Zone (FTZ)
- New/unfamiliar intermediary
- Vague or suspicious delivery dates, locations (such as P.O. boxes), shipping instructions, packaging requirements, etc.
- Designation of freight forwarders as foreign consignees or foreign end-users
- Foreign intermediate consignees (trading companies, freight forwarders, export companies) with no apparent connection to the end-user



Watchlist

- 130,000+ entities
- Range from suspect to sanctioned
- Compiled from many sources
- All license requests are run against the Watchlist
- Match (or “hit”) against the Watchlist may result in a Blue Lantern



Types of Blue Lanterns

Pre-License Checks (55-60%)

- Confirms order by end-user
- Verifies *bona fides* of end-user and/or consignee
- Determines legality of end-user's import of the commodity
- Verifies proposed end-use is consistent with normal business practices
- Ensures foreign party understands its responsibilities under U.S. law

Post-Shipment Verifications (40-45%)

- Confirms receipt of goods by end-user named on license
- Confirms goods have been and are being used according to license's provisions

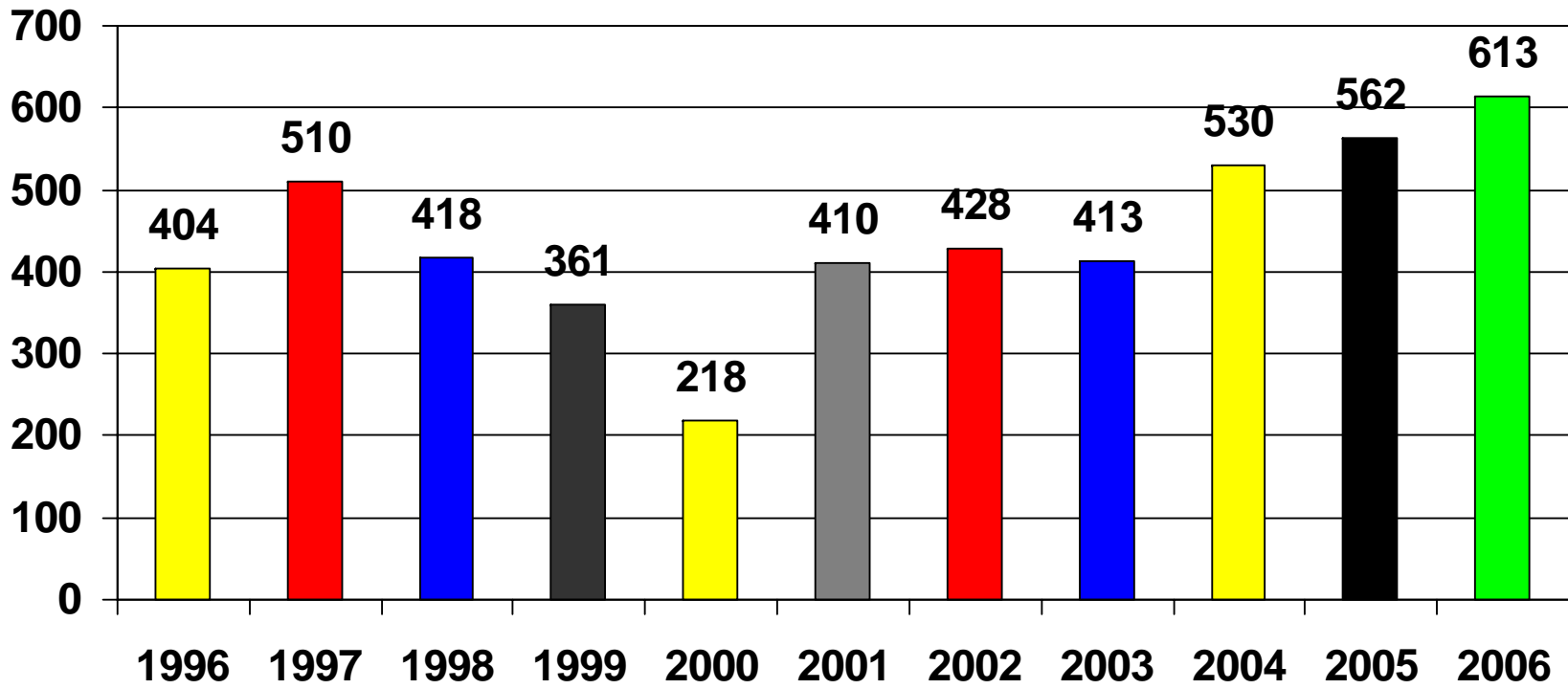
Post-License/Pre-Shipment Checks (< 5%)

- Relatively rare, not as time-sensitive as pre-license check, but entails similar procedure



Total Checks Initiated

FY 1996 - 2006



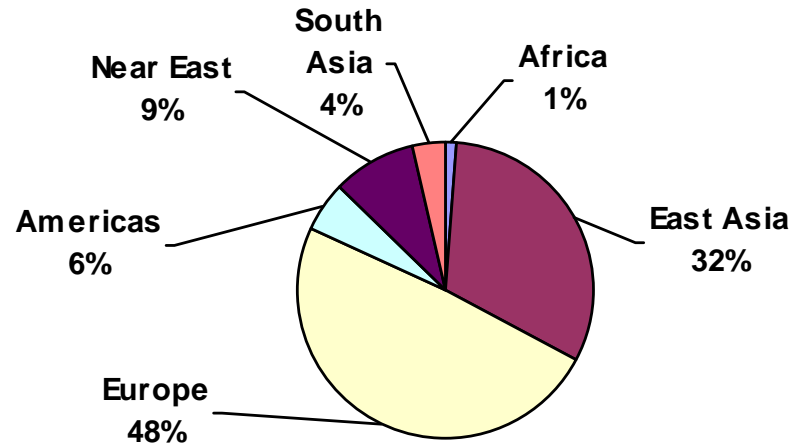


“Unfavorable” Checks

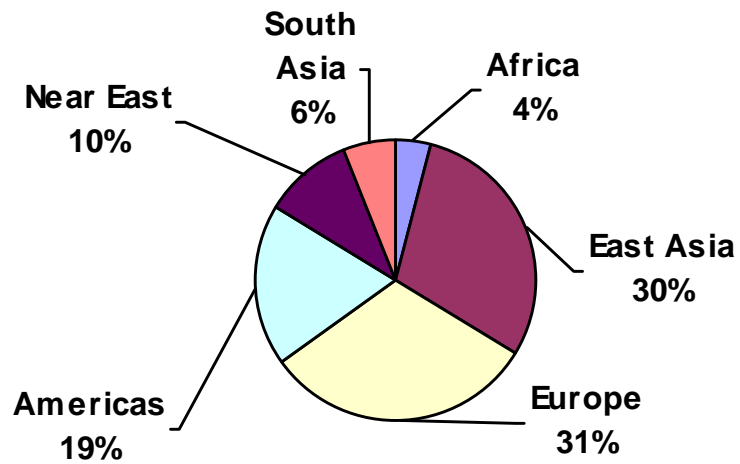
- “Unfavorable” = information discovered during check does not match information provided on export authorization request
 - Range from relatively benign to strong indication of diversion or misuse
- 94 of 489 (19%) of Blue Lantern cases closed during FY2006 were “unfavorable”
 - Proportion of “unfavorable” checks over past several years = 14 – 20%



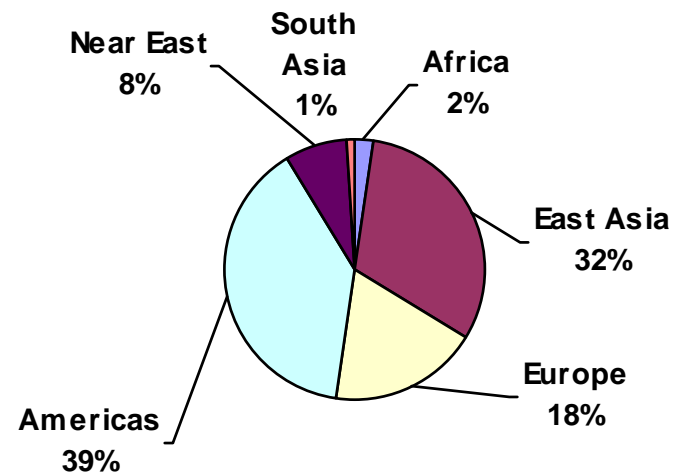
Total License Applications by Region FY 2006 (n=70,000+)



Total Blue Lanterns Initiated by Region FY 2006 (n=613)

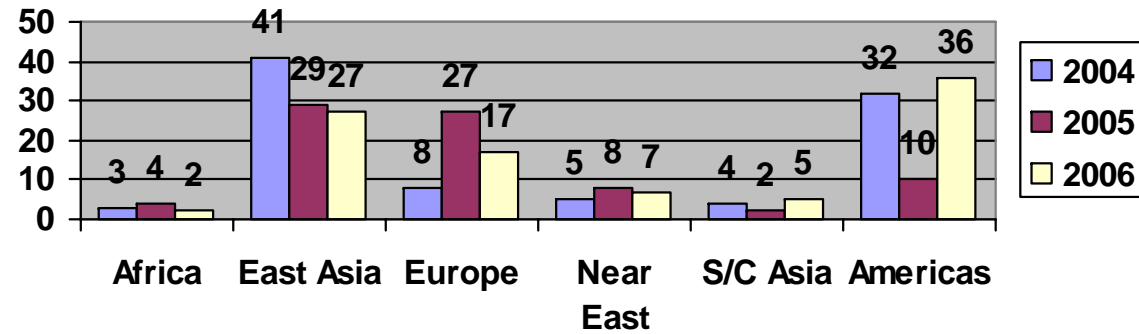


Total "Unfavorable" Blue Lanterns by Region FY 2006 (n=94)

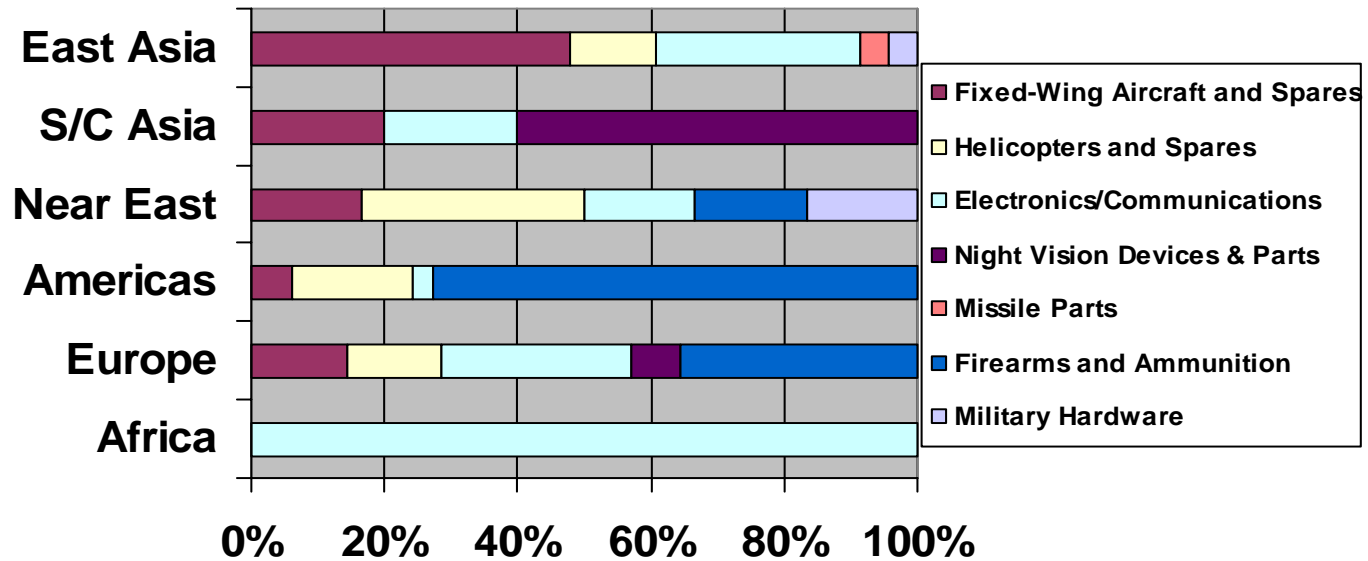




Total Number of "Unfavorable" Blue Lanterns by Region



"Unfavorable" Blue Lanterns By Region and Commodity Type, FY2006





Reasons for “Unfavorable” Checks in FY2006 (n=94)

- Unreliable party, derogatory info uncovered: 37% (n=35)
- End-user did not order the item: 19% (n=18)
- Different or unspecified end-use: 18% (n=17)
- Party not listed on license: 11% (n=10)
- Party violated terms of agreement or proviso: 5% (n=5)
- Unable to contact/locate party to license: 4% (n=4)
- Evidence of diversion or unauthorized re-export: 3% (n=3)
- Refusal to cooperate: 2% (n=2)



Case Studies

- **Illegal re-export**

- Post-shipment check on GPS/INS (Global Positioning System/Inertial Navigation System) to firm in Persian Gulf finds parts illegally re-exported to third country
- Company owner detained; remaining GPS/INS units seized; ICE obtained arrest warrant for AECA violations

- **Phony end-user**

- Pre-license check on satellite components to “professor” at East Asian university
- No record of professor on faculty; university specialized in medical education, had no satellite-related programs

- **Bogus end-use certificate**

- Pre-license check on helicopter spares to Southeast Asian military
- Officer who signed end-use certificate no longer in military, working for private company with ties to gray arms trafficking

- **End-user did not order goods**

- Pre-license check on missile parts to East Asian military: did not order parts
- Military officials said consignee “always tells [us] a bunch of lies.”



Case Studies

- **Host country requests reduction of quantities**
 - Pre-license check on 300 handguns confirmed *bona fides* of Latin American firearms dealer
 - Host government requested reduction in authorized quantity due to high incidence of lost/stolen firearms involved in recent crime wave
- **Unauthorized end-use**
 - Pre-license check on military computer components to Eastern European company determined items would be used in nuclear power plant rather than for meteorological measurements, as stated on export authorization request
- **Company refuses to return goods exported on temporary basis**
 - Post-shipment check on temporary export of coastal defense equipment to East Asian country confirmed the foreign party still held the equipment and refused to return it to the U.S.
- **Receipt of goods could not be confirmed**
 - Post-shipment check of 305 smoke pistols to West African police force could not confirm receipt. Consignee placed on Watchlist; future requests involving end-user or consignee will be subject to pre-license and/or post-shipment checks.



Additional Information & Reference Material

**U.S. Department of State
Directorate of Defense Trade Controls
Website:**

www.pmddtc.state.gov

(In particular, go to Reference Library, "End-use Reports")