



# **Berlin Economics and Global Affairs**

## **Blue Lantern**

### **End-Use Monitoring Program**

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# Blue Lantern Overview

- End-use monitoring program required by Section 40A of the Arms Export Control Act (AECA), formalized 1996
- Verifies end-users and end-uses of U.S. exports of defense articles and services
- Performed worldwide by U.S. Embassy personnel
  - 93 countries in FY 2007; 84 countries in FY 2006



# Blue Lantern Objectives

## Trade Confidence Building

- Ensure security & integrity of defense trade
- Cooperation: U.S. government, host government, and industry
- **NOT a law enforcement action or “investigation”**

## 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

## Impede Grey Arms Trafficking

- Falsifying end-use documentation; Front companies/brokers; Covert payments; hidden intermediaries/end-users



# Types of Blue Lanterns

## **Pre-License Checks (50-60%)**

- Verifies *bona fides* of end-user and/or consignee and confirms order
- 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 (40-50%)**

- 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



# How do Blue Lanterns Start?

## Targeted NOT Random

- 719 Blue Lantern checks out of about 83,000 export authorization requests in FY 2008

## Referrals

- State Department Bureaus
- Other USG Agencies (e.g. Department of Defense)

## Watchlist

- List of about 80,000 tracked entities/end-users
- Match against Watchlist may result in a Blue Lantern check



# Unfavorable Checks

- Information discovered during check does not match information provided on export authorization request
  - Range from relatively benign to strong indication of diversion or misuse
  - Effects future licensing authorizations
- 82 of 543 (15%) of Blue Lantern cases closed during FY2008 were “unfavorable”
  - Previous years ranged from 14 – 23%



# Reasons for “Unfavorable” Checks in FY2007 (n=143)

- Foreign party not listed on license application: 19% (n=27)
  - Foreign consignee not listed on license: 14% (n=20)
  - End-user not listed on license: 5% (n=7)
- Party violated terms of license: 18% (n=26)
- Unreliable Party/Derogatory Information: 13% (n=18)
  - Party deemed unreliable recipient of USML: 10% (n=14)
  - Party deemed unreliable due to criminal background: 3% (n=4)
- Stockpiling: 10% (n=15)
- End-user did not order items on license: 8% (n=12)
- Evidence of diversion or unauthorized re-export: 7% (n=10)
- Unable to confirm receipt or order by end-user: 6% (n=9)
- Refusal to cooperate: 6% (n=9)
- Unauthorized brokering: 5% (n=7)
- Different end-use than one listed on license: 3% (n=4)
- Unable to contact or locate party on license: 2% (n=3)
- Exported from U.S. without authorization: 2% (n=3)



# Case Studies

## End-User Did Not Order Parts

### Export License Application

Item: Puma AS-332M helicopter parts  
End-user: South American army  
Foreign Consignee: West European company #1  
Foreign Intermediate Consignee: West European company #2

### Reason for Check

- Foreign intermediate consignee on Watchlist, history of diversion
- No documentation from end-user

### Findings

- End-user did not operate PUMA AS-332M helicopters, never ordered the parts



# Case Studies

## Items Diverted to Embargoed Country

### Several Related Post-Shipment Checks

Item: Night vision imaging system (NVIS) equipment  
End-user: Government and private entities in five countries  
Foreign Consignee: Asian-Pacific company

### Reason for Check

- Previous denied license application for export of NVIS items to China

### Findings

- 10 of 13 checks on Asian-Pacific company's NVIS licenses indicated possible unauthorized retransfer/illicit activity
- Directed Disclosure by firm revealed multiple diversions of items to China and other unauthorized end-users in third countries
- Company undertook remedial measures, training, revised procedures; license applications subject to additional requirements and scrutiny



# Case Studies

## Unreliable Entity Changed Name

### Export License Application

Item/End-Use: Small arms ammunition  
End-user: Central American firearms dealer

### Reason for Check

- Unfamiliar end-user
- Regional concerns

### Findings

- Firearms dealer subject to local law enforcement sanctions due to violations by previous business venture
- End-user deemed unreliable recipient of USML items



# Case Studies

## Fake End-User and Consignee

### Export License Application

Item: Satellite components  
End-user: Professor at Southeast Asian university  
Foreign consignee: Unfamiliar Southeast Asian company

### Reason for Check

- No supporting documentation from end-user
- Vague end-use statement

### Findings

- No record of professor ever on faculty
- University specializes in medicine, has no satellite-related programs



# Case Studies

## Falsified End-Use Documentation

### Export License Application

Item:	Microwave filters
End-user:	R&D entity in East Asia
Foreign Consignee:	East Asian company
U.S. Applicant:	Has done business with R&D entity in past

### Reason for Check

- Suspicious-looking end-user statement that did not match previous documents submitted by end-user
  - Misspelling in letterhead, no date, white-outs, no company seal or signature)

### Findings

- Sole procurement officer for end-user did not place order
- Foreign consignee received order from a former employee of end-user who had been accused of corruption and suspended



# Case Studies

## Consignee Not Listed on License

### License for Permanent Export (post-shipment check)

Item/End-Use: C-130 aircraft parts  
End-user: Middle Eastern military  
Foreign consignee: Asian-Pacific company

### Reason for Check

- Unusual routing of items sought by embargoed countries

### Findings

- Asian-Pacific company had transferred items to Southeast Asian consignee not listed on license without receiving authorization from either U.S. government or its own country's authorities
- Middle Eastern military was expecting parts from Asian-Pacific company, but unauthorized retransfer to Southeast Asian company creates opportunity for diversion



# Case Studies

## Stockpiling

### Export License Application

Item: Nd:YAG laser rods  
End-user: Middle Eastern military  
Foreign consignee: West European company

### Reason for Check

- Application's supporting documentation stated that foreign consignee will stock portion of laser rods for future orders
- U.S. law requires authorized agreement for warehousing and distribution

### Findings

- Middle Eastern military ordered only 20 laser target designators
- Consignee's order of 35 Nd:YAG laser rods would constitute unauthorized warehousing
- Quantity reduced to 25 to allow reasonable quantity for repair/replacement



# Summary:

## Blue Lantern in Germany

### Blue Lantern Checks are in our mutual interest

- Helps Germany to vet consignees who falsely list Germany as end-user, misrepresent end-use, or attempt to use Germany as point of diversion
- As defense trade relationship continues to grow, Blue Lantern facilitates transfer of technology to Germany
- Cooperation through Blue Lantern helps to strengthen U.S.-German defense trade relationship



# Inquiries/Questions

## General defense trade policies and procedures

- Refer to DDTC's website and/or contact Response Team

DDTC website: [www.pmdotc.state.gov](http://www.pmdotc.state.gov)

E-mail: [DDTCResponseTeam@state.gov](mailto:DDTCResponseTeam@state.gov)

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