



U.S. Defense Trade Controls and the Blue Lantern End-Use Monitoring Program

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USG End-Use Monitoring Programs



Blue Lantern – Direct Commercial Sales (DCS) of United States Munitions List (USML) articles, technology, services, and brokering



Golden Sentry - Foreign Military Sales (FMS) of defense articles and services via government-to-government channels



End-Use Checks - Dual-use items and munitions on the Commerce Control List (CCL)



Legal Authorities



Reference	Subject
AECA (Arms Export Control Act), Sections 3(g), 38(g)(7), and 40A	Establishes DDTC and legal authority for defense trade controls; requires end-use monitoring of defense articles and services
ITAR (International Traffic in Arms Regulations)	Implementing regulations for AECA, specifies the United States Munitions List (USML)
FAA (Foreign Assistance Act), Sections 505; 515(a); and 623	Permits observation of use of articles, services, and training; overseas management of assistance and sales programs; requires supervision of end-use of FAA grant items
EAR (Export Administration Regulations)	Regulate the export and re-export of most commercial items, specifies the Commerce Control List (CCL) of dual-use and certain munitions items

3



U.S. Munitions List (USML) Categories



I	Firearms	XII	Fire Control / Night Vision
II	Armament	XIII	Auxiliary Equipment
III	Ammunition/Ordnance	XIV	Toxicological Agents
IV	Missiles, Rockets, Torpedoes	XV	Spacecraft Systems
V	Explosives, Propellants	XVI	Nuclear Weapons
VI	Naval Vessels	XVII	Classified Articles
VII	Tanks & Vehicles	XVIII	Directed Energy Weapons
VIII	Aircraft	XIX	Gas Turbine Engines
IX	Military Training & Equip.	XX	Submersible Vessels
X	Protective Personnel Equip.	XXI	Miscellaneous Articles
XI	Electronics		

4



BLUE LANTERN END-USE MONITORING PROGRAM



Mission and Objectives



Mission: To help ensure the security and integrity of U.S. defense trade

Objective 1: Build Confidence in Trade Relationship

Objective 2: Regulate Hardware & Technology Transfer

Objective 3: Impede Gray Arms Trade



Objective 1: Build Confidence in Trade Relationship



- Monitor transfer of sensitive hardware, technology, and services
- Verify bona fides of parties, especially intermediaries
- Foster cooperation/confidence among U.S. government, host government, and industry
- Enhance understanding of U.S. export controls

***** NOT a law enforcement action or “investigation” *****



Objective 2: Regulate Hardware & Technology Transfer



- Support and facilitate transfer of increased volume and more advanced hardware and technology

Or

- Result in increased scrutiny and/or restrictions on future exports



Objective 3: Impede Gray Arms Trade



- Use of legitimate means for illicit ends
- Uncover false end-use documentation, front companies, hidden intermediaries/brokers



End-Use Monitoring Basics



- Verifies end-users, consignees, and end-uses of U.S. exports of defense articles, technology, and services
 - Pre-license and post-shipment checks (~55% / ~45%)
- Performed worldwide by U.S. embassy personnel in cooperation with host governments since 1990
 - 80-100 countries each year
- Required by U.S. law
- U.S. and foreign industry aware of program



Benefits

- Increases confidence and cooperation
- Expedites future requests
- Facilitates transfer of more advanced technology
- Helps vet vendors, prevent diversions
- Protects end-users from untrustworthy intermediaries
- Fosters communication among U.S. government, host country, and industry
- Establishes expectation of due diligence by exporters and importers, educates industry on laws and regulations

11



Genesis

Targeted/selected, not random

564 Blue Lantern checks in 79 countries out of ~63,000 export authorization requests in FY 2014
(Less than 1 percent)

- Referrals
 - Export licensing and compliance officers
 - State Department regional and functional offices
 - Other USG agencies (e.g. Department of Defense)
- Watch List

12



Watch List

- All license applications are run against Watch List
- ~160,000 entities
- Range from suspect to sanctioned
- Compiled from multiple sources
- Match may result in a Blue Lantern check

13



Basic Warning Flags

End-User / End-Use Indicators

- Unfamiliar end-user
- Incomplete or suspect supporting documentation
- Scanty or derogatory background information or end-use description
- Reticence or evasiveness by U.S. applicant or purchasing agent
- Payment in cash or at above-market rates
- Unfamiliarity of end-users with the product or its use
- End-user declines customary associated services (installation, warranty, spares, repair)

14



Basic Warning Flags (Cont.)



Commodity Indicators

- Excessive or inconsistent with needs or inventory
- In demand by embargoed countries
- Especially sensitive (e.g., night vision, unmanned aerial systems, missile-related, high-caliber weapons)

15



Basic Warning Flags (Cont.)



Geographic / Shipment Indicators

- Unfamiliar intermediary
- Unusual routing, trans-shipment through multiple countries or companies
- Countries, cities, or ports of concern; free trade zones (FTZ)
- Vague or suspicious delivery locations (e.g., P.O. box), shipping/packaging instructions
- Designation of freight forwarders as foreign consignees or end-users
- Foreign intermediate consignees (trading companies, freight forwarders, export companies) with no apparent connection to the end-user

16



Life-Cycle of a Blue Lantern



Washington

- Generate case
- Research companies and technologies
- Task Embassy/Consulate

Post

- Conduct check, including open-source research and site visit, if appropriate
 - Consult host government officials, if appropriate, to verify order/delivery, *bona fides* of consignees, and authenticity of supporting documentation
 - Interview foreign consignee (in-person, telephone, and/or e-mail)
- Draft, clear, and send response cable back to Washington

Washington

- Use results to inform adjudication of license application and for future reference
- Possible actions: Approve, Approve with Proviso, Return Without Action, Deny, or Revoke.
- Derogatory findings may result in addition of entities to Watch List and/or referral to Compliance Office for possible civil and/or criminal action

17



Response Actions



- **Favorable:** Inquiry confirms the information on the license
 - Recommend issuance of license
- **Unfavorable:** Information on the license is different than what was identified in the inquiry
 - Recommend application returned without action (RWA), denied, or revoked

If appropriate, add to Watch List, refer to Enforcement Division for possible civil and/or criminal action



TRENDS AND STATISTICS

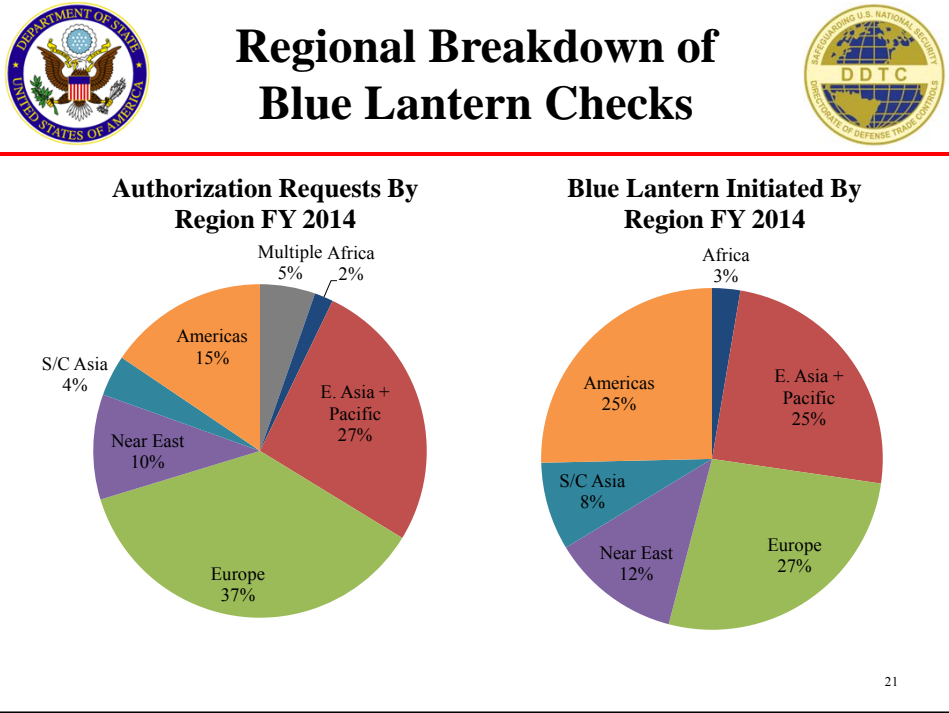


Response Timelines

Global Guidelines

- Pre-license checks within **30 days***
- Post-shipment checks within **45 days***
*starting with transmission of front-channel cable

Tardy responses delay final action on license requests and may adversely affect future licensing.



“Unfavorable” Blue Lanterns (2010-2014)

Fiscal Year	Number of Closed Cases	“Unfavorable” Rate
2010	577	20%
2011	592	27%
2012	706	20%
2013	1,029	19%
2014	620	18%

* The global “unfavorable” rate for the past five years is 21%

22



FY2014 Global Unfavorable Results



Reason for Unfavorable Determination	Reason for Check		
	Routine	WL Party	Total
Derogatory information / foreign party deemed unreliable recipient of USML	8	21	29
Violation of license terms	4	19	23
Unable to confirm order or receipt of goods	13	4	17
Indications of diversion or unauthorized retransfer or re-export	2	11	13
Foreign party involved in transaction but not listed on license	4	7	11
Refusal to cooperate / failure to respond	5	5	10
Inability to confirm existence of a foreign party	1	6	7
Lack of secure storage facilities	2	0	2
Regional concerns	1	0	1
Total	40	73	113

23



Additional Information & Reference Material



DDTC Website

<http://www.pmddtc.state.gov>

(See “Reports and Official Statements” – “End-use Reports”)

Regional Security and Arms Transfers Website

<http://www.state.gov/t/pm/rsat>

(For Foreign Military Sales, retransfers and government-to-government retransfer requests)

24



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CASE STUDIES





Diversion



Export License Application

- Commodity: Night Vision Devices
- End-user: South Asian Municipal Police Department
- Foreign Consignee: South Asian Private Company
- Documentation: End-User docs submitted with application

Findings

- FC confirmed delivery of NVDs to end-user and provided serial numbers.
- End-user denied ordering/receiving any NVGs.
- Serial numbers provided by FC did not match those provided by U.S. exporter.

Lesson

- Initial check with consignee appeared favorable. Need to also confirm order.
- Case referred to HSI for investigation.

27



Diversion to Proscribed Country



Several Related Post-Shipment Checks

- Item: Night vision imaging system filtered lamp assemblies
- 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 People's Republic of China (PRC)

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 PRC and other unauthorized end-users in third countries
- Company undertook remedial measures, training, revised procedures; license applications subject to additional requirements and scrutiny

28



Diversion of Technical Data



Export License Application

Item: Optics-related technical data
End-user: Asian-Pacific Company

Reason for Check

- Regional diversion concerns, and Asian-Pacific country lacks manufacturing capacity

Findings

- End-user's manufacturing facilities were located in a proscribed country.

29



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

30



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

31



Falsified End-Use Documentation



Export License Application

- Commodity: Microwave filters
- End-user: Research & Development entity
- Foreign Consignee: South American company
- U.S. Applicant: Had prior business transactions with R&D entity

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

32



Fake End-User and Consignee



Export License Application

- Item: Satellite components
- End-user: Professor at a 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

33



Failure to Cooperate with Check



Export License Application

- Item: Various military aircraft parts
- End-user: Southeast Asian Armed Forces
- Foreign Consignee: Southeast Asian Import/Export Firm

Reason for Check

- Unfamiliar foreign consignee; no documentation from the end-user

Findings

- FC was uncooperative, evasive, and refused to permit a site visit.
- End-user was unable to confirm the procurement.
- License was denied.
- Applicant re-applied with documentation verifying legitimacy of transaction, encouraged foreign consignee to cooperate with future Embassy outreach, which it eventually did.

34