

**United States Department of State
Bureau of Political Military Affairs
Office of Defense Trade Controls**



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Compliance Division**



Export Control of Defense Articles and Services

- **Department of State: Direct Commercial Sale of Defense Articles and Services**
- Department of Defense: Government to Government Programs (FMS)
- Department of Commerce: Dual-Use Technologies



Legal Authorities for Defense Trade Controls

- Section 38 Arms Export control Act (AECA) – establishes DTC and legal authority for defense trade controls
- Section 40 AECA, Section 515 FAA, Section 623 FAA for End-Use Monitoring
- International Traffic in Arms Regulations (ITAR)

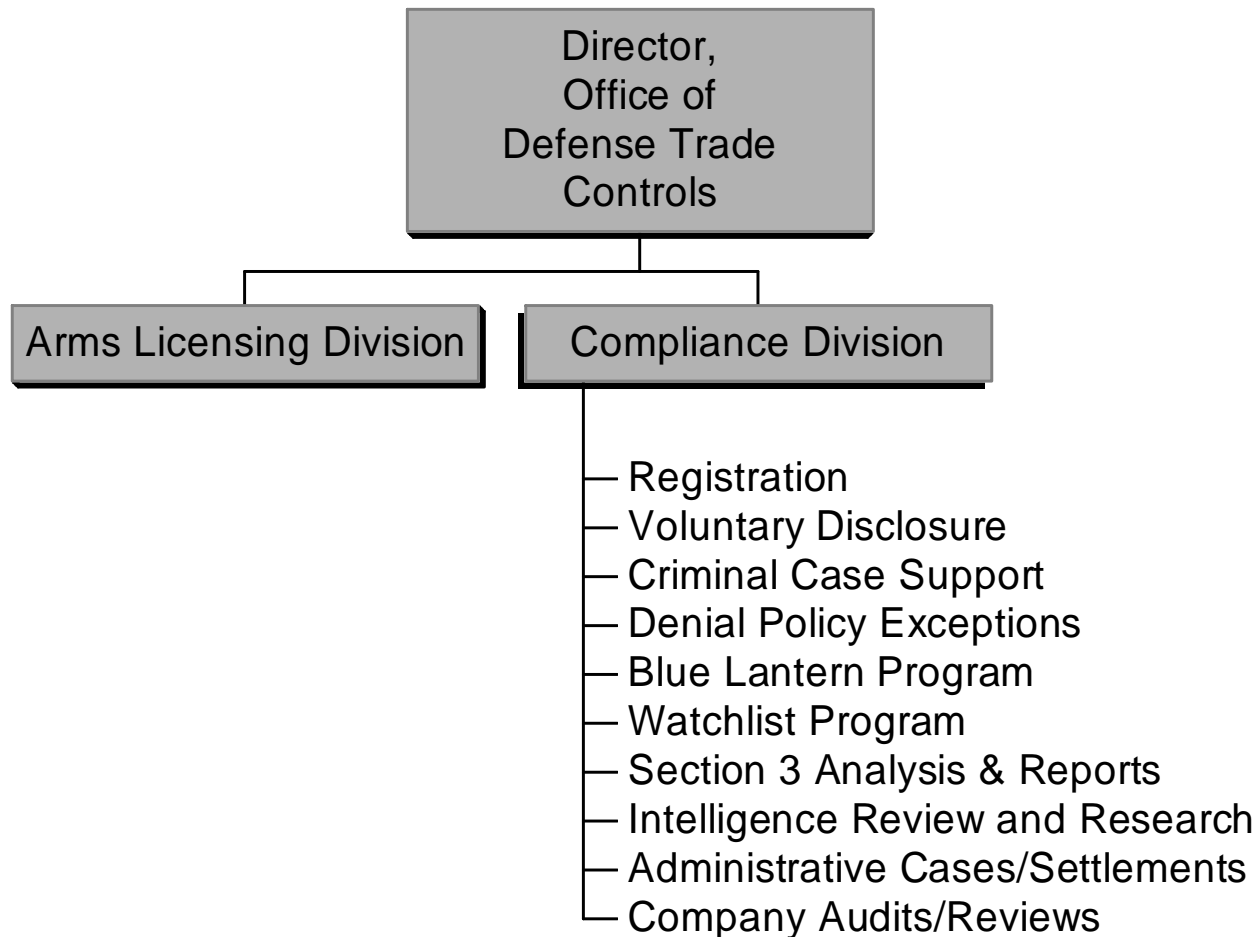


Office of Defense Trade Controls

- In the Bureau of Political Military Affairs, Department of State
- Process registration of 4,500 arms manufacturers, exporters, brokers
- Coordinates inter agency review of over 46,000 license applications annually
- Supports law enforcement investigations of criminal violation
- Administers civil penalties



Office of Defense Trade Controls





Compliance Division

- Help ensure that defense exports support U.S. national security and foreign policy goals
- Provide information during the licensing process
 - Registration, Watchlist, Blue Lanterns...
- Work to ensure exports are made in compliance with the terms of the export authorization
 - Deterrence – civil and criminal penalties
 - Prevention - Work with companies to improve companies export compliance programs



End-Use Monitoring: Government-wide Programs

- Department of State (direct commercial sales) – Blue Lantern
- Department of Defense (government-to-government sales) – Golden Sentry
- Department of Commerce (dual-use sales) – Green Lantern



Blue Lantern and Gray Arms

- Blue Lantern: A key instrument to disrupt Gray Arms Trade
- Gray Market Trade Defined: The use of legitimate means of export for illicit ends
- Black Market Trade Defined: The use of illegal means for illegal ends
- Gray Arms networks rely on negligence and errors to execute their illicit deals



The Gray Arms Market is Large and Sophisticated

- Operates in Friendly Countries
 - In FY 2000, 37% of unfavorable BL checks involved possible transshipments through Western Europe
- Involves All Commodities
 - Commodities involved aircraft/helicopter spare parts, small arms and ammunition, communications equipment, etc



Blue Lantern and Gray Arms

Tools and Techniques:

- Brokers
- Contract Negotiations
- False End-use Certificates
- Covert Payments
- Covert Transportation



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Blue Lantern and Gray Arms

Some Sources for Gray Arms:

- Legitimate Arms producers
- Government Sources:
 - Surplus
 - Scrap
 - Unscrupulous Government Officials



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Blue Lantern Program Introduction

- End-Use check program authorized by Section 40A of the AECA, formalized 1990
- Verify appropriate destination and end-use of defense exports overseas
- Performed by US mission personnel abroad within host government laws, rules and regulations
- High level of Congressional, media, and NGO interest in the program
- U.S. Industry Awareness of Program



Blue Lantern Checks Goals

- Verify end-user has placed order/received goods
- Assess a firm's reputation, reliability
- Verify validity of foreign import/export documents and other application documents
- Physically inspect/view commodities
- Obtain clarification/specifics of end-use
- Reinforce knowledge/understanding of US controls



Blue Lantern Program

Types of Checks

Pre license checks:

- Done to verify the reliability of foreign company in receiving US military items or verify other aspects of the export

Post license checks:

- Verify receipt of shipment and appropriate end-use by the end-user



Basic Warning Flags

- Multiple countries of transshipment
- New/unfamiliar intermediaries
- Large/excessive quantities of material
- Poor supporting documentation
- Commodities sought after by embargoed states
- One or more parties has poor reputation
- Commodities inconsistent with country inventory
- Strange/vague end-use



Blue Lantern Program Process

- Checks Based on Many Sources of Information:
 - Intelligence
 - Law Enforcement
 - Compliance and Licensing Officers
 - Analyses of company/country licensing histories
- Favorable result does not guarantee approval of license



Blue Lantern Program Results

- In FY 2001, DTC initiated 410 checks
- 71 cases “unfavorable”—highest in history of program



Negative Checks – What We Are Finding

- The Exporter Should Have Caught These Problems:
 - Bona fides of a party to an Agreement could not be verified (Central Asia)
 - Commodity not in country inventory/not needed by end-user (Eastern Europe)
 - Incomplete/false end-user information submitted with license (Middle East)



Negative Checks – What We Are Finding

- The Exporter Should Have Caught These Problems
 - West European Government end-user never had a contract with intermediary (front company) on license
 - End-user in Latin America revealed would re-export to an embargoed country
 - End-user in Asia not authorized to deal in the trading of arms



Blue Lantern Program Lessons Learned

- Gray arms market is diverse, large, and sophisticated - it continues to thrive
- Blue Lantern checks - useful and critical in uncovering and preventing gray arms activities



Blue Lantern Program

Lessons Learned

- Help encourage companies to cooperate in the fight against gray arms marketers
- Establish an expectation of due diligence on the exporter
- An effective means of checking on industry's efforts at due diligence



Blue Lantern Program

Further Steps

- We continue to seek improvements to our program
- Better and more efficient use of available tools
- Increase industry awareness - internal company controls
- The Blue Lantern Program allows the US to be Proactive in disrupting Gray Arms trade



For more information...

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www.pmdtc.org