



United States Department of State

Washington, D.C. 20520

AUG 1 2011

Case No. 200901775/200909237

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Washington, D.C. 20007

Dear Mr. Smith:

A Department of State Appeals Review Panel, whose members are listed in an enclosure to this letter, has considered your appeal of October 5, 2009, for the release of one document withheld in full by the Department in the course of responding to your request under the Freedom of Information Act.

The Panel has determined that portions of the document can now be released. A List of Documents Withheld in Part is enclosed, along with the released material.

The information in the deleted portions of the document is properly classified in accordance with Executive Order 13526 (National Security Information) despite the passage of time. Its release reasonably could be expected to cause serious damage to the national security of the United States. It is therefore exempt from disclosure under subsection (b)(1) of the Freedom of Information Act, 5 USC Section 552(b)(1).

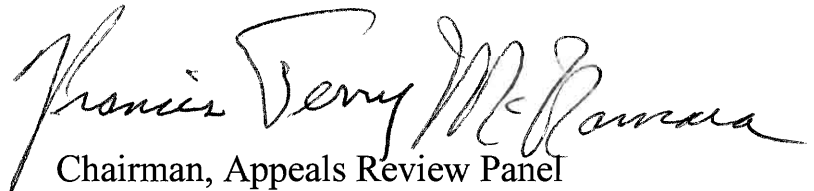
Portions of the document relate to licenses, manufacturing license agreements, or other records authorizing the commercial export of defense articles and services. This material is exempt from disclosure by statute, to wit, Section 38(e) of the Arms Export Control Act (22 U.S.C. Section 2778), which incorporates by reference the confidentiality provisions of Section 12(c) of the Export Administration Act (Title 50 USC Appendix Section

2411(c)). As such, it is exempt from release under subsection (b)(3) of the Freedom of Information Act.

All non-exempt, meaningful information that is reasonably segregable from the exempt material has been released.

The Panel's decision represents the final decision of the Department of State. If you wish to seek judicial review of this determination, you may do so under 5 USC Section 552(a)(4).

Sincerely,

  
Chairman, Appeals Review Panel

Enclosures:

List of Panel Members  
One document

~~TRANSFERRED/RECOMMEND PARTIAL RELEASE~~  
~~B1, 1.4(C), 1.4(D), B3, ARMEXP~~  
~~RECOMMEND AND TRANSFER - OIG~~

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United States Department of State  
*Office of Inspector General*

# Report of Audit

**DEFENSE TRADE CONTROLS ANNEX**

**2-CI-016A**

**MARCH 1992**

UNITED STATES DEPARTMENT OF STATE  
REVIEW AUTHORITY: APPEALS REVIEW PANEL  
APPEAL ACTION: ADDITIONAL INFORMATION RELEASED  
REASON(S): B1, 1.4(C), 1.4(D), B3, ARMEXP  
DATE/CASE ID: 24 MAY 2011 200909237

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Audits are conducted by the Office of Inspector General under authority of Section 209 of the Foreign Service Act of 1980, as amended, and as provided for by the Inspector General Act of 1978, as amended.

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United States Department of State

*The Inspector General*

*Washington, D.C. 20520*

#### PREFACE

This report was prepared by the Office of Inspector General in fulfillment of our responsibilities mandated by the Inspector General Act of 1978 and by Section 209 of the Foreign Service Act of 1980. It is one of a series of audit, inspection, security oversight, investigative, and special reports issued by my office as part of our continuing efforts to promote positive change in the Department of State and to identify and prevent waste, fraud, abuse, and mismanagement.

The report is the result of a careful effort to assess both the strengths and weaknesses of the post, office, or function under review. It draws heavily on interviews with employees of the Department of State and other interested agencies and institutions, and reflects extensive study of relevant documents and questionnaires.

The recommendations included in the report have been developed on the basis of the best knowledge available to the Office of Inspector General and have been discussed in draft with the offices responsible for implementing them. It is our hope that these recommendations will result in a more effective and efficient Department of State.

I wish to express my appreciation to all of the employees and other persons who cooperated in the review documented by this report.

A handwritten signature in black ink, appearing to read "Sherman M. Funk". The signature is stylized and written in a cursive-like font.

Sherman M. Funk

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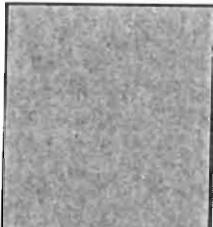
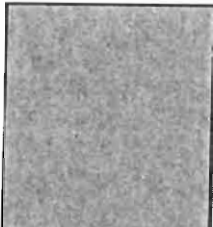
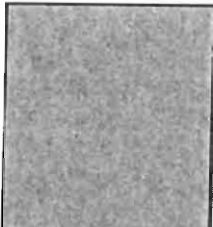
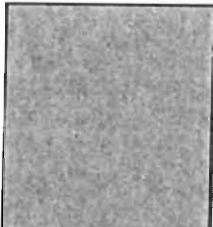
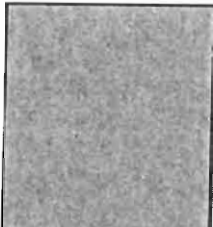
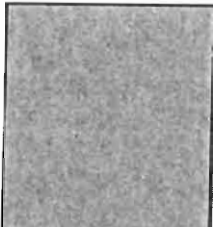
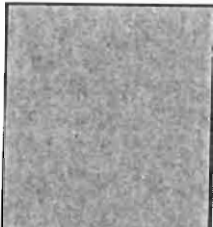
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DEFENSE TRADE CONTROLS ANNEX  
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NOTE

This annex to audit report Defense Trade Controls, 2-CI-016, March 1992, contains classified sections 1 through 7. The sections describe Blue Lantern operations in countries visited by the OIG team during the review. We examined methods developed by the posts for conducting end-use checks and participated in actual checks. The sections describe the selection of Blue Lantern officials, the Blue Lantern procedures established, and the status of specific Blue Lantern cases. This annex has been issued separately from the unclassified audit report and will be provided to appropriately cleared personnel. The OIG also has relevant information which is classified at a higher level. Officials who wish to review these additional details, and who possess both the requisite clearances and a need-to-know, should contact the OIG to arrange for access to the information.

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ABBREVIATIONS

ACDA U.S. Arms Control and Disarmament Agency  
AECA Arms Export Control Act  
CAA Comprehensive Anti-Apartheid Act  
CIA Central Intelligence Agency  
COCOM Coordinating Committee on Multinational Export Controls  
D Office of the Deputy Secretary  
DIA Defense Intelligence Agency  
DOD Department of Defense  
DTC Office of Defense Trade Control  
FSN Foreign Service National  
INR Bureau of Intelligence and Research  
ITAR International Traffic in Arms Regulations  
MOD Ministry of Defense  
MTCR Missile Technology Control Regime  
ODC Office of Defense Cooperation  
PM Bureau of Politico-Military Affairs  
PM/PRO Office of Weapons Proliferation Policy, PM

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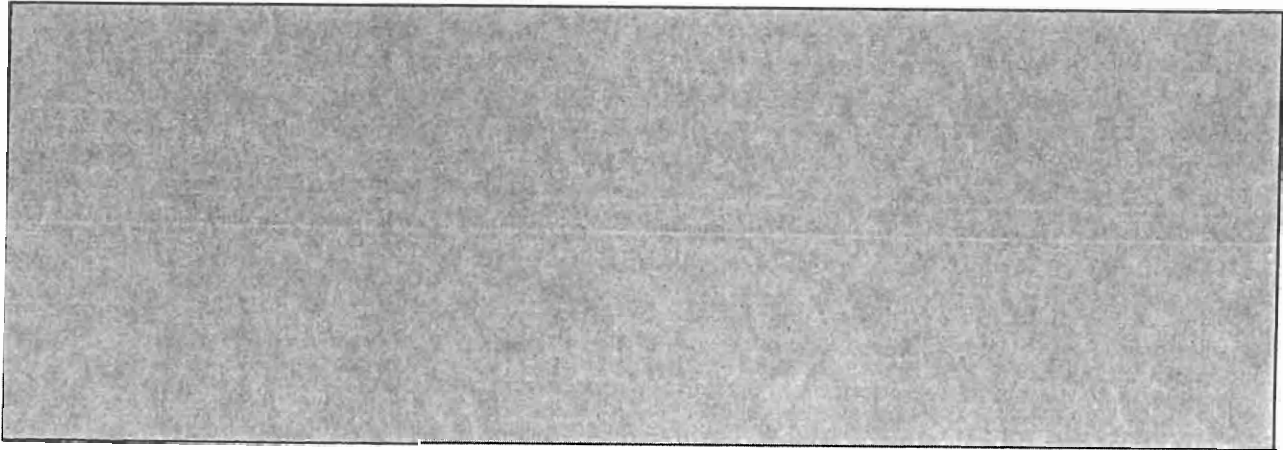
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Section 1. [REDACTED]

During our review of the Department's arms control procedures, we identified countries where there were concerns about possible violations of the Arms Export Control Act (AECA). Agency officials involved in arms controls, export enforcement, and intelligence gathering activities, informed us that [REDACTED] arms transfers to other countries violate the provisions of the AECA, the Comprehensive Anti-Apartheid Act (CAA), and the Missile Technology Control Regime (MTCR). We obtained documents dating back to 1983, which contain reports of numerous violations and state that the violations are growing in both quantity and scope.

We reviewed studies, reports, documents, memoranda, and statements from Defense Intelligence Agency (DIA), Central Intelligence Agency (CIA), the Department of State Bureau of Intelligence and Research (INR) and Bureau of Politico-Military Affairs (PM), U.S. Arms Control and Disarmament Agency (ACDA), and the Department of Defense (DOD). These documents describe the alleged misuse and retransfer of U.S. licensed items and technology by [REDACTED] to a number of proscribed recipients, including [REDACTED]

They also describe the alleged use and export by [REDACTED] of items and technology that violate the MTCR. The items include conventional weapons, such as air-to-air missiles and antitank systems, and missile components and technology. The reports state that [REDACTED] is intensifying its arms trade and increasing measures designed to conceal these activities from the United States.



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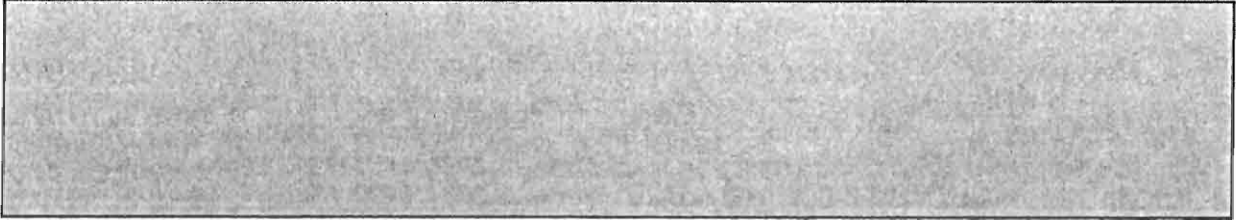
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Compliance With AECA Provisions

ACDA, DOD, and the intelligence agencies, including State/INR, informed PM of the unauthorized [redacted] arms transfers. Despite this, PM did not initiate a report to Congress as required by the AECA and did not inform senior Department officials of the reported violations. Furthermore, PM took no effective action to stop the unauthorized transfers or to halt its approval of new license applications. Because of the substantial evidence that large-scale unauthorized transfers had been occurring and because of PM's inaction, the Inspector General reported the violations to the Secretary and Deputy Secretary (D) in June 1991. The Inspector General recommended that the Secretary report the alleged violations to Congress as required by the AECA.

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The Secretary instructed D to determine if a report was warranted and, if so, to prepare the required congressional report and, additionally, to establish formal reporting procedures for future instances of reported AECA violations. The Department issued reporting procedures in August 1991 and, in September 1991, provided an oral report of the alleged AECA violations to the Speaker of the House, the majority and minority leaders of the U.S. Senate and U.S. House of Representatives, and the chairman of the Senate Permanent Select Committee on Intelligence.

Blue Lantern Official

The U.S. Embassy in [redacted] designated a political-military officer as the Blue Lantern official. However, the post did not make the designation until after OIG informed them of its plan to examine its Blue Lantern procedures. The post's action was about four months after PM's initial request that a Blue Lantern official be designated. In a cable responding to the notice of an OIG visit, the post stated it had not been instructed to conduct any end-use checks and had not been informed about the Blue Lantern process. Embassy officials said that, since

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learning of our visit, they tried to develop a structured approach to the Blue Lantern checks, but were not sure how to respond to the DTC requests.

Blue Lantern Procedures

Blue Lantern end use checks provide a mechanism for ensuring, through actual verification, that sensitive U.S. Munitions List items and technology are used only for authorized purposes. The Blue Lantern program has been used to initiate both prelicense and postshipment checks on missile technology and other sensitive exports in many countries, [redacted]

[redacted] However, the Blue Lantern checks for [redacted] initiated by DTC involved only two small arms and one chemical export case. Checks involving sensitive technologies or exports to government organizations had not been ordered prior to OIG involvement. OIG asked DTC to initiate Blue Lantern checks on exports identified by ACDA and the Office of Weapons Proliferation Policy (PM/PRO) as possible problem cases.

The Blue Lantern official told us that without specific guidance from DTC, all checks would be cleared through the [redacted]. For items being exported to government agencies such as the [redacted] the post sought government-to-government assurances that the items would not be retransferred or used for unauthorized purposes. For items shipped to nongovernment recipients, the post obtained permission from [redacted] officials before conducting end use checks. For example, the embassy first checked with [redacted] agencies when it conducted an end use check on a proposed shipment of firearms to a local gun shop.

After reviewing the end use procedures, we stated to post officials that relying entirely on government-to-government assurances is an inadequate verification procedure. This is especially true for a country which, according to numerous intelligence reports, is systematically violating U.S. arms control laws. Because of this, we asked that an on-site verification be initiated. The Blue Lantern official stated that he would ask PM for guidance concerning our request to conduct an on-site inspection. In response to the post's question, PM stated that host government assurances are satisfactory and that investigations were generally not to be conducted unless authorized. As a result, no on-site verifications have been made in [redacted]

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[REDACTED] 2,000 Pistols

DTC requested the end use check because of concerns about the reliability of the foreign consignee and end user. [REDACTED] submitted two license applications one week apart. DTC approved the first application, which was identical to the second but listed with different end users in [REDACTED]. The Department has been informed that both end users are parts of a parent company in [REDACTED]. DTC was also concerned about the commercial market for the sale of such a large number of handguns.

An embassy official visited the end user's address, a sporting goods store, and spoke with the owner. The owner decided not to purchase the guns at the time, because the DTC approval process was taking too long. He added that he had found a reliable supplier outside the United States to satisfy current needs. The embassy official concluded that the end user was a reliable recipient. DTC revoked the license since it was not used in the stated transaction.

[REDACTED] Communications Transceiver

DTC asked for an inquiry into the reliability of the foreign consignees to receive Munitions List items. The foreign consignees are located in [REDACTED] and the end user is in [REDACTED]. The number of consignees involved in this transaction increased the possibility for diversion and caused concern to DTC. The Blue Lantern official wrote to the MOD and repeated nearly everything in the Blue Lantern request. The MOD replied that they had no information that the consignees were unreliable, nor did they believe the large number of companies involved to be unusual.

[REDACTED]

[REDACTED] The United States generally does not approve exports to the [REDACTED]. Despite receiving this information, DTC approved the export license.

[REDACTED] Blade Antennas

DTC requested this end use check because the item might be used in violation of the MTCR. DTC requested verification that

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the stated end user received the shipment. The Blue Lantern official wrote the end user asking if the items had been received and if they could be inspected. The end user confirmed that the items had been received and agreed that the items could be inspected. However, the Blue Lantern official did not inspect the items because the Blue Lantern cable did not request an inspection. In addition, the [REDACTED] provided written assurances required by the MTCR. The Blue Lantern official provided this assurance to DTC, and the case was closed.

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[REDACTED] Butyl Industrial Gloves

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DTC requested this check because the item could be used in chemical biological warfare. The Blue Lantern official learned that the end user, [REDACTED]

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[REDACTED]

The Blue Lantern official provided this information to DTC, and the license was approved.

[REDACTED] Silica Phenolic Molding Compound and Rocket Igniters

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DTC requested an end use check because these items have missile applications and DTC was concerned that the items might be used for purposes not stated in the license application. The MOD was the stated end user. [REDACTED]

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[REDACTED]

The Blue Lantern official wrote the MOD asking if the items were received and were being used for the purposes stated in the licenses. The MOD responded that it had received the items and the items were being used for the purposes stated in the licenses. DTC closed the case.

[REDACTED] Night Vision Systems Equipment

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An end use check on the shipment of these items was requested by DTC because of concern that the stated end user

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might not receive the items or use them for the stated purpose.  
The MOD was the stated end user. [REDACTED]

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The Blue Lantern official wrote the MOD asking if the items were received and were being used for the purposes shown in the license application. The MOD responded that it had received the items and the items were being used for the purposes stated in the licenses. DTC closed the case.

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Table 1. Status of Blue Lantern Checks - [REDACTED]

ITEM	STATED END USER	TYPE OF CHECK	RESULTS
[REDACTED]	[REDACTED]	Prelicense	Blue Lantern official sent diplomatic note to Ministry of Foreign Affairs requesting use assurances. DTC did not receive a satisfactory response from the post and returned the license without action.
Pistols	[REDACTED]	Prelicense	Blue Lantern official found nothing adverse. End user did not purchase items. DTC revoked the license.
Transceivers for communications	[REDACTED]	Prelicense	Blue Lantern official wrote the Ministry of Foreign Affairs re: consignees. [REDACTED] DTC issued license.
Antennas for demonstration of flight chaff rockets	[REDACTED]	Postshipment	Blue Lantern official asked MOD for confirmation that they received item. USG received a MTCR government-to-government assurance from [REDACTED]. The case was closed.
Butyl industrial gloves	[REDACTED]	Prelicense	Blue Lantern official acquired no adverse information on end user. [REDACTED] Blue Lantern official passed this information to DTC. DTC approved the license.
Silica phenolic molding compound for artillery rockets and igniters for rocket motors	[REDACTED]	Postshipment	Blue Lantern official wrote MOD, Director of Foreign Affairs, to confirm that items were received and were being used as stated. After receiving a favorable response from the post, DTC closed the case.
Night vision systems equipment	[REDACTED]	Postshipment	Blue Lantern official wrote MOD, Director of Foreign Affairs, to confirm that items were received and were used as stated. After receiving a favorable response from the post, DTC closed the case.

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Section 2. [REDACTED]

The post designated the foreign commercial officer (FCO) as the Blue Lantern official, primarily because of the officer's experience in conducting Department of Commerce end use checks of dual-use category exports. The post also established the Defense Trade Control Working Group to ensure that appropriate officials would assist in the end use checks. The group was chaired by the deputy chief of mission.

Blue Lantern Procedures

Upon receipt of a Blue Lantern request, the working group reviews the request and decides which official can best perform the check. The group assigns end use checks based on an official's knowledge of the subject area and familiarity with the end user or consignee. In a number of cases, however, the working group tasked officials at consulates in [REDACTED] to conduct end use checks because the end users were located in those cities. Embassy officials stated that this was done because funding for travel could strain resources, especially in large countries such as [REDACTED]

In [REDACTED] officials conduct Blue Lantern checks in accordance with guidance prepared by the Department of Commerce for conducting prelicense and postshipment checks. However, post officials say they also relied on their own experience and skills in performing end use checks.

Status of Blue Lantern Cases

The post had received five Blue Lantern requests at the time of our visit. Because of the locations of the end users, three requests were assigned to the [REDACTED] and one to the [REDACTED] for assistance by the military liaison office. The other request was assigned to the science officer, based on the type of commodity. The status of the Blue Lantern requests is described below. PM provided additional information on the status of one of the cases. We have incorporated PM's comments in the report.

[REDACTED] Handguns

DTC requested [REDACTED] to conduct an end use check because the 30 guns ordered could be diverted. The Blue Lantern

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official asked the [redacted] to conduct this postshipment check because the foreign consignee was located in [redacted]. A Foreign Service national (FSN) working in the Foreign Commercial Service office interviewed the foreign consignee at length and reported back to the senior commercial officer. According to the FSN, the foreign consignee was very aware of both U.S. and [redacted] laws and regulations on arms controls and trafficking. The FSN found no inconsistencies or contradictions regarding the foreign consignee's statements and considered the foreign consignee a legitimate gun collector and hobbyist. The commercial officer determined that the transaction was bona fide and reported to DTC. Based on this information, DTC closed the case.

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[redacted] Handguns and Rifles

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DTC made the same request as above and the [redacted] was again asked to conduct the check. An FSN working for the Commercial Attache attempted to visit the end user at the address provided on the license application. However, the house was completely shut and appeared to have not been used recently.

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Another address was found, and an FSN working for the Commercial Attache was able to interview the end user, who had decided not to purchase the 60 weapons ordered. This decision was made months after an export license for this purpose had been granted. The end user stated that he would not purchase the weapons because the [redacted] was making it increasingly difficult to register and transfer higher caliber guns to other gun collectors. The consulate informed Embassy [redacted] that the end user stated he had not purchased the guns. Embassy [redacted] requested that DTC determine whether they had been shipped.

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The embassy informed [redacted] authorities about the proposed gun transaction. Based on the information provided by the embassy, the [redacted] police investigated the individual for possible illegal importation of firearms of calibers beyond those authorized to civilian collectors. DTC closed the case and referred it to U.S. Customs for a shipping document review. According to a U.S. Customs special coordinator assigned to DTC, Customs' investigation of the case showed that the sale of these firearms never occurred.

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for the use of the transmitters. The technicians' discussion confirmed what the division director had said. DTC issued the license and closed the case.

[REDACTED] Spare Parts for Communication  
Equipment

DTC requested that Embassy [REDACTED] make several inquiries regarding this license application. The embassy was directed to make inquiries on (1) the proposed transaction bona fides, (2) the foreign consignee's reliability to receive Munitions List items, and (3) the items' specific end use and diversion possibilities. The commercial officer in [REDACTED] was requested to take action on this prelicense check because the end user and foreign consignee are located in [REDACTED]. During the working group discussions, the defense attache office (DAO) offered assistance. In this case, the end user was a component of the [REDACTED] military.

However, the military liaison officer while conducting business in [REDACTED] spoke with a [REDACTED] Army official who explained that the spare parts would be used to complete the manufacture of single side-band radios for the [REDACTED] Army. In addition, this official said that the [REDACTED] military purchasing commission in Washington was the army minister's agent for signing end user certificates. The military liaison officer determined the transaction to be appropriate. Embassy [REDACTED] so informed DTC, which then granted the license and closed the case.

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Table 2. Status of Blue Lantern Checks - [redacted]

ITEM	STATED END USER	TYPE OF CHECK	RESULTS
Pistols and revolvers	[redacted]	Postshipment	Group assigned the case to [redacted] interviewed end user, who was found to be a legitimate gun collector. DTC closed the case.
Pistols, revolvers, and rifles	[redacted]	Postshipment	Group assigned the case to [redacted] found end user address to be abandoned but later interviewed end user and learned that decision was to not purchase. [redacted] requested DTC to confirm whether shipment was made. U.S. Customs discovered sale was not made and license not utilized. DTC closed the case after referring it to U.S. Customs.
Diesel engines	[redacted]	Postshipment	Group assigned the case to [redacted] which visited the foreign consignee selling military vehicles to [redacted] Army. [redacted] was not able to verify that [redacted] Army had taken delivery. Request for verification would have to be made through [redacted] Army. The case was pending.
Transmitters	[redacted]	Prelicense	Group assigned the case to the science officer, who spoke with end user and found nothing adverse to preclude granting a license. DTC granted the license and closed the case.
Spare parts for communication equipment	[redacted]	Prelicense	Military liaison officer contacted [redacted] Army official, found end user to be appropriate, and recommended the license be granted. DTC granted the license and closed the case.

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Section 3. [REDACTED]

The post designated the Customs attache as the Blue Lantern official because Customs had expertise in conducting end use checks and also has appropriate contacts with [REDACTED] officials and the international business community. Additionally, the Customs attache said conducting end use checks was consistent with the attache's responsibilities as a law enforcement official.

Blue Lantern Procedures

Upon receipt of a Blue Lantern request, the Customs attache asked the post commercial officer to run a background check on the businesses involved. Additionally, the attache provided copies of the request to the economic section, the political section, [REDACTED] and the Defense attache's office. For requests involving the [REDACTED] Defense, the Customs attache coordinated the verification process with the military assistance group. If these offices had any derogatory information about the transaction, they informed the Customs attache. If necessary, the attache cabled DTC to obtain more information, such as purchase orders or contracts, before proceeding with the end use check.

In conducting end use checks, the Customs attache examined the relevant documentation to determine if there were any discrepancies. The attache also discussed shipments with the end user or consignee to identify problems, but had not conducted any actual observation of items in connection with Blue Lantern requests. DTC had not provided any written guidelines for Blue Lantern checks, such as those published by the Department of Commerce for conducting checks on dual-use category exports. Accordingly, the officer relied on his experience and intuition in law enforcement for handling each case. Unless review of the shipment documentation and discussions with the end user or consignee showed that there were apparent discrepancies, the attache was unsure of the extent of his authority to inspect actual end use.

Status of Blue Lantern Cases

The Blue Lantern official had received three end use check requests from DTC at the time of our visit. As a result of the official's inquiries, DTC closed two of the requests and revoked

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the export license for one of the exporters. The results of the Blue Lantern checks are described below.

[REDACTED] Gyroscopes

DTC requested this check because of concerns that the gyroscopes would be used in long-range missiles. However, the Blue Lantern request did not specifically describe these concerns. It requested only that the bona fides of the transaction be verified.

The Customs attache coordinated the check with the commercial officer and the military assistance group because the end user was part of the [REDACTED]. The attache visited the end user's facility and interviewed a ranking Defense Ministry official who said they had received and tested the gyroscopes. The attache also reviewed the [REDACTED] customs import permit, the bill of lading, and the quality control final test records, which confirmed the official's statements. The attache did not have the appropriate clearances to enter the facility, so he did not request to inspect the items. He said that, even if he had seen the gyroscopes, he could not be sure he was seeing the correct items.

The attache was not aware that there was an MTCR proviso attached to the license or that DTC was concerned about the actual end use of the item. Accordingly, the attache reported the results of the document review and interview with the Defense Ministry official to DTC. DTC closed the case.

[REDACTED] Hydraulic Motors

DTC requested an end use check on this license to find out if the transaction was bona fide. DTC was concerned about possible diversion due to the nature of the commodity. The attache cabled DTC asking for more information six days after DTC's first cable was received. According to DTC records, it closed the case the same day it received the attache's request for additional information without receiving any information to warrant closing the case. DTC did not inform Embassy [REDACTED] that it had closed the case, and the Customs attache continued the end use check.

The attache visited the foreign consignee, [REDACTED] and met with a company director. The official said

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that the company received the hydraulic motors, and they were to be used in turret assemblies of the [redacted] tank. The attache reviewed the [redacted] customs import permit and bill of lading, which confirmed the director's comments. According to the Customs attache, [redacted] was a subcontractor on several Defense Ministry projects and the [redacted] was aware of the shipment. The attache, 17 days after DTC closed the case, cabled DTC on the results of the interview with the company director.

[redacted] Ammonium Perchlorate

DTC requested an end use check on this transaction because it was concerned that the shipment might be diverted. [redacted]

[redacted] however, ammonium perchlorate can also be used in rocket fuel. DTC also was concerned because the addresses of the foreign consignee and of the foreign end user were post office boxes.

The Customs attache contacted the foreign end user, [redacted] who said that after it placed an order with [redacted] a decision was made to obtain the chemical from a French company. [redacted] canceled the order with [redacted] because the U.S. licensing process was taking too long. The attache requested that DTC contact [redacted] to find out if the chemical had been shipped.

At the request of the Blue Lantern official, Customs interviewed an official of [redacted] a U.S. firm. The official said that the firm knew [redacted] had canceled the order, but it did not withdraw the application because [redacted] had been a regular customer for six years and might place a new order at a later date. Since the International Traffic in Arms Regulations (ITAR) requires exporters to have a firm purchase commitment before applying for a license, the exporter should have returned the license to DTC when the end user canceled the order. As a result of the end use check, DTC revoked the license.

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Table 3. Status of Blue Lantern Checks - [redacted]

ITEM	STATED END USER	TYPE OF CHECK	RESULTS
Gyroscopes	[redacted]	Postshipment	Blue Lantern official contacted the end user and found no derogatory information. DTC closed the case.
Hydraulic motors	[redacted]	Postshipment	DTC closed the case after receiving a cable requesting more information. Blue Lantern official contacted the foreign consignee and found no derogatory information.
Ammonium perchlorate	[redacted]	Postshipment	Blue Lantern official contacted the end user who said it had canceled the order. DTC revoked the license.

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Section 4. [redacted]

The [redacted] designated a science and technology officer as the Blue Lantern official for two reasons. First, the officer has been involved in nuclear and missile control issues and, second, initial Blue Lantern requests involved a government science and technology institute where the officer had developed good working relationships.

Blue Lantern Procedures

At the time of our visit, [redacted] had not established any formal procedures for conducting Blue Lantern end use checks. According to [redacted] officials, they were unsure how to conduct these checks because of a lack of guidance from DTC. Further, [redacted] officials stated that the OIG team would provide additional information on program requirements during its visit. However, [redacted] took initial steps to respond to the three Blue Lantern requests it received by sending written inquiries to the end user.

Status of Blue Lantern Cases

The [redacted] a government-owned facility connected with the [redacted] armed forces, was the end user for the three Blue Lantern requests that [redacted] received. Upon receipt of the requests, [redacted] sent written inquiries to [redacted] asking questions posed in the Blue Lantern requests, such as, whether the items were received and how they were used. During our visit, the Blue Lantern official arranged for us to visit [redacted] to examine actual end use. The results of the end use checks and the status of the Blue Lantern requests are described below. PM provided additional information on the status of two of the cases. We have incorporated their comments and updated the report based on further audit work.

[redacted] Telemetry Receivers

DTC requested that [redacted] conduct an end use check because these items could be diverted. DTC's request described a proviso that was part of the license application and the nontransfer and use certificate signed by the end user. [redacted]

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During our visit to [redacted] we learned that [redacted] had ordered a three-year supply of propellant, yet the project requiring it was still on the drawing boards. According to [redacted] officials, they ordered a three year supply because it takes a long time to find a manufacturer with an approved exporting license. The Blue Lantern official provided [redacted] certification on end use to DTC. DTC approved the license application.

Table 4. Status of Blue Lantern Checks - [redacted]

ITEM	STATED END USER	TYPE OF CHECK	RESULTS
Telemetry receivers	[redacted]	Postshipment	Blue Lantern official, accompanied by OIG, conducted end use check. Violations of proviso and nontransfer assurance found and reported to DTC. DTC took no action regarding violations. DTC closed the case, but has recently re-opened this case with a request for a U.S. Customs investigation.
Iron powder	[redacted]	Preliminary	Blue Lantern official, accompanied by OIG, conducted end use check. Blue Lantern official obtained justification for order and reported no adverse information to DTC. DTC approved the license.
Igniter propellant	[redacted]	Preliminary	Blue Lantern official, accompanied by OIG, conducted end use check. Blue Lantern official obtained justification for order and reported no adverse information to DTC. DTC approved the license.

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Section 5. [REDACTED]

Embassy [REDACTED] designated an economic officer as the Blue Lantern official because he had been active in the post's Strategic Group on Export Controls-Technology Transfer Committee. We did not discuss Blue Lantern procedures with this official because he was on emergency leave during the OIG team visit to [REDACTED]

Although the post designated the economic officer as the Blue Lantern official, all Blue Lantern requests were referred to the Customs attache who conducted the actual end use checks. According to the Customs attache, the arrangement was satisfactory because Customs did the investigative work and because Customs was the most appropriate agency in [REDACTED] to conduct Blue Lantern end use checks. It had an agreement with the [REDACTED] to do this type of work, and Customs personnel were trained to do it. Further, he said that the checks might provide leads for other Customs cases.

Blue Lantern Procedures

The Customs attache had established different procedures for end use checks of exports to the [REDACTED] military and for checks of commercial organizations. When the end user was the [REDACTED] military, Customs contacted the Defense attache or the military assistance group to identify an appropriate contact person in the [REDACTED] military. Customs worked with the designated contact person to verify that the shipment was received and was to be used as stated on the license application. Customs has never visually checked items; however, the attache said they would go farther in their investigation if they received information about a possible diversion.

For exports to commercial organizations, Customs relied on established, but informal, procedures developed in working with its [REDACTED] counterparts. According to the attache, U.S. Customs notified [REDACTED] Customs officials that they want to check on the bona fides of a shipment and requests assistance. U.S. Customs then arranged with the importer to inspect the shipment and its documentation. U.S. Customs is able to question business officials about the details of shipments. The attache said that [REDACTED] businesses usually cooperate with U.S. Customs investigations, in part because of U.S. Customs good relations with [REDACTED] Customs.

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Status of Blue Lantern Requests

At the time of our visit, the post had completed all three of the Blue Lantern end use checks it had received. It found no problems with two of the cases, but discovered serious discrepancies in one. Customs officials said that this case was a good example of the potential usefulness of the Blue Lantern process.

[REDACTED]

DTC requested an end use check because of the quantity and destination of the items. [REDACTED]

[REDACTED] U.S. Customs found that the end user had several subsidiaries. One of the subsidiaries' board members used the Embassy of North Korea as a business address. Customs requested information about [REDACTED] from the [REDACTED] and arranged a meeting with the director of [REDACTED]. Although documents in the case file showed that [REDACTED] had contracted with [REDACTED]

[REDACTED] the director said they had merely requested a bid on the merchandise from a company in the U.K. on behalf of a [REDACTED]-owned company. The director declined to name either the U.K. or [REDACTED] company because [REDACTED] no longer planned to pursue the transaction, citing the lengthy U.S. licensing process as the reason for losing interest in the transaction.

As a result of this end use check, the Customs attache in [REDACTED] recommended that the State Department:

- coordinate an investigation of [REDACTED] [REDACTED] the manufacturer, with regard to their internal procedures and end use certifications;
- provide this information about [REDACTED] to the Department of Commerce for consideration in strategic/high technology licensing; and
- conduct Blue Lantern end use checks for all license applications by [REDACTED]

After receiving Embassy [REDACTED] answer, DTC returned the license without action to the applicant.

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[REDACTED] Electronic Spare Parts for Vehicular Radios

DTC requested an end use check because of the possibility of diversion. U.S. Customs checked the registry of the foreign consignee, [REDACTED] which stated that [REDACTED] was a government-owned company. The assistant Customs attache discussed the transaction with three [REDACTED] officials and examined documents that verified that [REDACTED] had ordered the parts from [REDACTED]. The discussion and the examination of documents showed no discrepancies and no evidence of diversion. Customs informed DTC that [REDACTED] was a reliable recipient for this shipment and recommended approval of the license. DTC issued the license.

[REDACTED] Fuzes

DTC requested this end use check because it had concerns about the quantity of fuzes requested in the application and about the possibility that the items might be diverted. The application was for 85,000 fuzes to be used in the [REDACTED]. U.S. Customs found that the foreign consignee, [REDACTED] and the end user, [REDACTED], are both government-owned. [REDACTED] general manager confirmed the order of fuzes and said they would be used exclusively by the [REDACTED] and that [REDACTED] had no intention of selling or exporting the fuzes outside [REDACTED]. The embassy informed DTC that it found no adverse information about [REDACTED] and considered it to be a reliable recipient of Munitions List items. DTC issued the license.

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Table 5. Status of Blue Lantern Checks - [REDACTED]

ITEM	STATED END USER	TYPE OF CHECK	RESULTS
[REDACTED]	[REDACTED]	Prelicense	Blue Lantern official interviewed the end user and recommended that State investigate the applicant and the manufacturer. He said that the end user was not a suitable recipient of Munitions List items unless each of its applications were reviewed. He also recommended that State inform the Dept. of Commerce about the end user. DTC returned the application without action to the applicant.
Electronic spare parts for vehicular radios	[REDACTED]	Prelicense	Blue Lantern official visited the foreign consignee and found no negative information. DTC issued the license.
Fuzes	[REDACTED]	Prelicense	Blue Lantern official interviewed the foreign consignee and found no negative information. DTC issued the license.

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Section 6. [redacted]

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The post designated an economic officer as the Blue Lantern official because the officer handles Coordinating Committee on Multilateral Export Controls (COCOM) cases as well as integrity and reliability checks (disposition of U.S. military surplus). Although there is a Customs attache assigned to the post, the deputy chief of mission designated a State Department official because Blue Lantern is a State Department program.

Blue Lantern Procedures

DTC sent Blue Lantern requests to the economic officer and information copies to the Customs attache. According to the economic officer, Blue Lantern requests were conducted by directly calling the foreign consignee or the end user. The officer also called the [redacted] ministry responsible for licensing imports to find out if they had issued an import license for the item. Four of the five requests at the time of the auditors' visit were for prelicense checks, but the Blue Lantern official had not yet performed on-site verifications. The official also discussed specific requests with [redacted] [redacted] to determine if they had information about the end user or consignee. After completing the verification, the official prepared the return cable to DTC and cleared it with Customs. When Customs received the information copy of the Blue Lantern request, it did a file check and notified the economic officer if its records showed any derogatory information about any of the individuals or companies involved.

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Status of Blue Lantern Cases

The Blue Lantern official had received five end use check requests at the time of our visit. As a result of the official's inquiries, DTC closed three of the cases, rerouted one case to another post, and referred the remaining case to U.S. Customs. The results are described below.

[redacted] Waveguide Tubing

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DTC requested prelicense checks because the end users were civilian firms, while the predominate use of waveguide tubing is for jamming military communications and radar. DTC said the applications provided little information about the intended end use and foreign end users. The Blue Lantern official talked to

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the foreign consignee, [redacted] which said that the tubing is being purchased for [redacted] utility companies. [redacted] a subcontractor of the utility companies, provided a detailed explanation of the projects requiring the tubing.

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The Blue Lantern official also contacted an official from the Ministry of Foreign Affairs' Office of Arms Export Controls. The official from the Ministry of Foreign Affairs said they had investigated the transaction, found no negative information, and judged the transaction to be legitimate. DTC was informed of the results of the inquiry and approved the license application.

[redacted] Pressure Window Adaptor

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DTC requested that Blue Lantern officials in both [redacted] perform prelicense checks because the intermediate consignee was in [redacted] and the foreign end user was in [redacted]. DTC informed the posts of a discrepancy between information given on the application and that given on the nontransfer and use certificate. [redacted]

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According to the Blue Lantern official in [redacted] the discrepancy occurred because the component part passed through a series of companies before it went into the final product. [redacted] manufactured the part, which was a component of radars manufactured by [redacted] an [redacted] government-owned manufacturer, sold the radars to the [redacted] Navy. The Blue Lantern official informed DTC that there was little probability of diversion and recommended issuance of the license. Based on this information, DTC approved the license application.

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However, about two months later, the Blue Lantern official in [redacted] informed DTC that, according to a [redacted] Navy procurement official, [redacted] had already completed the contract referred to in the license application, and the company expected no further shipments under the contract. [redacted] Navy officials were concerned that the [redacted] company might be improperly designating them as an end user on export licenses. At the close of our audit, the U.S. Customs agent assigned to DTC was investigating this case.

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[REDACTED] Rifles and Ammunition

DTC requested a postshipment check because of concerns about possible diversion of the items. The DTC cable was confusing because the first paragraph said the license had been approved, while the last paragraph asked for the embassy's recommendation on the issuance of the license. According to DTC's records, the license was approved a month before DTC sent the Blue Lantern request.

The Blue Lantern official verified that the end user had obtained an import certification from the [REDACTED]. The certification showed that the items were purchased from [REDACTED]. The Blue Lantern official also spoke to the end user, who said the firm did a large volume of business with [REDACTED] and was the exclusive [REDACTED] distributor of [REDACTED] arms. The Customs file check also showed no derogatory information. DTC was informed that the probability of diversion from this transaction was low. Issuance of the license was recommended and DTC closed the case.

[REDACTED] Ferroprop Roving

DTC requested a prelicense check because of concerns about possible diversion of the items. The Blue Lantern official called the end user, the [REDACTED] Navy, and learned from the contracting officer that the roving material would be used to make a composite metal for torpedoes. The composite would be made in a joint venture between [REDACTED] two [REDACTED]-controlled companies. The Blue Lantern official talked to representatives of both companies and was satisfied with their responses and that of the Naval Contracting Officer. The official informed DTC that there was little probability of diversion, and DTC approved the license application.

[REDACTED]

DTC requested a prelicense check because of concerns about possible diversion of the [REDACTED]. The license application listed the [REDACTED] as the end user. However, the air force informed the Blue Lantern official that it was not the end user. The official then called [REDACTED] the foreign consignee, who told him that the end user was really the [REDACTED]. DTC redirected the case to Embassy [REDACTED]

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