

January 2004

# EXPORT CONTROLS

## Post-Shipment Verification Provides Limited Assurance That Dual-Use Items Are Being Properly Used



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**Highlights**

Highlights of [GAO-04-357](#), a report to  
Senator Jon Kyl

## Why GAO Did This Study

The United States controls certain dual-use technologies that could be used to enhance the military capabilities of countries of concern. The Department of Commerce (Commerce) conducts post-shipment verification (PSV) checks to ensure that these technologies arrive at their intended destination and are used for the purposes stated in the export license.

GAO was asked to (1) assess the number of dual-use export licenses approved and subject to post-shipment verification and (2) evaluate how the PSV process ensures that sensitive exports are used as intended.

## What GAO Recommends

We recommend that the Department of Commerce

- improve technical training for enforcement personnel conducting PSV checks,
- ensure that personnel conducting PSV checks assess compliance with license conditions, and
- require that the exporter inform the end user in writing of the license conditions.

The Department of Commerce generally agreed with our recommendations and indicated it had taken steps to strengthen the PSV process.

[www.gao.gov/cgi-bin/getrpt?GAO-04-357](http://www.gao.gov/cgi-bin/getrpt?GAO-04-357).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph A. Christoff at (202) 512-8979 or [christoffj@gao.gov](mailto:christoffj@gao.gov).

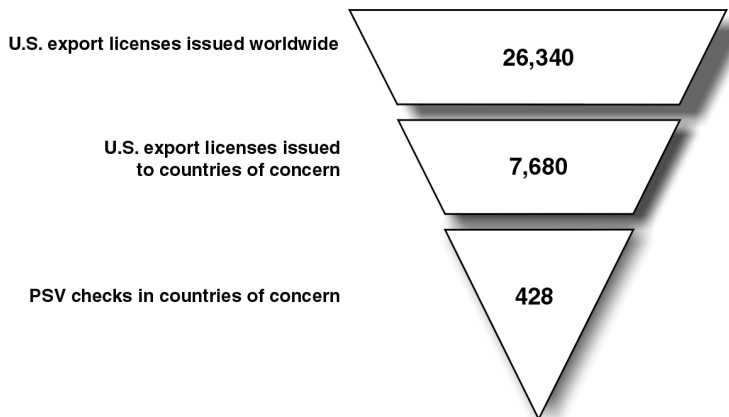
# EXPORT CONTROLS

## Post-Shipment Verification Provides Limited Assurance That Dual-Use Items Are Being Properly Used

### What GAO Found

The Department of Commerce approved 26,340 licenses for the export of dual-use items during fiscal years 2000 to 2002. Twenty-eight percent of these licenses involved dual-use exports to countries of concern such as China, India, and Russia. However, Commerce conducted PSV checks on few of these licenses. We found that, during fiscal years 2000 to 2002, Commerce completed PSV checks on 428, or about 6 percent, of the dual-use licenses it approved for countries of concern. Commerce and other departments attached conditions to nearly all (99 percent) of the licenses for countries of concern to alleviate concerns about potential diversion or misuse.

**Department of Commerce Approved Dual-Use Export Licenses and PSVs, Fiscal Years 2000-2002**



Source: GAO analysis of Commerce data.

We identified three key weaknesses in the PSV process that reduce the effectiveness of this important activity. First, PSVs do not confirm compliance with license conditions because U.S. officials frequently do not check license conditions, they often lack the technical training to assess compliance, and end users may not be aware of the license conditions by which they are to abide. Second, some countries of concern, most notably China, limit the U.S. government's access to facilities where dual-use items are shipped, making it difficult to conduct a PSV. Third, PSV results have only a limited impact on future licensing decisions. Companies receiving an unfavorable PSV may receive greater scrutiny in future license applications, but they can still receive an export license. In addition, according to Commerce officials, past PSV results play only a minor role in future enforcement actions.

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**Abbreviations**

EAA	Export Administration Act
ECASS	Export Control Automated Support System
FCS	U.S. Foreign Commercial Service
FOUO	For Official Use Only
HPC	High Performance Computer
IEEPA	International Emergency Economic Powers Act
PSV	Post Shipment Verification

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United States General Accounting Office  
Washington, D.C. 20548

January 12, 2004

The Honorable Jon Kyl  
United States Senate

Dear Senator Kyl:

The U.S. government seeks to control the export of dual-use technologies<sup>1</sup> to prevent countries of concern<sup>2</sup> and terrorists from using them to bolster their military capabilities. The Department of Commerce (Commerce) is responsible for licensing dual-use exports and relies on post-shipment verification (PSV) checks to confirm that exported items are not misused or diverted. To conduct a PSV check, Commerce personnel visit foreign companies to verify the use and location of the item. According to Commerce, a PSV check strengthens assurances that exporters, importers, and end users comply with the terms of export licenses and licensing conditions.

Because of your concerns about the current PSV process in countries of concern such as China and India, you asked that we (1) assess the number of dual-use export licenses approved and subject to PSV and (2) evaluate how the PSV process ensures that sensitive exports are used as intended.

To address these objectives, we reviewed laws and procedures governing export licensing, analyzed export licensing data, and reviewed the enforcement outcomes of Commerce's PSV activities, including the penalties levied and their deterrent value. We also interviewed Commerce officials in Washington, D.C., surveyed export enforcement personnel in Commerce's field offices, met with Commerce export enforcement attachés in Russia and China, and observed a Commerce-led team conducting PSV checks in Russia. In addition, we met with officials from the Department of State (State); Department of Homeland Security;

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<sup>1</sup>"Dual-use" items are those that have both commercial and military uses and can be used in the development or production of advanced conventional weapons or weapons of mass destruction.

<sup>2</sup>For the purposes of this report, we use "countries of concern" to describe those countries the United States believes may support terrorism or contribute to the proliferation of weapons of mass destruction. Our list includes Azerbaijan, Belarus, China, Egypt, India, Iran, Iraq, Israel, Kazakhstan, North Korea, Pakistan, Russia, Syria, and Ukraine. We developed this list by selecting those countries that appeared on at least 5 of 12 different U.S. government lists of countries of concern.

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Department of Defense (Defense), including the Defense Security and Threat Agency and Defense Intelligence Agency; Department of Justice; Central Intelligence Agency; National Ground Intelligence Center; and private firms in Hong Kong, India, and Russia that were the subject of Commerce's PSV checks. Finally, we interviewed officials from the governments of China, Hong Kong, and India about their views on the PSV process. For more on our scope and methodology, see appendix I.

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## Results in Brief

During 2000 to 2002, Commerce approved 70 percent of the licenses it received for exporting dual-use items to countries of concern. The vast majority of these approved licenses—99 percent—had conditions attached during the interagency process to alleviate concerns about potential diversion or misuse. However, few dual-use export licenses were subject to PSV checks, Commerce's primary mechanism for checking that dual-use items arrive at their proper location and are used in compliance with the conditions of the export license. Our analysis of Commerce's export licensing data found that during fiscal years 2000 to 2002, Commerce completed PSV checks on 428 (6 percent) of the 7680 dual-use licenses it approved for countries of concern.

We found three key challenges to the PSV process that reduce the effectiveness of this important activity. First, the process of conducting the checks has several weaknesses. U.S. officials do not always verify compliance with license conditions. As a result, 36 percent of the companies we visited or company representatives we spoke with in China, Hong Kong, India, and Russia reported that U.S. officials did not ask them about compliance or attempt to verify compliance with license conditions. In addition, in response to our survey, three-fourths of the U.S. officials who conducted checks between 2000 to 2002 reported that they lacked technical training in key technologies such as electronics, telecommunications, and information security systems. These technologies accounted for 89 percent of the checks conducted in countries of concern during fiscal years 2000 through 2002. Furthermore, end users of dual-use technology may not be aware of the license conditions they are supposed to abide by because Commerce does not require exporters to inform end users in writing of the license conditions. Only 5 of the 25 companies we visited had a copy of the license conditions. Second, some countries of concern, most notably China, limit the U.S. government's access to facilities where dual-use items are shipped, making it difficult to verify whether exported items are being used as intended. Third, PSV results have only a limited impact on future licensing decisions.

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Companies receiving an unfavorable PSV will be scrutinized more carefully in the future, but they can still obtain an export license. In addition, past PSV results play only a minor role in future enforcement actions.

We are recommending that the Secretary of Commerce (1) improve technical training for enforcement personnel conducting PSV checks, (2) ensure that personnel conducting PSV checks assess compliance with license conditions, and (3) require that the exporter inform the end user in writing of the license conditions. In commenting on our report, the Department of Commerce generally agreed with our recommendations and stated that it has already taken significant steps to strengthen the PSV process along the lines we recommended.

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## Background

Commerce's authority to conduct PSV checks is established in the Export Administration Act of 1979, which provides the legal and administrative basis for U.S. controls on dual-use exports and is supplemented by the Export Administration Regulations. Commerce's Control List, which is included in the regulations, specifies the items and technologies to be controlled.<sup>3</sup> The United States uses export controls to prevent sensitive items from reaching persons, entities, or countries involved in terrorism or the proliferation of weapons of mass destruction and the vehicles to deliver them.

Commerce seeks to ensure that exports from the United States and reexports of U.S.-origin items to other countries are consistent with U.S. national security and foreign policy objectives. At the same time, Commerce works to avoid impeding the flow of legitimate trade. PSV checks are Commerce's primary method to detect and prevent illegal transfer of controlled U.S.-origin goods and technology already shipped overseas. Commerce may conduct a PSV check on any controlled item it licenses that is exported from the United States. According to Commerce, PSV checks strengthen assurances that exporters, shippers, importers, and end users comply with the terms of export license and licensing conditions.

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<sup>3</sup>The Commerce Control List includes certain nuclear materials, facilities, and equipment; chemicals, microorganisms, and toxins; materials processing; electronics; computers; telecommunications and information security; lasers and sensors; navigation and avionics; marine systems; and propulsion systems and space vehicles.

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U.S. exporters submit license applications to Commerce. The applications include information on (1) the importer who takes delivery of the item, (2) the end user who will use the item, and (3) the item's intended use. The importer and end user may or may not be the same company. An importer may use, sell, or distribute the item to other companies for their use. For example, a U.S. company could export thermal imaging cameras to an Indian company. The Indian company, also known as the importer, might then sell the cameras to other Indian companies, the end users.

Several agencies review license applications for the national security, domestic, or foreign policy implications of exporting dual-use items. After the U.S. exporter submits a license application to Commerce, an interagency team comprised of officials from Commerce, Defense, State, and the Department of Energy determines whether the application should be approved for a license, denied, or returned without action.<sup>4</sup> If potential concerns are raised about the end user or the end use, a prelicense check may be conducted to verify the legitimacy of the importing company that seeks to purchase U.S. items or technology. If concerns about the end user or end use persist, conditions may be added to the license application before approval. Once approved, Commerce issues the license, including conditions, to the U.S. exporter.

Commerce conducts PSV checks to confirm that the dual-use item arrived at its destination and is being used as intended. Commerce special agents or other U.S. government personnel visit companies overseas to meet with importers or end users in an attempt to verify the use and location of these items. These checks are usually conducted by Commerce special agents, Commerce export control attaché posted at select U.S. embassies overseas,<sup>5</sup> or by Foreign Commercial Service (FCS) or State officials in country. The majority of PSVs are conducted by Commerce's special agents; these U.S.-based officials conduct investigations of potential violations of export controls. Special agents have traditional police powers, including the authority to make arrests and execute warrants domestically. Agents may also issue administrative subpoenas and detain and seize goods

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<sup>4</sup>An application is generally returned without action when there is insufficient information to make a licensing decision.

<sup>5</sup>Commerce's Office of Export Enforcement assigns special agents to selected U.S. embassies overseas as export enforcement attachés. Currently, attachés are posted in China and the United Arab Emirates. Commerce plans to place attaches in Hong Kong, India, and Russia in fiscal year 2004.



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to be illegally exported. They cannot, however, conduct investigations while performing PSVs overseas.

Commerce guidelines for conducting PSV checks state that an on-site visit to the company is mandatory. These guidelines also indicate that the agents' most important responsibility is physically inspecting the goods or the records that detail their disposition. The guidelines also require Commerce officials conducting the PSV to determine if (1) the goods are located at the facility, (2) the entire shipment can be accounted for, (3) the equipment is being used as stated in the license, (4) indications of impropriety exist, and (5) the company's answers are evasive.

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## Few Dual-Use Exports to Countries of Concern Are Subject to PSV Checks

Commerce approves the majority of all export license applications. During fiscal years 2000 to 2002, Commerce approved 70 percent of the license applications it received for exports of dual-use items to countries of concern. The vast majority—99 percent—of approved licenses had conditions attached during the interagency license review to deter misuse or diversion. However, only 6 percent of licenses to countries of concern were subject to PSV checks. During fiscal years 2000 to 2002, Commerce conducted 428 PSVs on the 7,680 dual-use export licenses it approved for countries of concern.

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## Commerce Approves Most Dual-Use Export Licenses to Countries of Concern

Between 2000 and 2002, Commerce approved 70 percent of dual-use export licenses to countries of concern—a total of 7,680 licenses for exports to China, India, Israel, Russia, and others. As table 1 shows, China and India received more dual-use licenses than all other countries of concern. These two countries accounted for almost 62 percent of dual-use licenses approved to countries of concern during fiscal years 2000 to 2002.

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**Table 1: Export Licenses to Countries of Concern, Fiscal Years 2000 to 2002**

<b>Country</b>	<b>Licenses approved</b>
People's Republic of China	2,644
India	2,110
Israel	1,456
Russia	824
Syria	311
Egypt	111
Ukraine	58
Pakistan	52
Iran	51
North Korea	26
Kazakhstan	21
Belarus	10
Azerbaijan	5
Iraq	1
<b>Total</b>	<b>7,680</b>

Source: GAO analysis of Commerce data.

Most U.S. exports of dual-use items go to countries other than countries of concern. Our analysis of Commerce data found that Commerce was less likely to approve exports of dual-use items to countries of concern than to other countries. Whereas the approval rate for countries of concern was 70 percent, the approval rate for other countries was 86 percent.

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## Commerce Attaches Conditions to Most Licenses

Between fiscal years 2000 and 2002, 99 percent of all approved dual-use export licenses to countries of concern contained conditions requiring the exporter to provide certain documentation and reports, such as a shipper's export declaration or encryption licensing information, and to restrict the item's use. Commerce, Defense, and State develop conditions during an interagency licensing approval process to alleviate concerns that the items might be misused or might contribute to proliferation activities. According to the Undersecretary for Commerce, in a speech at the annual Update 2002 Export Control and Policy Conference, these conditions alleviate agency concerns that might otherwise result in a denial of the export. Once a license is issued, the departments rely on Commerce to ensure compliance with the conditions.

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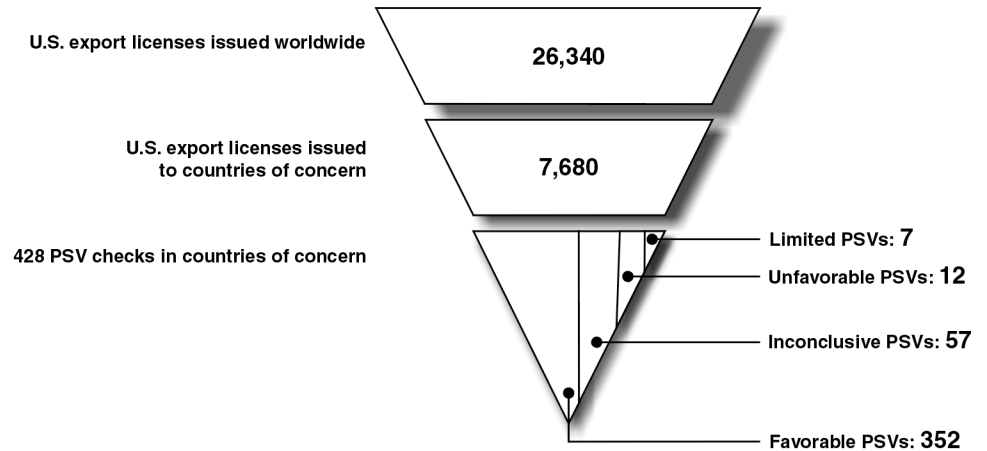
Commerce has 54 standard conditions that establish requirements exporters and end users must follow, including how an item may be used and who may have access to it. Conditions are placed on a license according to the particular item's intended use and final destination. A standard condition might state that no wide-area network connectivity is allowed without specific U.S. government authorization or that military end users or end uses are prohibited. In addition to the 54 standard conditions, Commerce sometimes uses customized conditions to restrict specific end uses and/or end users of an item. For example, a license for semiconductor manufacturing equipment might contain a condition stipulating the characteristics, such as the feature size of the integrated circuits, that could be produced using the equipment. A license for a chemical might have a condition specifically written for that item stating that the item could only be used in the manufacture of pharmaceutical products.

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### Few Licenses Are Subject to PSV

Although 99 percent of licenses worldwide have conditions placed on them, few dual-use export licenses issued to countries of concern are subjected to PSV checks. Between fiscal years 2000 and 2002, Commerce approved 26,340 dual-use export licenses worldwide, including 7,680 licenses to countries of concern. However, during this same time period, Commerce conducted PSVs on approximately 6 percent (428) of approved licenses to countries of concern (see fig. 1).

**Figure 1: Department of Commerce Approved Dual-Use Export Licenses and PSVs, Fiscal Years 2000-2002**



Source: GAO analysis of Commerce data.

Commerce officials stated that it would be impossible to conduct checks on every exported item because of the vast number of licenses. Because of this, Commerce developed guidance for selecting the licenses on which to conduct PSVs. These selection criteria are based on the destination, item, end use, and parties to the transaction. Commerce primarily targets PSVs on items it refers to as “choke-point” technologies. These are items and technologies that would significantly advance the development of sought-after weapons systems or are on the “shopping lists” of terrorists or countries seeking to develop weapons of mass destruction. Commerce also targets PSVs on items destined for countries it has identified as having the potential to divert or misuse dual-use items. Commerce also stated that it has revised its priorities for future PSVs to focus on several countries including Hong Kong, Russia, India, Israel, and the United Arab Emirates. Commerce is also posting new export control attachés in Moscow, New Delhi, and Hong Kong (in addition to the ones in Beijing and Dubai) to conduct end-use verification visits and educate local industry on U.S. export controls.

We reviewed 428 Commerce reports on PSV checks for countries of concern that were completed between fiscal years 2000 and 2002. Of these PSV checks, 72 percent checks included items identified as choke-point technologies. Commerce targeted the remaining 27 percent on other items and technologies controlled for export but that are not seen to be as critical

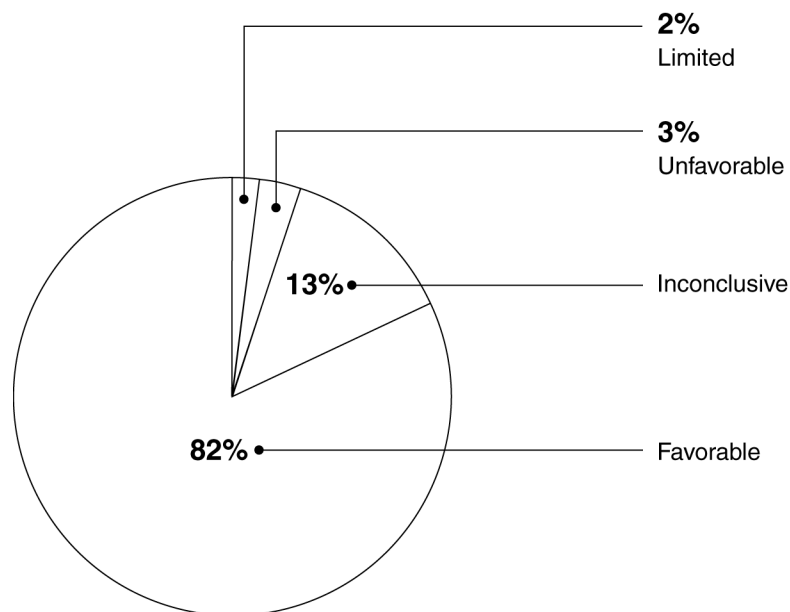
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to proliferation activities as are choke-point technologies. Commerce conducted some of these PSV checks on items exported with no license required or without an export control classification number. These checks allow Commerce to determine if exporters are appropriately classifying items on export licenses and if the items are being used properly.

Between fiscal years 2000 and 2002, most PSV checks in countries of concern that we reviewed were favorable. We examined trip reports and cables of 428 PSV checks completed during this period in eight countries of concern, including China, Egypt, India, Israel, Pakistan, Syria, Russia, and Ukraine.<sup>6</sup> Eighty-two percent of PSV checks in countries of concern were rated favorable by the U.S. officials conducting the PSV (see fig. 2).

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**Figure 2: Results of PSV Checks in Countries of Concern, Fiscal Years 2000-2002**



Source: GAO analysis of Commerce data.

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<sup>6</sup>This figure represents both PSVs conducted by Commerce enforcement personnel and PSVs conducted in country by State Department staff or an export enforcement attaché.

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According to Commerce's program guidance, a favorable PSV check indicates that U.S. officials found (1) no discrepancies between the actual and stated end use of the item and (2) that the item was at the location indicated on the license. An unfavorable PSV result indicates that U.S. officials found discrepancies between the actual and stated end use. In one case, special agents conducting a PSV found no business location for the end user at the address on the license. According to Commerce officials, an inconclusive check indicates that U.S. officials were unable to complete the check. For example, the serial number obtained from a manufacturer might not match the end-user's item, the agents may have been denied access to a facility, or the importer might not have responded to the agents' request to meet while they were in the country. According to Commerce officials, a limited check indicates that U.S. officials were unable to account for the entire shipment. In India, for example, a computer shipped to a company in one city had been sent to the company's office in a different city. The agents were thus unable to inspect the entire shipment.

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## PSVs Provide Limited Assurance That Dual-Use Items Are Not Diverted or Misused

The PSV process has several weaknesses that call into question Commerce's ability to ensure dual-use items are not diverted or misused. First, PSVs do not confirm compliance with license conditions because U.S. officials frequently do not check license conditions; they often lack the technical training to assess compliance; and end users may not be aware of the license conditions by which they are to abide. Second, some countries of concern, most notably China, limit the U.S. government's access to facilities where dual-use items are shipped, making it difficult to verify whether exported items are being used as intended. Third, PSV results have only a limited impact on future licensing decisions. Companies receiving an unfavorable PSV will be subject to greater scrutiny in the future but can still obtain an export license. Additionally, according to Commerce officials, past PSV results play only a minor role in future enforcement actions.

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## PSVs Do Not Always Confirm Compliance with License Conditions

The PSV process has several weaknesses. U.S. officials frequently do not check compliance with license conditions. In addition, officials conducting PSV checks often lack the technical training necessary to verify compliance with some license conditions. Furthermore, foreign end users are often unaware of the license conditions with which they are to comply.

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U.S. Officials Frequently Do Not Check Compliance with Export License Conditions or Inspect Dual-Use Items

According to Commerce guidance, the objective of PSV checks is to ensure that dual-use items reach the intended user and are being used properly. Commerce's guidelines require officials to visit the end user, and they strongly recommend that officials physically inspect the exported items. These guidelines help ensure that the sensitive technology is being used as intended under the terms of the license and that the conditions of the license are being followed. However, U.S. officials frequently do not check compliance with license conditions.

Based on our review of PSV trip reports and our observations and discussions with companies where PSVs were conducted, we found that special agents frequently only asked end users if they complied with license conditions rather than physically verifying their compliance with them. In some instances, officials did not attempt to ask about license conditions. For example, 36 percent of the companies (9 of 25) we visited or company representatives we spoke with in China, Hong Kong, India, and Russia reported that U.S. officials did not ask them about compliance or attempt to verify compliance with license conditions.

U.S. officials also frequently do not physically inspect the dual-use item subject to the PSV because they conduct the PSV at the company that imported the item rather than the company using the item. For example, an Indian company imported thermal cameras and sold them to other Indian companies. Since Commerce conducted its PSV at the importing company's headquarters, it had to rely on the statements of the company representatives that the end users were using the cameras in compliance with license conditions. Our review of PSV trip reports and cables, between fiscal years 2000 and 2002, found that 104 of 428 (24 percent) PSV checks were performed at the importer's rather than the end user's office. The agents rated 57 (55 percent) of these checks favorable; that is, the item had arrived at its intended destination and was being used for the purposes stated in the license, although the agents did not visit the end user.

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Also, on several occasions, officials rated PSVs as favorable without physically inspecting the item or observing its use. Of the 428 PSV checks we reviewed, Commerce special agents rated 62 PSV checks favorable, although the item was not inspected or seen by an agent. Based on PSV trip reports, agents may not have seen an item because (1) the item was at a location other than the one stated on the license, (2) the item had been integrated into another product or was a consumable item, or (3) the item was portable. For example, in January 2003, special agents visited a company in Russia that imported thermal imaging cameras.<sup>7</sup> The company purchased the cameras for sales promotion and demonstration purposes across Russia. Consequently, during the PSV check, all but one of the cameras were in the field. Agents were unable to physically inspect the cameras or determine if they were being used in compliance with the license conditions. The agents had to rely on the company's word rather than personally verifying adherence to the condition. The agents gave the PSV a favorable rating based on discussions with company officials.

Commerce's Special Agents Lack the Training to Help Assess Compliance with License Conditions

Commerce agents frequently do not have the training needed to assess an end-user's compliance with license conditions on a wide range of sensitive technologies. We surveyed all 35 special agents who participated in PSV checks between fiscal years 2000 and 2002. Our survey focused on the training and guidance that agents had received to conduct PSVs and the ease or difficulty of assessing compliance with license conditions on certain dual-use items. We received replies from 26 agents (74 percent).

According to the agents who conduct PSVs, the license conditions of some items are easier to assess than others. About two-thirds of the agents surveyed reported that it was very easy or generally easy for them to assess compliance with license conditions in digital computers, general-purpose electrical equipment, and machine tools. However, about three-fourths of the agents reported that it was difficult or as easy as difficult for them to assess compliance with conditions related to toxic chemicals, information systems (including software), and biological pathogens.

The agents conducting the PSVs have limited training in many technologies that are subject to PSVs. Although most agents responding to our survey stated that they received Commerce training in key technologies—namely biological, chemical, and nuclear weapons—over three-fourths reported

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<sup>7</sup>A thermal imaging camera can be used to check transmission lines at civilian power plants or it may be used for surveillance or reconnaissance of enemy troop movements.



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that they had not received any training in electronics, telecommunications systems, information security systems, sensors and lasers, marine systems, or propulsion systems for space vehicles. These technologies accounted for 89 percent of the PSVs conducted in countries of concern during fiscal years 2000 through 2002. Our survey also found that training in these technologies would be helpful. Twenty-two of the 26 agents (85 percent) reported that more training on key technologies such as computers, telecommunications systems, and electronics would improve their ability to conduct PSV checks.

Commerce officials recognize that special agents do not always have the skills and training necessary to verify compliance with some license conditions. For example, to verify compliance with a license for semiconductor manufacturing tools, Commerce brought together a team of DOD and Commerce engineers for training on these tools. In February 2003, the engineers spent a day learning about the items on the license and ways to determine if the exported equipment was being used in compliance with the license conditions. The engineers then examined the exported item in China and determined that the company had complied with the license conditions.

In October 2003, Commerce released new guidelines to improve technical training for special agents. This 1-day training is designed to provide agents with additional technical expertise about the dual-use items they are to check during upcoming PSVs. Commerce expects that this training will allow agents to ensure that the items they check are the actual items in question and that they are being used in compliance with license conditions. Commerce officials stated that they planned to initiate this training in November 2003.

#### End Users May Not Be Aware of License Conditions

End users of dual-use technology may not be aware of the license conditions by which they are to abide. Only 5 of the 25 companies we visited had a copy of the license conditions. According to Commerce, it is the U.S. exporter's responsibility to ensure that end users are aware of the terms of the license, including the conditions that apply to them. However, Commerce does not require exporters to provide a copy of the export license containing the conditions either to importers taking delivery of an item or end users that use the item. Although Commerce requires the exporter to convey license conditions to its "customer" or other parties to whom the license conditions apply, the department does not specify whether the conditions should be conveyed verbally or in writing. Unless there is a condition in the license that requires the exporter to inform the

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end user of the conditions placed on the license, there is no guarantee that the exporter will convey the conditions to the end user. In 24 percent of the PSVs we reviewed, the checks were conducted at the site of the importer rather than the end user; therefore, the end user may not have been aware of the license conditions.

During our visits to China, Hong Kong, India, and Russia, we found that only 5 (20 percent) of the 25 companies we visited had a copy of the license, which included the conditions. Representatives from 13 other companies stated that they were aware of the conditions but did not have a copy of the license or any document outlining the conditions. At nine companies we found that the agents conducting the PSV did not raise the topic of conditions. In at least one case in Russia, a company had signed a document indicating that it was aware of the conditions but did not have a copy of the license or any other documentation describing the conditions; it was unclear how the conditions were conveyed to the company. In India when we requested that a company produce a copy of the license conditions that the exporter was required to provide, the company produced a copy of the sales contract describing the terms and financial conditions of the sale. The company representative believed that the sales contract listed the license conditions. Indian companies we visited were frequently confused about the term “conditions,” associating it with the sale of the item as opposed to the conditions imposed by Commerce on the item’s use.

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### Some Countries of Concern Limit the U.S.’s Ability to Conduct PSV Checks

To successfully conduct a PSV, Commerce needs the cooperation of host governments and the companies it must visit. In some countries, Commerce can conduct PSVs without notifying the host government. However, in other countries, Commerce’s ability to conduct PSVs is more limited. China, India, Russia, and Hong Kong<sup>8</sup> offer the United States varying levels of access. A discussion of the four countries follows.

- The Chinese government requires that Commerce follow a set of protocols for arranging and conducting PSVs. Commerce officials stated that the Chinese government limits the number of checks each year. A Chinese Ministry of Commerce official we met with in September 2003 stated that the scope of items that can be subject to PSVs will be

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<sup>8</sup>Hong Kong is not a country of concern; however, it is a transshipment point and has been a conduit for illegal reexports of U.S. controlled technology.

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expanded under the terms of an end-use arrangement currently under negotiation with the United States.

- India restricts Commerce from conducting PSVs to a limited extent. According to our review of trip reports from India, India denied Commerce access to some facilities and items for PSV checks through 2003; however, U.S. access to Indian facilities improved during 2003. In May 2003, the Indian government allowed PSVs and gave Commerce's special agents access to all the facilities they requested.
- The Russian government does not require the United States to notify it of plans to conduct PSVs or limit the types of items on which the United States may conduct checks. Based on our review of trip reports and documentation from Russian companies, Commerce was always allowed access to conduct PSVs, although government entities sometimes required advanced clearance.
- Hong Kong authorities allow U.S. enforcement personnel to conduct PSVs on whatever items are of interest to the United States. Based on a review of safeguard trip reports and a meeting with Hong Kong officials in September 2003, we found that Hong Kong does not require Commerce to inform it about pending PSV checks.

Additional discussion of U.S. access to conduct PSVs in these four countries is contained in an "Official Use Only" version of this report.<sup>9</sup>

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## PSVs Have Limited Role in Future Licensing Decisions and Enforcement Actions

Commerce places all companies that receive unfavorable PSVs on its Watch List. Commerce placed 53 companies on its Watch List in response to 81 unfavorable PSV checks worldwide, between fiscal years 2000 and 2002.<sup>10</sup> However, the list is not public, and end users and potential U.S. exporters would not know if a company had been placed on the list. To help ensure that companies that get unfavorable PSVs receive greater scrutiny in the future, Commerce screens new license applications against

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<sup>9</sup>See *Export Controls: Post-Shipment Verification Provides Limited Assurance That Dual-Use Items Are Being Properly Used*, [GAO-04-199](#) (Washington D.C.: December 22, 2003).

<sup>10</sup>We asked Commerce to determine if any of the companies that had received unfavorable PSV checks had received licenses in the past or been granted licenses after the check. Commerce was unable to provide us this information.

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the Watch List. Licensing officers at Commerce use this information when making subsequent licensing decisions.

According to Commerce officials, however, the results of PSVs play a less important role in approving a license than do other sources of information. Commerce considers other information sources when making licensing decisions, including industry leads, self-disclosure, visa referrals, and information sharing from other agencies. PSV results play a minor role relative to these other sources. According to a senior Commerce official, an unfavorable PSV check is the opinion of two individuals and does not represent a vetted and approved interagency position, which a licensing decision does.

In addition, unfavorable PSV checks cannot be linked to enforcement actions. Commerce views an unfavorable PSV as one of many leads in a potential criminal case, but an unfavorable alone does not provide sufficient evidence to take enforcement action against an end user. An unfavorable PSV check is only an initial step in the investigation and enforcement process. Before taking action against a criminal activity, Commerce must review leads, open an investigation, and collect evidence. If Commerce believes that it has enough evidence for a criminal case, it must convince the Department of Justice to prosecute. If the criminal court finds the defendant guilty, it can levy penalties (see app. II for additional information on Commerce's enforcement activities). If Commerce lacks sufficient evidence to prosecute the case in a criminal court, it may seek administrative penalties.

Commerce cannot identify enforcement cases generated as the result of an unfavorable PSV check because its database does not identify the source of an investigation. Commerce officials stated that they would have to conduct a manual search of the files to determine whether an enforcement action started with a PSV. However, Commerce officials also stated that no closed enforcement cases began as PSV leads. Commerce officials recognized that their database had limitations and stated that they have instituted the Investigative Management System, which will track the total number of leads, their sources (such as a PSV), and the significant actions resulting from them.

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## Conclusion

Commerce currently lacks an effective way to ensure that dual-use items are being used as required under the terms of export licenses. PSV checks are Commerce's primary means to verify the end use of an item after it has

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been exported. The fact that Commerce conducts PSVs may have some deterrent value. However, during fiscal years 2000 to 2002, Commerce only checked 6 percent of dual-use licenses for countries of concern. In addition, deficiencies in Commerce's implementation of this important process limit its overall effectiveness in ensuring that dual-use items are not misused or diverted. Most significantly, although 99 percent of dual-use exports to countries of concern have license conditions, the U.S. officials who carry out PSVs do not always verify that these conditions are met. Even if agents wanted to check license compliance, they may lack the necessary technical expertise to determine whether a license condition is being met. In addition, the foreign end users of the dual-item may not be aware of the license conditions they are to comply with. Finally, some countries limit Commerce's access to conduct PSVs. As a result, Commerce cannot ensure that dual-use items exported to countries of concern are not misused or diverted.

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## Recommendations

To improve the PSV process, we recommend that the Secretary of Commerce

- improve technical training for enforcement personnel conducting PSV checks to ensure they are able to verify compliance with license conditions,
- ensure that personnel conducting PSV checks assess compliance with license conditions, and
- require that the exporter inform the end user in writing of the license conditions.

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## Agency Comments and Our Evaluation

The Department of Commerce provided written comments on a draft of this report, which are reproduced in appendix III. Commerce generally agreed with our recommendations. However, Commerce disagreed with our conclusion that PSVs provide limited assurances that dual-use items are being used as intended. Commerce stated that we assumed PSVs play a greater role in ensuring compliance with the terms and conditions of export licenses than they actually play. However, Commerce's June 2000 program guidance on how to conduct PSVs states that PSVs are the first line of defense in preventing illegal technology transfer after dual-use items have been exported. Commerce documents show that PSVs are

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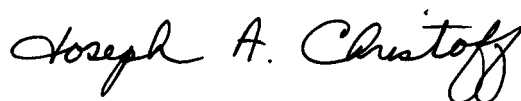
Commerce's primary mechanism to verify that dual-use items are used as intended after they have been exported. Commerce also stated that we underestimated the value of PSVs for informing future licensing decisions. However, during the course of our review, Commerce officials stated that PSVs played a less important role in future licensing decisions than other sources of information, such as industry leads and information from other agencies, that were more highly valued. Accordingly, we have not modified our conclusions or recommendations.

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As arranged with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days after the date of this letter. At that time we will send copies of this report to appropriate congressional committees and to the Secretary of Commerce. Copies will be made available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-8979 if you or your staff has any questions concerning this report. A GAO contact and staff acknowledgments are listed in appendix IV.

Sincerely yours,



Joseph A. Christoff, Director  
International Affairs and Trade

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# Scope and Methodology

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We were asked to (1) assess the number of dual-use export licenses approved and subject to post-shipment verification (PSV), and (2) evaluate how the PSV process ensures that sensitive exports are used as intended. To address these objectives, we reviewed laws and regulations governing export licensing, analyzed export licensing data, and reviewed the activities and outcomes of the Department of Commerce's (Commerce) Export Enforcement Office. We also interviewed Commerce officials in Washington, D.C.; surveyed Commerce's special agents who conduct PSV reviews; met with Commerce enforcement attachés in Russia and China; and observed a Commerce-led team conducting PSV checks in Russia. In addition, we met with officials from the Department of State; Department of Homeland Security; Department of Defense, including the Defense Technology Security Administration and Defense Intelligence Agency; Department of Justice; Central Intelligence Agency; National Ground Intelligence Center; and private firms in Hong Kong, India, and Russia that were the subject of Commerce's PSV reviews. Finally, we interviewed government officials from China, Hong Kong, and India about their views on U.S. export controls.

To assess the number of dual-use export licenses approved and subject to PSV, we reviewed Commerce documentation on how the licensing process works and how it determines which items will be subject to PSV checks. We interviewed knowledgeable Commerce officials about the licensing process and the role of PSV checks in that process. Additionally, we obtained statistical data from Commerce, including portions the Export Control Automated Support System (ECASS), to analyze data on licenses selected for PSVs. We assessed the reliability of the ECASS data by performing electronic testing of required data elements and by interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the statistical purposes of this report. We also obtained PSV trip reports and cables for fiscal years 2000 through 2002 for countries of concern where PSVs were conducted.

To evaluate how the PSV process ensures that sensitive exports are used as intended, we reviewed Commerce's Special Agent Manual, guidance on conducting PSV checks, trip reports, and cables for countries of concern. We identified key countries of concern by performing a content analysis of 12 lists used by U.S. government agencies to designate countries they believe may support terrorism or contribute to proliferation of weapons of mass destruction. Any country that appeared on 5 or more of the 12 lists was selected as a country of concern for the purposes of this report. The

resulting list includes Azerbaijan, Belarus, China, Egypt, India, Iran, Iraq, Israel, Kazakhstan, North Korea, Pakistan, Russia, Syria, and Ukraine.

As part of our audit work, we traveled to Russia and observed a team conduct a PSV check. We also traveled to China, Hong Kong, and India to determine the host governments' requirements for conducting PSV checks and to conduct follow-up meetings with companies and persons subject to previous PSV checks. We surveyed special agents at Commerce field offices who had participated in PSV trips during 2000, 2001, and 2002, and from January to April in 2003. We identified 35 active agents who conducted PSV trips during this time frame, based on reports Commerce provided to us. We did not survey six agents who had conducted PSVs and had left the department or had been temporarily reassigned. We developed and pretested a questionnaire that we administered by e-mail and fax. We received responses from 26 officers, or 74 percent of the active agents. Finally, we interviewed Commerce officials and asked Commerce to provide us with data to determine how the results of PSVs are used in future licensing and enforcement actions. We initially planned to use the ECASS data to determine if companies that had received an unfavorable PSV obtained a subsequent license. Due to limitations in Commerce's database, however, this could not be done. We therefore relied on Commerce officials' testimony about how unfavorable PSVs are used in the licensing process.

We conducted our review from October 2002 through October 2003 in accordance with generally accepted government auditing standards.



# Department of Commerce's Statutory Framework and Enforcement Activities

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Commerce undertakes a number of enforcement activities to deter violations of export control laws and regulations, including prosecuting both civil-administrative and criminal cases. If U.S. exporters or foreign importers are not following U.S. export law and regulations, they may face penalties including fines, denial of export privileges, or imprisonment. In accordance with the governing authority, when Commerce identifies a potential dual-use violation, it may seek criminal or civil administrative action, or both, against the U.S. company that exported the product, employees at the U.S. exporting company, or foreign companies and persons involved in importing the product.

When Commerce obtains an unfavorable PSV or other indication that a dual-use export control violation may have occurred, Commerce may engage in an investigation.<sup>1</sup> After an investigation, if Commerce determines the violator acted with full knowledge and willful intent of breaking the law, Commerce develops a criminal case and seeks an attorney in the Department of Justice (Justice) to prosecute the violation. If Justice accepts the case, they assign an assistant U.S. attorney for criminal prosecution. If the criminal court finds a defendant guilty of dual-use violations, then sanctions for criminal conduct are imposed; companies may be fined while individuals may be fined and or imprisoned. In addition to or in lieu of criminal penalties, Commerce may pursue civil administrative action. Civil-administrative penalties are issued directly by Commerce. Attorneys working at Commerce handle these cases, which are heard by an administrative law judge. Civil-administrative penalties may be issued to either an individual or to companies and may include:

- Denial of export privileges – This denies the violator the right to export or to participate in the export of goods from the United States.
- Civil-administrative fines – Commerce charges the violator(s) monetary penalties.

In addition to civil-administrative penalties, Commerce may use the following as preventative measures in response to export control law violations:

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<sup>1</sup>Commerce lacks authority to lead overseas investigations but may request Customs' assistance to conduct investigatory activity for Commerce leads.

- Warning letter - A warning letter is an informal notification Commerce issues to a company or person who may have violated the law. It describes the alleged violations and possible sanctions, but does not impose fines or restrictions on export privileges due to a lack of evidence. Commerce considers any future violations in light of the warning.
- Placement of an entity or individual on the Watch List - The Watch List lists individuals and companies that Commerce has determined warrant increased scrutiny for export licensing purposes.

In fiscal year 2001 and 2002, Commerce closed 9 cases yielding criminal convictions and issued 340 warning letters. During that same time period, Commerce approved 17,500 licenses for dual-use exports.

Commerce's authority to enforce dual-use export controls was originally authorized by the Export Administration Act (EAA) of 1979. Since August 20, 1994, when the EAA first expired, temporary statutory extensions and executive orders continued the application of this act. Most recently, the application of the act has been extended under an executive order issued pursuant to the International Emergency Economic Powers Act (IEEPA).<sup>2</sup>

While the executive order gives Commerce authority to enforce dual-use export controls, IEEPA provides for maximum penalties that are significantly lower than those permitted under the EAA, both for criminal and civil administrative fines. For example, criminal penalties for companies that willfully violate dual-use export control laws under IEEPA are limited to a \$50,000-per-violation fine. Under the EAA, offenders were subject to a fine of either \$1 million per violation or five times the value of the exports, whichever was greater. A violation is constituted as the intentional export of a good in violation of export control law. For a comparison of fines under the EAA and IEEPA, see table 3.<sup>3</sup>

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<sup>2</sup>Executive Order 13222, August 7, 2003 (66 Reg. 47833).

<sup>3</sup>IEEPA violations constitute a felony. Higher fines may therefore be imposed under the authority of 18 U.S.C. 3571, a criminal code provision that establishes a maximum criminal fine for a felony that is the greatest of (1) the amount provided by the statute that was violated; (2) an amount not more than \$250,000 for an individual or not more than \$500,000 for an organization; or (3) an amount based on a dollar value of the offense. The maximum fine amounts are subject to inflation adjustments made pursuant to the Federal Civil Penalties Inflation Adjustment Act of 1990 (Pub. L 101-410 as amended, codified as a note to 28 U.S.C. 2461).

**Appendix II**  
**Department of Commerce's Statutory**  
**Framework and Enforcement Activities**

**Table 2: Maximum Penalties under EAA and IEEPA**

<b>Criminal Penalties<sup>a</sup></b>	<b>EAA<sup>b</sup></b>	<b>IEEPA<sup>b</sup></b>
Individual fine	Not to exceed \$250,000 per violation	Not to exceed \$50,000 per violation
Corporate fine	Not to exceed \$1,000,000 per violation, or five times the value of the exports, whichever is greater	Not to exceed \$50,000 per violation
Individual imprisonment	Not to exceed 10 years per violation	Not to exceed 10 years per violation
<b>Civil administrative penalties</b>	<b>EAA<sup>b</sup></b>	<b>IEEPA<sup>b</sup></b>
Individual and corporate	Not to exceed \$11,000 per violation, (\$120,000 per violation may be imposed for each violation involving national security controls)	Not to exceed \$11,000 per violation

Sources: Export Administration Act: 50 U.S.C. app. 2410; International Emergency Economic Powers Act, 50 U.S.C. 1705.

Note: The goods involved in any violation may be subject to seizure.

<sup>a</sup>The penalties listed for violations of the EAA are for willful violations of the act with knowledge that the exports involved will be used for the benefit of, or that the destination of the goods or technology involved is, any country to which exports are controlled for national security or foreign policy purposes. Other violations of the act are subject to lesser penalties.

<sup>b</sup>The EAA has lapsed several times since it was originally enacted, with the first lapse occurring before 1990. Between August 1993 and November 2000, the President continued the regulations in effect under the authority of IEEPA. In November 2000, Congress reauthorized the IEEPA, and it remained in effect through August 2001. Executive Order 13222, which has been extended by several Presidential Notices, continues the regulations in effect.

# Comments from the Department of Commerce

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

See comment 1.



**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Assistant Secretary for Export Enforcement**  
Washington, D.C. 20230

December 3, 2003

Mr. Joseph A. Christoff  
Director, International Affairs and Trade  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Christoff:

I am writing in response to your November 17, 2003 letter to Secretary Evans forwarding the GAO's proposed report entitled **Export Controls: Post-Shipment Verification Provides Little Assurance That Dual-Use Items Are Being Properly Used (GAO-04-199)**.

This letter sets out our comments on the report's assumptions and discusses actions that BIS has taken with regard to its Safeguards program, which consists of both post-shipment verifications (PSVs) and pre-license checks (PLCs).

**I. The Report's Conclusions Regarding PSVs Are Based on Incorrect Assumptions**

We share the GAO's views on the importance of the end-use verification process. However, we disagree with the draft conclusion that PSVs provide little assurance that exported dual-use items are being properly used. We believe that the preliminary conclusion is based on certain incorrect assumptions regarding the purposes of PSVs.

For example, the draft states that the report's purpose is to "evaluate how the PSV process ensures that sensitive exports are used as intended." (page 23) The subsequent analysis overemphasizes the use of PSVs as a method for ensuring license compliance and underestimates their value for informing future licensing decisions. In fact, PSVs, by their very nature, have a narrow focus. They provide an effective way to verify delivery of a U.S.-origin item to a stated end-user for a stated end-use, but should not be expected to present a comprehensive solution to policing licensed transactions or license conditions. Nor can a PSV ensure that an item is not used improperly after the check is completed. A PSV is valid for the location and use of an item at one point in time, and will not provide a lifetime guarantee of compliance over the course of the license.

It appears that the analysis in the draft is based on the assumption that the only goal of PSVs is to provide such comprehensive assurance, and that, to the extent that PSVs may fall short of this goal, they are ineffective. This is incorrect. There are other significant contributions of the PSV program, such as the proper evaluation of future transactions. For example, PSVs can uncover serious concerns about an end-user's interest in complying with U.S. export controls that go beyond the particular transaction giving rise to the PSV. Information from such PSVs then



Mr. Joseph A. Christoff  
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informs the review of license applications involving such end-users.<sup>1</sup> In other circumstances, PSVs may uncover that a particular end-user is devoted solely to military projects, so that licensing officials who review commodities restricted for military end-use will not approve licenses to that end-user.

Moreover, failure to allow a PSV may result in the end-user being published on the Unverified List that is maintained by the Bureau of Industry and Security (BIS). The inclusion of a party on this list informs exporters that a transaction involving the entity raises a red flag and requires the exporter to exercise heightened vigilance before going forward with the transaction.

In addition, we believe that the effectiveness of PSVs cannot be assessed in isolation from other enforcement and compliance efforts of BIS. No single enforcement tool can provide a comprehensive means of ensuring compliance with license conditions or preventing diversion to unauthorized end-uses. Accordingly, BIS uses a number of tools to ensure compliance with license conditions and guard against diversion, of which PSVs are only one. Other parts of the larger compliance and enforcement effort include dialogue with industry during the licensing process, vetting of transactions through law enforcement networks, examination of the prior licensing history of the exporter and end-user, the deterrent effect of prosecuting criminal and administrative enforcement cases, and the contributions of our export control attaches placed in certain countries. Thus, while resource constraints permit BIS to conduct PSVs only for a selected number of transactions, PSVs are not the only means by which BIS responds to the risks of diversion and non-compliance with license conditions.

## **II. BIS Has Already Implemented Significant Changes to the PSV Program**

In the draft report, the GAO made three general recommendations: (1) improve technical training for the Safeguards agents; (2) ensure that end-use verifications include checking whether license conditions are being followed; and (3) require exporters to inform the end-user in writing regarding the conditions.<sup>2</sup> BIS generally agrees with these recommendations and has already

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<sup>1</sup> For example, BIS recently denied a license application based on an unfavorable PSV regarding the end-user. The PSV was classified as unfavorable because the end-user was illegally diverting crime control items to China.

<sup>2</sup> With regard to the second recommendation and the examples included on pages 12-13 of the draft report, we agree that the results of these specific PSV checks should not have been characterized as favorable. However, it is important to note that, under our recently implemented protocol, such checks would not be deemed favorable because the new guidance would place these PSVs in the “limited,” “unfavorable,” or “not conclusive” category, depending upon the details of the check.

See comment 2.

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**Appendix III**  
**Comments from the Department of**  
**Commerce**

Mr. Joseph A. Christoff  
Page 3

taken significant steps to strengthen the PSV process along these lines.

Significantly, during the Office of Export Enforcement management conference in 2002, BIS discussed the need to improve the process for PSVs. As a result, BIS has implemented a new protocol for all Safeguards trips that will assist us in conducting effective end-use checks. This protocol has been in place since June 2003.

The new Safeguards protocol requires training for all Safeguards team members, prior to their departure, on commodity recognition/identification and end-use check procedures. This training is specifically designed to ensure that (1) the team is sufficiently familiar with the relevant commodities to confirm that the items observed are the items that were actually exported, and (2) the commodities are being used in compliance with applicable export license conditions. BIS has also developed a specific checklist of items that must be brought with the team for both PLCs and PSVs.

After a trip, the Safeguards team is required to report any unfavorable checks that warrant investigative action to the Office of Export Enforcement's Safeguards coordinator.<sup>3</sup> The coordinator is responsible not only for entering these leads in our Investigative Management System (IMS) and getting them to the proper field office for action, but also for monitoring the status of all such Safeguards leads. BIS believes that this new protocol will assist us in conducting more effective end-use checks.

With respect to the draft report's second suggestion regarding license conditions, the Safeguards team, as part of the new protocol, is required to bring with it a copy of the license conditions for each PSV. In addition, BIS is undertaking an effort to standardize conditions placed on export licenses and to review the enforceability of these conditions.

As to GAO's third recommendation, that exporters should be required to inform end-users of applicable license conditions in writing, BIS agrees that an "in writing" requirement could add value to many license conditions and improve end-use checks. Currently, the majority of licenses that BIS approves are issued with the condition that the "applicant must inform the consignee of all license conditions," and BIS has permitted the applicant to choose the most effective means of communicating the license conditions depending on all of the circumstances of the transaction. However, BIS is planning to strengthen this condition by adding an "in writing" requirement to the conditions language on licenses. In addition to this new requirement, BIS's licensing and enforcement officials are working together to conduct a series of outreach seminars to educate exporters on the importance of communicating license conditions.

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<sup>3</sup> Although the vast majority of unfavorable checks are referred for investigative action, in certain instances, there may be extenuating circumstances that would not warrant such action.

See comment 3.

Mr. Joseph A. Christoff  
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**III. BIS is Committed to Increasing the Number of Checks on Licenses in Certain Countries**

The draft report notes the limited percentage of checks in what the GAO has labeled as “countries of concern.” In light of the need to target our scarce resources, BIS has revised the priorities of the destinations targeted for Safeguards visits to focus on several countries, including Hong Kong, Russia, India, Israel, and the United Arab Emirates. For example, in the last six months, BIS has launched two Safeguards visits to India and one to Hong Kong. On each trip, approximately 40 end-use verifications were conducted. Pursuant to our analysis of unfavorable checks, several leads have been referred for investigations, several new companies have been recommended for inclusion on the Unverified List, and several checks have identified broader regulatory issues.

With respect to China, BIS has ongoing bilateral discussions aimed at increasing the number of checks the U.S. government is able to conduct.

BIS is also posting new export control attaches in Moscow, New Delhi, and Hong Kong this year (in addition to the ones in Beijing and Dubai) to conduct end-use verification visits and educate local industry on U.S. export controls. The expertise of these attaches in local companies and methods of doing business will provide valuable insight into licensable export transactions.

We appreciate the opportunity to provide our views on the report.

Sincerely,



Julie L. Myers

Julie L. Myers

See comment 4.

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## GAO Comments

The following are GAO's comments on the Department of Commerce letter, dated December 3, 2003.

1. Commerce states that we overemphasized the use of PSVs as a method for ensuring license compliance and underestimated their value for informing future licensing decisions. We disagree. Commerce's June 2000 guidance on how to conduct PSVs states that PSVs are the first line of defense in preventing illegal technology transfer after dual-use items have been exported. We also found that PSVs play a less important role in future licensing decisions than other sources of information. As noted in the report, Commerce officials stated that industry leads, information from other agencies, self-disclosures, and visa referrals are more highly valued in licensing decisions than information gathered during a PSV.
2. Commerce stated that the effectiveness of PSVs cannot be assessed in isolation from other enforcement and compliance efforts of Commerce. We agree. Our report includes discussions of several of these mechanisms, including prelicense checks (p. 4), screening against its Watch List (p. 15), and using information on export transactions from industry and other agencies (p. 16). We also discuss the deterrent effect of prosecuting criminal and administrative enforcement cases (pp. 21-23, app. II).
3. Commerce notes that its new safeguards protocol requires training for all safeguards trip team members prior to their departure. However, as of December 2003, two agents had received this training.
4. Commerce noted that it had undertaken to revise the priority of license checks in countries of concern, by focusing on Hong Kong, Russia, India, Israel, and the United Arab Emirates. We have added information in the report to reflect the new efforts.



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# GAO Contact and Staff Acknowledgments

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**GAO Contact**

David Maurer (202) 512-9627

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**Staff  
Acknowledgments**

In addition, Julie Hirshen, Eugene Beye, Joseph Brown, Lynn Cothorn, Jeanine Lavender, Steve Lord, and Minette Richardson made significant contributions to this report.

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