



Report In Brief

U.S. Department of Commerce Office of Inspector General

March 2006



Why We Did This Review

The inspectors general of the departments of Commerce, Defense, Energy, and State, in consultation with the Director of Central Intelligence and the Director of the Federal Bureau of Investigation, are required by the National Defense Authorization Act (NDAA) for Fiscal Year 2000 to assess the adequacy of current export controls and counterintelligence measures to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern until 2007. The People's Republic of China's weapons of mass destruction proliferation record, the adequacy of its export control policies, and its efforts to obtain sensitive technologies to advance its military capabilities have raised serious concerns.

Background

The United States controls the export of sensitive goods and technologies for national security, foreign policy, antiterrorism, and nonproliferation reasons under the authority of several different laws. Between FYs 2001 and 2005, the number of China export license applications received by BIS increased approximately 31 percent. Of the 17,129 total export license applications received by BIS in FY 2005, 1,772 (10 percent) were for exports to China.

To view the full report, visit www.oig.doc.gov/oig/reports/2006/BIS-IPE-17500%20-03-06.pdf

Bureau of Industry and Security

U.S. Dual-Use Export Controls for China Need to Be Strengthened (IPE-17500)

What We Found

Our review found that the coordination between the various federal licensing agencies was adequate during the dispute resolution process for export license applications involving China, but we developed recommendations based on findings that include the following:

- Two export licenses were approved, even though all licensing review agencies had concerns over the risk of diversion to military use, because there is no regulatory basis for denial based on such concerns unless specific requirements are met for "national security controls" under the Export Administration Act.
- End-use checks were inefficiently targeted, in that they were done for commodities that would not require a license to be re-exported from Hong Kong to China at the expense of commodities that would, due mainly to inadequate upfront research and intelligence sharing.
- Although 11 China export licenses were approved with conditions that required the exporter and/or end user to meet technical reporting requirements, there was no technical review of the reports to determine compliance with the conditions. Five licenses were approved with conditions that required post shipment verification, but none was done.

What We Recommended

We made nine recommendations to BIS to improve its processes for monitoring exports to China, including:

- 1) BIS should determine whether a regulatory revision is warranted, such as the addition of a military catch-all provision to the Export Administration Regulations for items that could contribute to the development of conventional weapons but are not specifically controlled for national security reasons, and implement it, as appropriate.
- 2) Improve the targeting of end-use checks in Hong Kong through (a) adequate upfront research on no-license-required shipments prior to post shipment verification requests, (b) enhanced and continued intelligence sharing between BIS' Office of Export Enforcement and its Office of Enforcement Analysis; and (c) the utilization of intelligence information to help identify appropriate end-use checks.
- 3) Put procedures in place to ensure that technical documentation submitted by exporters and end users is reviewed by licensing officers and that the post shipment verification condition is monitored by BIS' enforcement officers.

Note: Appendices to this report are classified.