



HOUSE OF COMMONS

Rt. Hon. M. Thatcher, MP
Prime Minister
10 Downing Street
LONDON
SW1

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Our ref :- JJDA/KAM//21/07/83.
Date :- 6 November 1984

cc: (072)

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Dear Mrs Thatcher,

I want to begin my letter by bringing to your attention a speech by Mr William Casey, the Director of the CIA, given at the Commonwealth Club, Palo Alto, California, on 3rd April 1984.

In my role as opposition spokesman, it has fallen to me to investigate part of the contents of this speech, on page 7 and page 10. I have established to my own satisfaction, and have had the CIA admit, that there are a number of UK companies amongst the 300 Mr Casey says he has identified as trading illegally with the Eastern Bloc. My subsequent investigations have led me to conclude that the CIA got the information on the UK companies in the course of an operation in this country, an operation which, it seems, is still continuing. I therefore attach to this letter a number of instances of interference with UK companies by US officials of unspecified agency background.

I am sure that you will appreciate that my resources are not sufficient to conduct a full investigation into these matters. However, I am clear that there is sufficient evidence, albeit some of a circumstantial nature, to pose very serious questions which ought to be investigated, about the possibility of CIA activity on this matter in Britain.

Needless to say, I support appropriate controls to prevent high technology which has military or security value from falling into the hands of the Eastern bloc. However, I am sure you would agree that this is a matter which, within the UK, is for the UK Security Services alone to consider. Any interference from another nation, even a friendly one, in the operations of UK companies and actions which are subject to UK law is something which must raise very grave concern indeed.

I hope that you will agree that there are now serious and important questions to be answered and will institute an enquiry into this whole affair.

Yours sincerely

Paddy Ashdown MP
Encs.

1. DEC UK, Reading

For some time, DEC equipment has been a favourite object of acquisition by agencies of the Soviet Government, stemming from substantial shipments under licence of DEC equipment in the late 1970s. Following Afghanistan, and the near complete economic embargo placed by the US on computer equipment for the Soviet Union, it became necessary for the USSR to acquire more DEC equipment to work in existing systems composed of DEC computers, and of spare parts, for existing systems. Since about 1980, many of the continuing shipments, few for any obvious military agency of the Soviet Government, have been made without proper licences, particularly US Department of Commerce re export licences from Europe.

In late 1981 the US Government began a major drive to halt those shipments and DEC executives in Europe came under tremendous pressure to stem the flow, and to identify the shippers.

In the course of 1982 and 1983, and possibly as recently as Summer 1984, agents from a series of US Government Agencies visited DEC Reading, and DEC named two possible sources of leaks; Darkcrest, a small company in London; and Systime, a major rival of DEC's, wholly British, and based near Leeds. (They named others, but DEC launched a legal action against Darkcrest which resulted in DEC obtaining a complete record of all Darkcrest's shipments, and DEC did the same to Systime). It is not clear if seizure orders were enacted against Systime in Spring 1983. In the course of a major financing crisis at Systime two DEC executives approached Systime's merchant bankers and warned them that there was evidence that Systime had illegally shipped DEC equipment to illegal destinations. Systime had indeed been shipping equipment to destinations disapproved by the US, but with perfectly valid UK export licences in most cases. In the Spring of 1984, DEC in the US was forced to hand over its complete customer file, including that of its UK subsidiary, to the Commerce Department, who gave access to Pentagon officials, who in turn passed the list to the CIA. I believe that part of the list Casey laid claim to in April may have been compiled this way, but there is less concrete evidence that his agents, upon acquisition of the DEC file, began a series of visits to companies in the UK since the beginning of the year, one of which is almost certainly Systime. I remind you that a number of Government and military establishments in the UK have DEC equipment, and supplying the complete details of those installations outside the UK is a prime facie breach of Part 2 of the Official Secrets Act. In order to acquire the list of customers and other information from DEC, the US authorities strangled the companies exports, thereby jeopardising those military installations which use DEC equipment in the UK.

2. Ferranti plc

Either early this year, or in the middle of last year, Ferranti plc were reported to the Pentagon for supplying US originated equipment to a UK company on the US denials list. The circumstances were these:

Ferranti ordered a quantity of computer storage, large disc units, from an American company called Kennedy International plc, a subsidiary of a major US Government contract conglomerate, which, itself, has a subsidiary near Reading, Berks. Ferranti ordered part of the shipment dropped off at Datalec in Dorset. Datalec is on the denials list, but Ferranti had merely ordered the shipment to Datalec in order to have a number of

changes made to the boards which control the units - Datalec employing one of the few experts in the UK capable of doing such things.

Kennedy International plc in the US heard of the shipment and ordered it stopped. The official at Kennedy who did this, or was involved, in the US was Nina Pollard.

Subsequent to the Ferranti incident (after which, I am told, though less authoritatively, that Ferranti had a large number of shipments from the US to the UK seized by US customs) it is understood that Kennedy made a complete list of all UK companies which had handled Kennedy equipment, which they supplied to the Pentagon. Subsequently, many UK companies experienced extraordinary and inexplicable difficulties in getting equipment from the US, an example is Kode plc, of Calne, Wilts, which had merely had its engineers service Kennedy equipment. Kode waited 10 months to get US export licences for the TV screens which display the data contained in a computer.

3. The IBM Letter

Following the delivery of the IBM letter attached, to a number of its UK customers, mostly leasing companies, the leasing companies called a secret meeting at a country club in Surrey on 29th February 1984.

That meeting was addressed by a number of computer industry personalities and an economic official at the US Embassy.

In the course of the meeting the US Embassy official made it clear that the Embassy had complete information on all computer transactions in the UK, a claim that some of the companies felt just might have been true, based on the way IBM had delivered its letter only to a certain number of its customers, some of which might have been guilty of breaches of US export regulations, insofar as they were moving IBM machines in the UK without US export licences. Because there is no requirement to tell any Government ministry in the UK about such movements, the meeting remained puzzled about the information the Embassy had, and indeed that IBM had as well.

In the course of a somewhat heated interrogation after the meeting, the American official claimed that some of the information came from US officials in the UK MOD. This may have been a panic move to conceal the real sources, but the question remains as to how a foreign embassy knows so much about activity in the UK. There was also a less direct reference, unsourced, to the fact that the licencing department of the DTI was also making information available to the Embassy, or its agents.

Naturally, the Embassy has denied these claims, but there were 100 people at the meeting, most of whom heard most of what was said. In addition, the Embassy official was asked if there were any CIA men present, and he simply said that he could not comment, leaving the impression that a number of the unknown guests were working for that Ministry.

4. Miscellaneous Incidents

On or about the middle week of August 1984, an official of the US Government, who refused to identify his agency, flew direct into the UK and went straight to Kennedy International in Reading. The official told a local employee that he was passing through on his way to investigate a number of Kennedy's customers in the North of England, all of them on the suspect list.

4. Miscellaneous Incidents, Cont.

A number of weeks ago, an official at the US Embassy visited Plasma Technology in Avon. The man, Jack Lacey, claimed to be a customs official, but had definitely not liaised with UK customs officials prior to his visit.

The economics team at the US Embassy, headed by Tim Deal, is clearly collecting information on UK companies, and it was an official from this group who briefed Ambassador Price on March 1st about the hostile reaction to events the previous night in Surrey. The Ambassador subsequently phoned a number of the more hostile commentators and had them to breakfast about ten days later.

In a free country he is of course free to do this, but in the presence of Richard Perle, a US Deputy Under Secretary of State for Defence, the meeting on the 29th was discussed in some detail, and the more hostile of the speakers were identified and a discussion held about their motives, and so on.

At one point, one of the US officials said that by rights ICL should be getting export licences from the US to move its machines out of its factory in Manchester, even to UK customers.

I want to remind you that it was Richard Perle, who, in the course of evidence to a Congressional Committee last year, described the UK as the leakiest country in Western Europe, in relation to shipments of technology to the Eastern Bloc. The Embassy in Washington will be able to brief you on the attempts to get Perle to withdraw his remarks, which were unsuccessful.

Paddy ASHDOWN, MP.



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10 DOWNING STREET

From the Private Secretary

12 November, 1984

I enclose a copy of a letter the Prime Minister has received from Mr. Paddy Ashdown, MP.

I should be grateful if you could let me have a draft reply for the Prime Minister's signature by Friday, 23 November.

I am sending a copy of this letter and its enclosure to Andrew Lansley (Department of Trade and Industry).

(Timothy Flesher)

C. Budd, Esq.,
Foreign and Commonwealth Office.

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REMARKS OF WILLIAM J. CASEY.

DIRECTOR OF CENTRAL INTELLIGENCE

BEFORE

THE COMMONWEALTH CLUB OF CALIFORNIA

PALO ALTO, CALIFORNIA

3 APRIL 1984

THE CHALLENGE OF AMERICAN INTELLIGENCE

THAT WE LIVE IN A DANGEROUS AND INCREASINGLY COMPLEX WORLD IS MADE CLEAR EVERY DAY, FREQUENTLY IN EXCESSIVE DETAIL, BY THE NEWSPAPERS WE READ AND THE TELEVISION SCREENS WE WATCH.

TODAY I WOULD LIKE TO TELL YOU BRIEFLY WHAT AMERICAN INTELLIGENCE SEES OUT THERE AND HOW WE PERFORM THE TASK OF SERVING AS THE NATION'S FIRST LINE OF DEFENSE. THE SOVIET UNION STILL DOMINATES OUR INTEREST. AS GREAT KREMLIN WATCHERS, WE LOOK AND WE SEE THE THIRD OF THREE AGING AND SICK LEADERS. CHERNENKO IS A SECOND TRANSITIONAL LEADER AND WHETHER HE DIES TOMORROW OR TWO YEARS FROM NOW MAKES NO DIFFERENCE. CIA BURIED CHAIRMAN MAO SOME TWENTY TIMES BEFORE HE FINALLY DIED AND THAT MADE US VERY CAREFUL ABOUT PREDICTING WHEN ANYONE MIGHT CASH IN.

UNTIL THE NEXT GENERATION TAKES OVER, THE SEPTUAGENARIAN CLUB COMING OUT OF THE MILITARY INDUSTRIAL COMPLEX WILL HAVE THE CLOUT. WE SEE TWO MEN COMPETING TO COME OUT ON TOP IN THE SUCCESSOR GENERATION. ONE IS ROMANOV, FIRST SECRETARY FROM THE LENINGRAD, AND THE OTHER IS GORBACHEV, WHO ANDROPOV WAS GROOMING TO SUCCEED HIM.

THE SOVIETS HAVE A LARGE AND GROWING ARSENAL OF NUCLEAR WEAPONS WHICH ARE AIMED AT THE UNITED STATES, WESTERN EUROPE AND EAST ASIA. ON TOP OF THAT, NEW MISSILES AND MISSILE CARRYING

PLANES AND SUBMARINES ARE BEING DESIGNED, DEVELOPED, TESTED AND DEPLOYED IN AMAZING PROFUSION. THIS IS COMPOUNDED BY THE WORK THE SOVIETS HAVE CARRIED ON OVER THE LAST DECADE TO IMPROVE THEIR CAPABILITY FOR MISSILE DEFENSE WHILE WE HAVE DONE LITTLE OR NOTHING. RECENTLY WE HAVE SEEN ALARMING SIGNS OF RADAR DEPLOYMENTS, WHICH MAY GO BEYOND THE 1972 TREATY LIMITING MISSILE DEFENSE, THE TESTING OF INTERCEPTORS AND OTHER ACTIVITIES WHICH WOULD GIVE THEM A RUNNING START IF THEY DECIDED TO BREAK THE TREATY AND ESTABLISH A NATIONWIDE MISSILE DEFENSE. THIS COULD HEAVILY TIP THE STRATEGIC BALANCE AGAINST US.

ON THE EUROPEAN FRONT, THE WARSAW PACT FORCES OUTNUMBER US IN TROOP STRENGTH, TANKS, GUNS AND PLANES. THESE WEAPONS ARE BEING DEPLOYED IN AN INCREASINGLY AGGRESSIVE WAY AND BACKED UP WITH LONG-RANGE MISSILES WHICH CAN REACH EUROPEAN CAPITALS.

THE SOVIETS HAVE DEMONSTRATED INCREASING CAPABILITY TO PROJECT POWER OVER LONG DISTANCES BEYOND THEIR NATIONAL BORDERS FROM BASES IN CUBA, VIETNAM, ANGOLA, ETHIOPIA AND LIBYA. OVER THE LAST TEN YEARS WE HAVE SEEN THEM SEND WEAPONS THOUSANDS OF MILES AWAY TO LINK UP WITH CUBAN TROOPS IN ANGOLA, ETHIOPIA AND SOUTH YEMEN. SOVIET POWER HAS BEEN ESTABLISHED:

-- IN VIETNAM ALONG CHINA'S SOUTHERN BORDER AND ASTRIDE THE SEA LANES WHICH BRING JAPAN'S OIL FROM THE PERSIAN GULF.

-- IN AFGHANISTAN, 500 MILES CLOSER TO THE WARM WATER PORTS OF THE INDIAN OCEAN AND TO THE STRAITS OF HORMUZ THROUGH WHICH COMES THE OIL ESSENTIAL TO WESTERN EUROPE.

-- ON THE HORN OF AFRICA OVERLOOKING THE PASSAGEWAY OF SUEZ WHICH CONNECTS THE MEDITERRANEAN SEA AND THE INDIAN OCEAN.

-- IN SOUTHERN AFRICA, RICH IN MINERALS, WHICH THE INDUSTRIAL NATIONS MUST HAVE.

-- AND IN THE CARIBBEAN AND CENTRAL AMERICA ON THE VERY DOORSTEP OF THE UNITED STATES.

FROM THESE BASES WE SEE A PROCESS OF CREEPING IMPERIALISM TO ESTABLISH SUBSERVIENT GOVERNMENTS IN OTHER AREAS OF STRATEGIC SIGNIFICANCE. THE MOST EFFECTIVE TECHNIQUE EMPLOYED IN THIS STRATEGY HAS BEEN THE USE OF PROXIES. THIS IS NOT EXACTLY NEW IN HISTORY. THE ROMANS USED MEN FROM CONQUERED COUNTRIES TO FIGHT THEIR ENEMIES. LATER, SWISS AND GERMAN MERCENARIES WERE AVAILABLE TO THE HIGHEST BIDDER ALL OVER EUROPE. THE BRITISH ARMY HAD ITS GHURKAS AND THE FRENCH THEIR FOREIGN LEGION. BUT THE SOVIETS USE THE CUBANS, EAST GERMANS, LIBYANS AND VIETNAMESE IN A QUITE DIFFERENT ROLE.

THESE PROXIES ACT IN PEACE AS WELL AS WAR. THEIR ROLE IS AS MUCH POLITICAL AS MILITARY. EAST GERMANS IN AFRICA, CUBANS IN LATIN AMERICA, VIETNAMESE IN ASIA HAVE A CERTAIN LEGITIMACY AND FREEDOM FROM IMPERIALIST TAINT THAT SOVIET TROOPS WOULD NOT

ENJOY. DIFFERENT PROXIES HAVE SPECIALIZED FUNCTIONS. OF THE MORE THAN 40,000 CUBANS IN AFRICA, 80 PERCENT OF THE SOLDIERS ARE ON ACTIVE DUTY. VIETNAM, WITH THE FOURTH LARGEST ARMY IN THE WORLD, KEEPS CHINA AND THAILAND WORRIED AS IT SOLIDIFIES ITS POSITION IN KAMPUCHEA. MOST OF THE THOUSANDS OF EAST GERMAN EXPERTS IN AFRICA OR LATIN AMERICA ARE ACTIVE IN THE SECURITY FORCES WHICH ORGANIZE BLOCK WATCHERS TO PROTECT THE REGIMES FROM THE PEOPLE. LIBYA, CUBA, SOUTH YEMEN, EAST GERMANY, AND BULGARIA OPERATE CAMPS FOR TRAINING TERRORISTS AND INSURGENTS WHO ARE THEN SENT AROUND THE WORLD.

TERRORISM HAS BECOME A WEAPONS SYSTEM BACKED AND EMPLOYED BY SOVEREIGN STATES TO DESTABILIZE, DISRUPT AND INTIMIDATE OTHER GOVERNMENTS IN THEIR FOREIGN POLICY. AS PRACTICED TODAY, TERRORISM IS OBLITERATING THE DISTINCTION BETWEEN PEACE AND WAR. WE COUNT OVER 50 MAJOR TERRORIST ORGANIZATIONS AND A GREAT MANY MORE "MOM AND POP SHOPS" WHICH CAN BE HIRED BY IRAN, SYRIA, LIBYA AND OTHER RADICAL GOVERNMENTS. US FACILITIES AND PEOPLE HERE AND AROUND THE WORLD ARE A MAJOR TARGET AND THIS IS A MAJOR CHALLENGE FOR OUR INTELLIGENCE CAPABILITIES.

NARCOTICS FLOW INTO THE UNITED STATES FROM SOUTH AMERICA, THE GOLDEN TRIANGLE OF SOUTHEAST ASIA, FROM AFGHANISTAN, PAKISTAN AND IRAN. THEY COME IN CONTAINERS, THEY COME IN AIRCRAFT, THEY EVEN COME IN STOMACHS. WE SEE SOME OF THE HUGE AMOUNTS OF MONEY INVOLVED IN THIS ACTIVITY GOING INTO DESTABILIZING POLITICAL AND TERRORIST ACTIVITY.

THEN WE MUST COPE WITH NUCLEAR PROLIFERATION AND TECHNOLOGY TRANSFER AND THE THIRD WORLD DEBT AND INTERNATIONAL COMPETITIVENESS PROBLEMS WHICH COULD UNDERMINE POLITICAL STABILITY IN SO MANY COUNTRIES, AS WELL AS OUR OWN SECURITY AND PROSPERITY.

YOU IN THIS ROOM ARE THE BULL'S EYE IN A MASSIVE, WELL COORDINATED, AND PRECISELY TARGETED SOVIET TECHNOLOGY ACQUISITION PROGRAM. THE ABILITY OF THE SOVIET MILITARY-INDUSTRIAL COMPLEX TO ACQUIRE AND ASSIMILATE WESTERN TECHNOLOGY FAR EXCEEDS ANY PREVIOUS ESTIMATES.

DURING THE LATE 1970s, THE SOVIETS GOT ABOUT 30,000 SAMPLES OF WESTERN PRODUCTION, EQUIPMENT, WEAPONS AND MILITARY COMPONENTS, AND OVER 400,000 TECHNICAL DOCUMENTS BOTH CLASSIFIED AND UNCLASSIFIED. THE MAJORITY WAS OF US ORIGIN, WITH AN INCREASING SHARE OF OUR TECHNOLOGY OBTAINED THROUGH WESTERN EUROPE AND JAPAN. THIS TRULY IMPRESSIVE TAKE WAS ACQUIRED BY BOTH LEGAL AND ILLEGAL MEANS, INCLUDING ESPIONAGE. WE ESTIMATE THAT DURING THIS PERIOD, THE KGB AND ITS MILITARY EQUIVALENT, THE GRU, AND THEIR SURROGATES AMONG THE EAST EUROPEAN INTELLIGENCE SERVICES ILLEGALLY STOLE ABOUT 70 PERCENT OF THE TECHNOLOGY MOST SIGNIFICANT TO SOVIET MILITARY EQUIPMENT AND WEAPONS PROGRAMS.

-- THE SOVIETS HAD OUR PLANS TO THE C-5A BEFORE IT FLEW.

-- THE SOVIET TRUCKS WHICH ROLLED INTO AFGHANISTAN CAME FROM A PLANT OUTFITTED WITH \$1.5 BILLION OF MODERN AMERICAN AND EUROPEAN MACHINERY.

-- THE PRECISE GYROS AND BEARINGS IN THEIR LATEST GENERATION OF ICBMs WERE DESIGNED BY US.

-- THE RADAR IN THEIR AWACS IS OURS.

-- THEIR SPACE SHUTTLE IS A VIRTUAL COPY OF OURS.

-- AND THE LIST GOES ON AND ON.

JUST HOW DO THE SOVIETS GET SO MUCH OF OUR TECHNOLOGY?

FIRST OF ALL, THEY COMB THROUGH OUR OPEN LITERATURE, BUY THROUGH LEGAL TRADE CHANNELS, RELIGIOUSLY ATTEND OUR SCIENTIFIC AND TECHNOLOGICAL CONFERENCES, AND SEND STUDENTS OVER HERE TO STUDY. BETWEEN 1970 AND 1976, THE SOVIETS PURCHASED SOME \$20 BILLION OF WESTERN EQUIPMENT AND MACHINERY, SOME OF WHICH HAD POTENTIAL MILITARY APPLICATIONS. IN ADDITION TO EXPLOITING ALL OPEN, LEGAL CHANNELS, THEY USE ESPIONAGE.

THERE ARE NOW SEVERAL THOUSAND SOVIET BLOC COLLECTION OFFICERS AT WORK PRIMARILY IN THE UNITED STATES, WESTERN EUROPE, AND JAPAN. AND AS I STATED BEFORE, YOUR FIRMS HERE IN SILICON VALLEY ARE AT THE VERY TOP OF THEIR LIST. THE SOVIETS ESPECIALLY PINPOINT AND TARGET SMALL, HIGHLY INNOVATIVE

COMPANIES IN THE COMPUTER AND MICROELECTRONICS FIELD, NOT ONLY BECAUSE THEY ARE AT THE LEADING EDGE OF THE TECHNOLOGIES THAT MOSCOW IS MOST IN NEED OF, BUT ALSO BECAUSE SUCH FIRMS' SECURITY PROCEDURES ARE USUALLY INADEQUATE TO PROTECT AGAINST PENETRATION BY A DETERMINED, HOSTILE INTELLIGENCE SERVICE.

THEY ALSO USE SOPHISTICATED INTERNATIONAL DIVERSION OPERATIONS. WE HAVE IDENTIFIED SOME 300 FIRMS OPERATING FROM MORE THAN 30 COUNTRIES ENGAGED IN SUCH DIVERSION SCHEMES. AND THERE ARE PROBABLY MANY MORE THAT REMAIN UNIDENTIFIED. MOST DIVERSIONS OCCUR BY WAY OF WESTERN EUROPE, WHICH IS WHY WE HAVE MADE SUCH A STRONG EFFORT TO ENLIST THE HELP OF OUR EUROPEAN ALLIES IN COMBATING ILLEGAL TRADE ACTIVITIES.

US MICROELECTRONICS PRODUCTION TECHNOLOGY IS THE SINGLE MOST SIGNIFICANT INDUSTRIAL TECHNOLOGY ACQUIRED BY THE SOVIETS SINCE THE END OF WORLD WAR II. SILICON VALLEY AND YOUR FIRMS ARE THE PRIMARY TARGET OF SOVIET AND EAST EUROPEAN INTELLIGENCE SERVICES. IN THE LATE 1970S ALONE, MOSCOW ACQUIRED SEVERAL THOUSANDS OF PIECES OF WESTERN MICROELECTRONICS EQUIPMENT WORTH HUNDREDS OF MILLIONS OF DOLLARS IN ALL OF THE MAJOR PROCESSING AND PRODUCTION AREAS:

- WAFER PREPARATION
- CIRCUIT MASK PROCESSING
- DEVICE FABRICATION, AND

-- ASSEMBLY AND TEST EQUIPMENT, WHICH THEY ARE MOST IN NEED OF.

WITH THESE GAINS, THE SOVIETS HAVE SYSTEMATICALLY BUILT A MODERN MICROELECTRONICS INDUSTRY. FOR EXAMPLE, THE ZELENograd SCIENCE CENTER, THE SOVIET EQUIVALENT OF SILICON VALLEY, WAS EQUIPPED, LITERALLY FROM SCRATCH, WITH WESTERN TECHNOLOGY. ALL SOVIET MONOLITHIC INTEGRATED CIRCUITS ARE COPIES OF US DESIGNS. THEY EVEN COPIED THE IMPERFECTIONS CONTAINED IN SOME OF THE US SAMPLES!

THE WEST MUST ORGANIZE TO PROTECT ITS MILITARY, INDUSTRIAL, COMMERCIAL, AND SCIENTIFIC COMMUNITIES, KEEPING TWO OBJECTIVES CLEARLY IN VIEW. FIRST, THE WEST MUST SEEK TO MAINTAIN ITS TECHNOLOGICAL LEAD TIME OVER THE SOVIETS IN VITAL DESIGN AND MANUFACTURING KNOW-HOW. SECOND, MANUFACTURING, INSPECTION, AND, MOST IMPORTANTLY, AUTOMATIC TEST EQUIPMENT, WHICH CAN ALLEVIATE ACUTE SOVIET DEFICIENCIES IN MILITARY-RELATED MANUFACTURING AREAS, MUST BE STRICTLY CONTROLLED.

LET ME MAKE A FEW BRIEF COMMENTS ABOUT THE WAY TECHNOLOGICAL DEVELOPMENTS IN THE WORLD MARKETPLACE CAN AFFECT OUR NATIONAL INTEREST.

THE ISSUE OF JAPANESE QUALITY VERSUS US QUALITY WILL NOT BE RESOLVED THROUGH RHETORIC OR PUBLIC RELATIONS. IF THE US

INDUSTRY CANNOT DEMONSTRATE EQUIVALENT OR BETTER QUALITY IT WILL SEE A CONTINUING EROSION OF ITS MARKET SHARE IN THE US. THE DEFENSE DEPARTMENT'S EFFORT TO BRING TO TASK COMPANIES WHO HAVE FAILED TO MEET DoD SPECIFICATIONS IS AN EFFORT THAT WE CONSIDER ENTIRELY APPROPRIATE AND INDEED SHOULD BE REDOUBLED.

INCREASINGLY IN EUROPE AND THE US DOMESTIC COMPANIES ARE SERVING AS A "TROJAN HORSE" FOR JAPANESE SEMICONDUCTOR AND COMPUTER SUPPLIERS. THAT IS, THE JAPANESE COMPANIES SUCH AS NEC, FUJITSU, HITACHI HAVE MADE ARRANGEMENTS TO SUPPLY TOP-OF-THE-LINE COMPUTERS AND PERMIT THE DOMESTIC FIRMS TO AFFIX THEIR OWN LABELS. WE VIEW THIS AS A DANGEROUS COURSE IN A NATIONAL SECURITY CONTEXT AS WELL AS IN A COMMERCIAL CONTEXT.

WE HAVE HAD A FAIR NUMBER OF SUCCESSES IN FRUSTRATING SOVIET TECHNOLOGY. I JUST MENTION ONE.

YOU MAY RECALL IN LATE 1983 AND EARLY 1984, WEST GERMAN AND SWEDISH CUSTOMS SEIZED SEVERAL ADVANCED VAX COMPUTERS AND 30 TONS OF RELATED EQUIPMENT THAT WERE BEING SMUGGLED TO THE USSR BY THE NOTORIOUS ILLEGAL TRADER, RICHARD MUELLER. THIS WAS BUT THE TIP OF THE ICEBERG. OUR EVIDENCE SHOWS THAT MUCH LARGER QUANTITIES OF COMPUTING AND ELECTRONIC EQUIPMENT HAVE BEEN SUCCESSFULLY DIVERTED TO THE USSR.

NOW LET ME CLOSE WITH SOME COMMENTS ON THE APPARATUS WHICH AMERICAN INTELLIGENCE HAS DEVELOPED TO MEET THIS BROAD ARRAY OF CHALLENGES. MY PREDECESSORS ENLISTED PHOTOGRAPHY, ELECTRONICS, ACOUSTICS, SEISMIC READINGS, AND OTHER TECHNOLOGICAL MARVELS TO GATHER FACTS FROM ALL CORNERS OF THE EARTH. THESE CAPABILITIES ARE ENHANCED AS NEW TECHNOLOGIES AND REFINED SENSING CAPABILITIES EMERGE. TO EVALUATE AND GET PRACTICAL MEANING FROM THE ENORMOUS FLOW OF FACTS THAT COME IN TO US WE MUST RECRUIT AND DEVELOP DEDICATED PEOPLE. WE HAVE SKILLS IN EVERY SOCIAL AND PHYSICAL SCIENCE DISCIPLINE--AS WELL AS ENGINEERS, SPECIALISTS IN COMPUTERS AND COMMUNICATIONS--IN A PROFUSION UNMATCHED BY ANY UNIVERSITY. WE TAP SCIENTISTS AND BUSINESSMEN WHO ROAM THE WORLD IN THEIR PROFESSIONAL CAPACITIES FOR THE INFORMATION THAT COMES THEIR WAY AND FOR THE INSIGHTS AND UNDERSTANDING THEY DEVELOP. ALL THIS IS DISTILLED INTO NATIONAL ESTIMATES RELEVANT TO THE ISSUES WHICH THE PRESIDENT AND HIS COLLEAGUES IN POLICYMAKING MUST DEAL WITH. THE CHIEFS OF THE COMPONENTS OF THE NATIONAL INTELLIGENCE COMMUNITY--THE DEFENSE INTELLIGENCE AGENCY, THE NATIONAL SECURITY AGENCY, THE CENTRAL INTELLIGENCE AGENCY, THE ARMY, NAVY, AIR FORCE AND MARINE CORPS INTELLIGENCE STAFFS, THE FBI, THE DEPARTMENTS OF STATE, TREASURY AND ENERGY--COMPRISE A BOARD OF ESTIMATES. THESE MEMBERS ARE CHARGED WITH CONTRIBUTING THE INFORMATION DEVELOPED BY HIS COMPONENT AND THE JUDGMENTS DEVELOPED BY THEIR ANALYSTS. WE NO LONGER TRY TO DEVELOP A HOMOGENOUS SANITIZED CONSENSUS CONCLUSION. OUR ESTIMATES

PRESENT A RANGE OF JUDGMENTS ON THE FUTURE. A COMPROMISED CONSENSUS IS NOT AS USEFUL AS DEVISING A POLICY FOR A FUTURE WHICH HAS NOT YET EMERGED AS A RANGE OF ALTERNATIVE OUTCOMES WHICH ARE WELL REASONED AND SUBSTANTIATED. TO GET THE ASSISTANCE OF PEOPLE AROUND THE WORLD WHO SHARE OUR VALUES AND PURPOSES AND TO ACHIEVE THE DEGREE OF COOPERATION AND COHESIVENESS WHICH THIS INTRICATE PROCESS REQUIRES, THOSE ENGAGED IN IT MUST HAVE A REPUTATION FOR CONFIDENTIALITY, RELIABILITY AND SECURITY. AS YOU WILL RECALL, THERE WAS A TIME SOME SIX TO TEN YEARS AGO IN WHICH IT WAS IN FASHION TO DENIGRATE AND CASTIGATE THE INTELLIGENCE COMMUNITY. WITH FEW EXCEPTIONS, THE HIGHLY PUBLICIZED CHARGES TURNED OUT TO BE FALSE. THE CHARGES WERE ON THE FRONT PAGES AND THEIR REFUTATIONS WERE BURIED AWAY SO THAT FEW PEOPLE NOTED THEM. THIS TRYING ORDEAL WAS TERMINATED BY RESPONSIBLE CONGRESSMEN WHO SPOKE UP TO DECLARE THAT THE INTELLIGENCE COMMUNITY HAD BEEN LIBELED AND TRADUCED. OUT OF THIS CAME A CONGRESSIONAL OVERSIGHT PROCESS WHICH HAS ASSURED THAT SPECIAL ACTIVITIES ASSIGNED TO INTELLIGENCE ARE KNOWN AND SCRUTINIZED BY ELECTED LEGISLATORS RESPONSIBLE DIRECTLY TO THE PEOPLE. STILL, INTELLIGENCE GETS A LOT OF FLACK. EVERYTHING IMAGINABLE IS CHARGED TO SECRET INTELLIGENCE ACTIVITIES. ITS PURPOSE AND ACTIVITIES ARE WIDELY MISREPRESENTED. THIS FUNCTION IS SO CRITICAL TO OUR FUTURE NATIONAL INTERESTS THAT IT MUST BE DEFENDED AND THE PEOPLE WHO PUT THEIR CAREERS ON THE LINE TO CARRY OUT THIS FUNCTION HAVE

MADE IT CLEAR THAT THEY EXPECT THEIR LEADERS TO DEFEND THEM AND THEIR PROBITY, AND TO SPEAK UP FOR THEIR INTEGRITY WITHOUT WHICH THEY CANNOT SECURE THE TRUST AND SUPPORT ESSENTIAL TO THEIR MISSION.

LET ME TELL YOU SOMETHING ABOUT THE PEOPLE WHO MEET THIS SWEEPING CHALLENGE EVERY DAY BY TELLING YOU WHAT THEY SAY ABOUT THEMSELVES. THEIR QUALITY AND CHARACTER IS EPITOMIZED IN THE CIA CREDO WHICH DECLARES THEIR MISSION AND THE STANDARDS THEY DEMAND OF THEMSELVES. IT SAYS:

-- WE PRODUCE TIMELY AND HIGH QUALITY INTELLIGENCE FOR THE PRESIDENT AND THE GOVERNMENT OF THE UNITED STATES.

-- WE PROVIDE OBJECTIVE AND UNBIASED EVALUATIONS AND ARE ALWAYS OPEN TO NEW PERCEPTIONS AND READY TO CHALLENGE CONVENTIONAL WISDOM.

-- WE CONDUCT OUR ACTIVITIES AND OURSELVES ACCORDING TO THE HIGHEST STANDARDS OF INTEGRITY, MORALITY AND HONOR AND ACCORDING TO THE SPIRIT AND LETTER OF THE LAW.

-- WE BELIEVE OUR PEOPLE ARE THE AGENCY'S MOST IMPORTANT RESOURCE. WE SEEK THE BEST AND WORK TO MAKE THEM BETTER.

-- WE EXPECT OUR LEADERS TO DEMONSTRATE INITIATIVE, A COMMITMENT TO EXCELLENCE, AND A PROPENSITY FOR ACTION, TO REWARD AND PROTECT US IN A MANNER WHICH REFLECTS THE SPECIAL NATURE OF OUR RESPONSIBILITY, OUR CONTRIBUTION, AND OUR SACRIFICES; AND TO PROMOTE AMONG US A SENSE OF MUTUAL TRUST AND SHARED RESPONSIBILITY.

-- WE DERIVE OUR INSPIRATION AND COMMITMENT TO EXCELLENCE FROM THE INSCRIPTION IN OUR FOYER: "AND YE SHALL KNOW THE TRUTH AND THE TRUTH SHALL MAKE YOU FREE."

CIA PEOPLE HAVE SURVIVED ONE OF THE MOST RIGOROUS SCREENING PROCESSES KNOWN TO MAN--THE HIGHEST SKILL REQUIREMENTS, PSYCHOLOGICAL TESTING, MEDICAL CLEARANCES, SECURITY CLEARANCES, POLYGRAPHS. OUT OF AN ANNUAL AVERAGE OF 153,000 INQUIRIES OVER RECENT YEARS, WE INTERVIEW ONLY 23,000 APPLICANTS. OF THOSE, 10,000 ARE ACTIVELY CONSIDERED BY COMPONENTS. ONLY 4,000 ARE PUT IN PROCESS, AND OF THOSE, 1,500 MAKE IT THROUGH THE ENTIRE SCREENING PROCESS AND ENTER ON DUTY. AFTER A CANDIDATE HAS EMERGED FROM THAT FUNNEL, THERE IS A 3-YEAR PROBATIONARY PERIOD. THOSE WHO ATTAIN CAREER STATUS AND THEIR FAMILIES LIVE WITH ANY NUMBER OF SECURITY RESPONSIBILITIES--TRAVEL AND AWAY FROM HOME DEMANDS, HEAVY PRESSURE AND TIME REQUIREMENTS AND OTHER CONSTRAINTS. LAST YEAR THEY FORFEITED 97,000 HOURS OF ANNUAL LEAVE AND WORKED UNTOLD HOURS OF UNCOMPENSATED OVERTIME. YOU

WON'T FIND THAT IN YOUR ORDINARY ORGANIZATION. THERE IS NO PUBLIC RECOGNITION FOR ACHIEVEMENTS, AND CRITICISMS--RESPONSIBLE OR OTHERWISE--MUST BE TOLERATED IN SILENCE.

STILL, THESE ARE THE PEOPLE OUR NATIONAL LEADERS TURN TO WHEN SOMETHING NEEDS TO BE DONE WELL AND FAST. IN THEIR BURDENS, THERE IS A SATISFACTION TO BE FOUND. PERHAPS IT IS PERVERSE, IT MAY BE SUBTLE, BUT IT IS REAL. IT IS FOUNDED ON THE KNOWLEDGE THAT INTELLIGENCE IS OUR FIRST LINE OF DEFENSE, THAT ON DOING IT WELL MAY HANG OUR SECURITY AND FUTURE AS A NATION. THAT SATISFACTION IS HEIGHTENED BY UNDERSTANDING THE PERILS REPRESENTED BY NUCLEAR WEAPONS, BY TERRORISM, A WEAPONS SYSTEM LONG WIELDED BY OUTLAW GROUPS AND NOW BY SOVEREIGN STATES, NOW ABOUT TO OBLITERATE THE DISTINCTION BETWEEN WAR AND PEACE, BY THE PERVASIVENESS OF DELIBERATE DESTABILIZATION, SUBVERSION AND INSTIGATION AND SUPPORT OF REVOLUTIONARY VIOLENCE AGAINST FRAGILE SOCIETIES AND GOVERNMENTS AND BY A VIRTUAL LITANY OF THREATS LIKE NUCLEAR PROLIFERATION, NARCOTICS, THEFT OF OUR TECHNOLOGY, ACTIVE MEASURES TO DAMAGE OUR REPUTATION, CONFUSE OUR PEOPLE AND OUR PURPOSES AND DIVIDE US FROM OUR FRIENDS AND ALLIES AND ON AND ON. THERE IS SATISFACTION AND CHALLENGE IN BEING THE ONES CALLED UPON TO COPE WITH THESE THREATS WITH CONSTANT VIGILANCE AND READINESS FOR RESPONSE. THE BONDS, THE TRUST AND THE SHARING OF RESPONSIBILITY BETWEEN AND AMONG US FLOURISH FROM KNOWING THE BURDENS AND THE RISKS THAT ARE CARRIED

WITH COURAGE AND GRACE, REALIZING HOW SUCCESS, EFFECTIVENESS AND SAFETY DEPENDS ON THE CONTRIBUTION AND RELIABILITY OF EACH OF US, FEELING THE HUMAN AND ECONOMIC COST OF EACH GRANULE OF INFORMATION THAT POURS INTO OUR HANDS AND MINDS AND KNOWING HOW THE VALUE OF ALL THAT HANGS FINALLY ON THE CARE AND DEPTH AND BREADTH AND PRECISION WITH WHICH THOSE NUGGETS ARE EVALUATED, ANALYZED AND INTERPRETED FOR THEIR PRACTICAL MEANING. IT IS BY CONFRONTING ALL THIS IN ITS MULTIPLE DIMENSIONS AND MEETING THAT RESPONSIBILITY IN DIFFERENT WAYS AT VARIOUS LEVELS AND WITH GROWING EFFECTIVENESS OVER TIME THAT THE QUALITIES OF MIND AND HEART AND SPIRIT CHARACTERIZE THE AMERICAN INTELLIGENCE COMMUNITY AND ITS PEOPLE.



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22 December 1983

US EXPORT REGULATIONS - "ADVANCED SYSTEMS"

Dear

Some recent Press reports about the effect of US Export Regulations on computer equipment have tended to be concerned with exports from the United Kingdom.

As you are aware, transactions within the United Kingdom involving "Advanced Systems" are also subject to the obtaining of US export licence approval. Such transactions include not only the initial installation of a new machine with a user, but also any subsequent dealings or transfers in such machines (at least while they remain an "Advanced System").

The following is a list of the IBM machines for which individual licences are currently necessary, in the case of UK installations:-

- 3033, 3033N, 3033S
- 3042 (Attached Processor for 3033, 3033N and 3033S)
- 3062 (Attached Processor for 3168)
- 3081
- 3083
- 3168
- 3195
- 3838
- 3084 (including 3081K to 3084 upgrade)
- 4381 model Group 2

Accordingly, I would like through this letter to remind you in particular that transfers between users of any machines listed above at present require US export licence approval before installation at the new user's site. You should allow sufficient time (in some cases up to

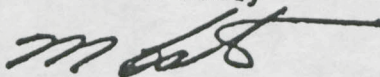
three months) for applications to be processed. The appropriate licences can be obtained from the US Department of Commerce, either directly in Washington DC, USA, or via the US Embassy in London. The address in Washington is:-

Director, Office of Export Administration,
US Department of Commerce
International Trade Administration
Office of Export Administration
PO Box 273
Washington, DC 20044
USA
Telex No: 892536 (USA)
Telephone: (202) - 377 - 4811

US export licence approval will of course also be required in the case of any transfers of such machines from the UK to users in countries other than the US or Canada. Further, all such exports are also licensable by the Department of Trade.

Please let me know if I can clarify these requirements further.

Yours sincerely



M CARTER
Branch Manager
Computer Related Industries Branch