~~CONFIDENTIAL~~

4 NOV 1981

MEMORANDUM FOR THE RECORD

SUBJECT: Secure Equipment Acquisition Policy (SEAP)
Minutes of Meeting of 3 November 1981 [redacted] 25X1

1. The fifth meeting of the subject group was held on 3 November 1981 with the following personnel in attendance:

[redacted] STAT

2. The meeting kicked off with a brief discussion of the visit to NSA on 27 October to meet with [redacted] who STAT is Deputy Director for their DOD Computer Security Center. Attendees at that session agreed that the Chairman's memorandum, dated 29 October, adequately described the meeting. [redacted] STAT noted that, while [redacted] had indicated that NSA has no STAT policy on acquisition of ADPE of foreign origin or firms with foreign ownership, the Telecommunications Group does have a policy which is exclusionary for such firms. [redacted] 25X1

3. The attached agenda was adhered to with the documents listed therein for distribution being handed out. Also distributed were two articles (attached) from the New York Times:

a. Washington Watch, "Foreign Ties of Companies," by Clyde H. Farnsworth, dated 26 October 1981.

b. "Tokyo, Calif., NEC, Toshiba, Toyo, et al., are opening plants and old wounds in the Silicon Valley," dated 1 November 1981. [redacted] 25X1

4. No detailed review of distributed documents took place, however, the following questions were raised:

[redacted] 25X1

[redacted] 25X1
25X1

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b. Paragraph 19.c.(2) of [redacted] draft version of [redacted] may be too restrictive. STAT 25X1

c. Paragraph 19.e.(1)(a) of the [redacted] draft refers to fungible components. STAT

d. Paragraph 19.e.(3) suggests that great cost advantage could be a basis for policy exception. Trading off security for cost advantage gave the group a problem.

e. Paragraph 19.d.(2)(c) of [redacted] paper should be changed to delete the word, "specific." [redacted] STAT 25X1

5. Around the table discussion covered such points as whether the resultant policy should be broader than ADP since similar threats exist in other areas. Would handling of all STAT procurements [redacted] give the Agency additional protection? Can we develop a policy, an HR, etc., which excludes foreign ownership, and the impact of the Buy American Act?

6. Substantial discussion as to engineering of the group's final product occurred. The concensus was that the [redacted] 25X1 draft is nearing completion and should be our primary target. Once the HR is agreed upon the policy statement and the supporting documentary paper will be completed. Since HR's may take years to issue, the thought was put forward that a Headquarters Notice including the policy pronouncement would be an appropriate medium.

7. The meeting concluded with agreement that members would analyze the [redacted] draft in depth and have their respective 25X1 comments in to [redacted] by close of business on Thursday, 5 November. STAT [redacted] will incorporate comments and provide a revised draft to STAT members early during the week of 9 November. A group meeting will occur subsequent to 9 November to "wordsmith" (criticize) the paper. A subgroup of the Task Force will attempt to seclude itself and complete the policy paper and supporting documentation during the week of 19 November. A target for completion of all effort has been set as 1 December 1981. [redacted] 25X1

[redacted] STAT

Chief
Procurement Management Staff
Office of Logistics

Attachments:
A. Agenda of 3 Nov mtg
B. N.Y. Times article dtd 26 Oct 81
C. N.Y. Times article dtd 1 Nov 81

TASK FORCE
SECURE EQUIPMENT ACQUISITION POLICY
MEETING AGENDA
3 NOVEMBER 1981

- Discussion of meeting with NSA
- Papers:

[redacted] STAT

Procedures to be Utilized in Procurements involving Foreign ADP by Lane (distribute at meeting)

NSA Contract Clauses Restricting Off-shore Procurement (distribute at meeting)

Keynote Address - Computer Security Initiative - by Inman (distributed)

Address by Lincoln Faurer (distributed)

Secure Acquisition of Agency ADP Systems by [redacted] STAT (distributed)

Questions (to be distributed)

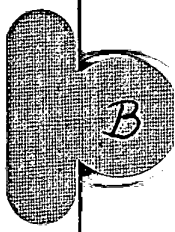
- Other Inputs from Task Force members
- Other actions or inputs considered necessary prior to wrap-up.
- Team to complete:

Final Paper

HR

Policy Statement

Organizational changes



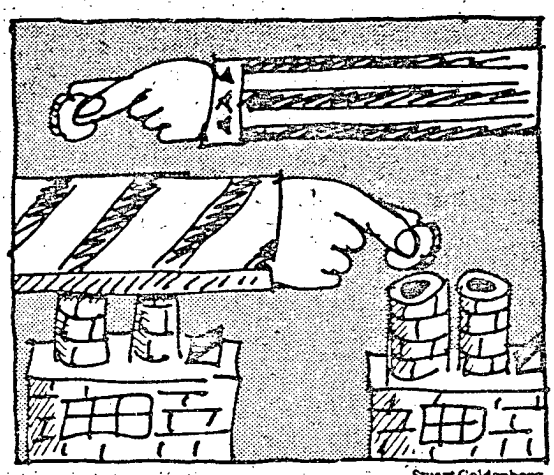
Declassified in Part - Sanitized Copy Approved for Release 2013/09/11 : CIA-RDP91-00280R000100130021-6

 NYT 26 Oct 81

Washington Watch

Clyde H. Farnsworth

Foreign Ties Of Companies



Stuart Goldenberg

WASHINGTON

OFFICIAL Government policy is still to encourage foreign investment, but Congress and some departments, especially the Defense Department, are starting to worry about the implications of the ownership of some high-technology American enterprises by foreign government-controlled companies.

French nationalization is one of the concerns, and has already led to an impact study by an interagency group known as the Committee on Foreign Investment in the United States.

One of the nationalization targets is Pechiney Ugine Kuhlmann, a big French metals and mining company that owns the Howmet Aluminum Corporation of Greenwich, Conn., and the Howmet Turbine Components Corporation of Muskegon, Mich. The turbine company is the leading American supplier of turbine blades for jet engines.

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The Committee on Foreign Investment, made up of representatives of the Treasury, Commerce, State, Defense and Labor departments and the Office of the United States Trade Representative, is analyzing, among other things, the possibility of the transfer of sensitive data.

Another issue is the possible conflict between business as usual for the American company and broader French Government policies of spurring the French aircraft industry. Under one hypothesis, the French Government could squeeze the American company dry of secrets and capital in hopes of giving an edge to French competitors.

The House Commerce, Consumer and Monetary Affairs Subcommittee, under its chairman, Benjamin S. Rosenthal, Democrat of Queens, is examining the whole question of sensitive data transfers in connection with the Kuwait Petroleum Corporation's bid for the Santa Fe International Corporation. The Kuwait company has a single stockholder, the Kuwaiti Government. Santa Fe, among other things, builds oil drilling rigs and nuclear power stations.

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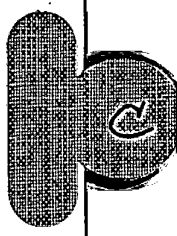
Other issues are raised by investments from South Africa and Canada. The politics of apartheid come up in the acquisition by Consolidated Gold Fields Ltd. of 25 percent of the Newmont Mining Corporation, which in turn is one of the leading holders of shares in the Peabody Coal Company.

Ottawa's policies of freezing American companies out of Canadian energy development are provoking thoughts of retaliation in this capital, perhaps even by completely halting the flow of investments from the north. The State Department is the loudest of the voices on the interagency committee arguing that this would serve little purpose. "They're helping us find oil," said one State Department official. "Why drive their rigs back north?"

The United States has three times the investment abroad of foreign companies in this country. Another issue raised by those opposed to barriers is the fate of those foreign holdings if the United States suddenly turned protectionist.



THE NEW YORK TIMES
1 NOV 1981

Tokyo, Calif.

NEC, Toshiba, Toyo, et al., are opening plants and old wounds in the Silicon Valley.

By MICHAEL S. MALONE

SAN JOSE, Calif.

OFTEN vilified for copying American technology, bringing it home and then sending it back to haunt the American companies that developed it, the Japanese have become established, if not entirely appreciated, residents of the semiconductor capital of America, California's Silicon Valley.

Major Japanese companies have taken over several small concerns, opened subsidiaries and are embarking on a construction and hiring program that may make some of them among the largest semiconductor chip makers in America.

Foremost among them is NEC Electronics U.S.A. Inc., the American arm of the Nippon Electric Company. Since opening its first American sales office in 1974, NEC Electronics has grown from seven employees to more than 600 — most of them gained in the 1977 purchase of the semiconductor maker, Electronic Arrays, of Mountainview.

Now, NEC has announced construction of a $100 million, highly automated chip-making facility in the Sacramento suburb of Roseville, 100 miles northeast of the Silicon Valley. By 1985, the company says, the plant will be one of the largest of its kind in the world, employing 600 persons and churning out more than $200 million in state-of-the-art memory and microprocessor chips a year.

"We've wanted manufacturing here for three years — since we saw trade conflicts in the television and automobile industries," said Keike Yawata, president of NEC Electonics U.S.A.

And that is just the beginning. NEC's biggest Japanese competitors, some of which have publicly vowed to match NEC step for step in the United States market, are also moving in.

Toshiba, which bought its own Silicon Valley chip maker, Maruman Semiconductor, almost two years ago, has been working to shore up the company as a platform for American market penetration. The Toyo Electronics Industry Corporation helped found Exar Systems of Sunnyvale in 1971, a chip maker specializing in a new semiconductor technology, gate arrays. Fujitsu has a disk memory operation in Santa Clara and owns 36 percent of the computer maker, Amdahl.

Other Japanese companies, such as Mitsubishi Electric and Oki Electric Industry, are at the initial stages of expansion, with sales offices in the Valley and elsewhere in this country.

Japanese plants here now account for only a tiny part of all United States semiconductor sales of some $8.7 billion and probably less than $50 million of the worldwide industry, which had $14 billion in sales last year. But the Japanese share is certain to explode, experts here say. Worldwide, Japanese semiconductor sales came to $4 billion last year, one-third of total sales by United States companies, according to John Shea, president of the Technology Analysis Group of San Jose.

Japanese companies here have not limited themselves to semiconductors. A Hitachi unit, Nissei Sangyo Instruments, makes scientific laboratory instruments in Moutainview. Ricoh of America, becoming a major force in so-called daisy wheel printers, has a research center in San Jose. And Kyocera International, a unit of Kyoto Ceramic, operates an integrated circuit packaging plant in San Diego.

Hiroe Osafune, chairman of NEC Electronics, offers two reasons to expand in the United States. "We need market share," he said, "and 50 percent of the semiconductor market in the world is in the U.S. So we need experience here." And, he said, American plants would be immune to trade barriers that the United States might erect against Japanese imports.

BY investing in plants here, the Japanese have dispelled some industry resentment. But not all. The most persistent voice is that of Charles Sporck, president of the Valley's largest chip maker, the National Semiconductor Corporation. "We're at war with Japan," he told employees a few weeks ago, "not with guns and ammunition, but an economic war with technology, productivity and quality."

Mr. Shea, of Technology Analysis, adds: "We've grown accustomed to seeing them around, but the Japanese right now are a greater threat than they've ever been."

What concerns Mr. Shea and others are Japanese statements indicating desires to go beyond semiconductors into other electronic technologies and computer software. They point to a position paper published last year by the Japanese Ministry of International Trade and Industry calling the 1980's "the world's turning point." It stressed greater emphasis on data processing and telecommunications, and urged Japan to take the lead in product innovation.

Such statements may not be idle promises. Japan-watchers remember that a decade ago, after the ministry gave semiconductors top priority, Japan embarked on a 10-year program that left American chip makers, which once all but owned the world market, bloodied and shaken. Japan has captured large chunks of the market, including at least 40 percent of the world market for the popular 16,000-bit memory chip.

Already, signs of the change in Japanese priorities are becoming visible. Memory chips are used in computers to retain information and computers also use logic chips to process information. Japanese companies are beginning to move into this business. Toyo's involvement in Exar and the recent joint-venture agreement in gate arrays — one way of making logic chips — between Toshiba and Santa Clara's LSI Logic Inc. point in that direction.

The communications revolution of the 1980's, which would lead to communications networks combining computers with telecommunications in data networks, could lead to a market that some analysts value at hundreds of billions of dollars. Japan is already a big competitor in telecommunications, but it is likely to need technologies it has not fully developed at home.

Some industry experts expect to see the Japanese resort to techniques that they perfected years ago in winning a position in semiconductors.

"Ten to 15 years ago," said Selig Gertzis, director of technology studies for the Quantum Science Corporation, a New York market research firm, "Japanese companies sent over three- to five-man groups of what they called 'liaison offices' to conduct legal or quasi-legal industrial espionage in areas where the Japanese felt they had weaknesses. It worked. By 1975 to 1980 the Japanese were more or less satisfied that they had reached an equivalent level with us. Exports of high technology products to the U.S. exceeded imports."

Now, says Mr. Gertzis, the process has begun again, this time in software. All the Japanese market research, he said, "tells them that their entry into everything from computers to office equipment will be limited by software. So, being normal intelligent people they are now making every effort to develop software."

And, he adds, "they are very astute. There's no reason to expect they'll fail."

Michael S. Malone is a freelance writer in San Jose, Calif.