

Government

INTELLIGENCE

SHOULD THE CIA START SPYING FOR CORPORATE AMERICA?

With the cold war over, some want it to focus on trade secrets

The French do it but deny it. The Soviets do it, heavy-handedly, and want to do more. The Japanese do it, too—mostly through private companies. But should the U.S. do it?

Increasingly, economic intelligence-gathering—from tracking technology trends to passing foreign business secrets to domestic companies—is seen by many nations as key to their economic survival. As the urgency of snooping on the Soviet military fades, many on Capitol Hill, in business, and in spy circles want the Central Intelligence Agency to adopt the mission of helping to keep America competitive.

The CIA has always employed a legion of economists to analyze business and financial trends, especially in Eastern Europe and the Soviet Union—with mixed results. Now, with the agency about to get a new director, most likely President Bush's nominee, Robert M. Gates, many intelligence and trade experts see an opportunity to make a controversial change at the CIA. Instead of leaving economics to the Treasury and Commerce Depts., they want the CIA to get more information on America's allies and trading partners. Many want it to step up counterintelligence operations to thwart theft of U.S. trade secrets. Some even say that the CIA should ferret out foreign business secrets for U.S. corporations.

AIMLESSNESS. Taking on these tasks wouldn't be that difficult, though it would require a reallocation of CIA resources and its \$3.2 billion budget. It would mean recasting the role of the vast network of U.S. spy satellites and listening devices. And it would mean re-deploying agents to pore over the wealth

of information that's already available and gather more commercial data.

The debate over economic intelligence is fueled partly by the CIA's need to find a mission in a world no longer chilled by the cold war. But it also reflects a changing view of national security. "Going into the next century, our position of world leadership will depend more on our economic strength



NOMINEE GATES HOPES TO FERRET OUT FOREIGN SPIES IN U.S. CORPORATIONS

THE NEW INTELLIGENCE ORDER

U.S.

Under Gates, the CIA may recruit more economists, ferret out foreign collusive practices that harm U.S. corporations, and work to thwart theft of U.S. technology and trade secrets by foreigners

SOVIET UNION

The KGB will market its services to budding Soviet enterprises and republican governments, recruit or retrain agents to spy on companies, but curtail domestic spying

FRANCE

The General Department for External Security dabbles in industrial espionage. Now, it may increase corporate spying, hire more economists, beef up counterespionage against foreign spying on French companies, and probe commercial opportunities in Eastern Europe

DATA: BW

than even our military strength," predicts David L. Boren (D-Okla.), chairman of the Senate Intelligence Committee.

A CIA crackdown on foreign espionage against U.S. companies, Boren and others say, could help the U.S. maintain its competitive edge. Washington policymakers would benefit from greater knowledge of foreign business practices and government economic plans. And as its worldwide military presence shrinks, the U.S. will depend even more on accurate assessments of economic problems as early warnings of political flare-ups.

Other countries are revamping their

spy shops' military focus, too (table). "Intelligence will be increasingly used to gain advantages in breaking into markets abroad, particularly in Eastern Europe," predicts Roger Faligot, a French expert on intelligence agencies.

But the notion of making the CIA a handmaiden to Corporate America has its critics. Some say much of the economic data and analysis the CIA already churns out is mediocre. Then, too, passing competitive information on to U.S. corporations not only would anger allies but would also get the government involved in business in a way that the U.S. has always found distasteful. Many large U.S. corporations don't want the help, though smaller companies might.

MOLE PATROL? For his part, Gates, a career CIA analyst, would beef up reporting of foreign business-government collusion that harms U.S. companies. And

he wants "a very aggressive program" by the CIA and the Federal Bureau of Investigation to thwart foreign spy services' attempts to steal U.S. trade secrets. "We know that foreign intelligence services plant 'moles' in our high-tech companies," Gates told the Senate Intelligence Committee at his confirmation hearing.

Boren, among others, would go further. He wants to explore whether commercially useful information CIA agents pick up could be "sanitized" and channeled via the Commerce Dept. to U.S. corporations.

A small but vocal minority thinks the CIA should actually do industrial spying. Says Admiral Stansfield Turner, who headed the

CIA in the Carter Administration: "We steal secrets for our military preparedness. I don't see why we shouldn't stay economically competitive." Former trade negotiator Michael B. Smith agrees: "Other countries have active intelligence programs directed against our companies to give their companies a leg up. We ought to emulate them."

There's plenty of evidence to support Smith. Experts assume that the Soviets built their civil-aircraft industry on information stolen from the West by spies. Now, new KGB leaders hope to sell business intelligence to Soviet enter-

THESE GUYS AREN'T SPOOKS. THEY'RE 'COMPETITIVE ANALYSTS'

Not long ago, Gary B. Roush got a call in his office at Corning Inc. from someone professing to be an "MBA student." The caller politely explained that he was researching Corning for his thesis and that a professor had offered Roush's name. But Roush grew suspicious, and later he did some probing. The student was indeed getting an MBA—at night. During the day, he happened to be a manufacturing manager for a competitor. "Something didn't feel right," says Roush, a marketing manager. "He knew too much."

Put aside visions of dumpster-diving and electronic bugs. That goes on, of course. But increasingly, snooping among rivals takes place in less sensational settings—on the phone, at trade shows, or before glaring computer screens. Briefcase snoops call their work not spying but "competitive intelligence" or "competitive analysis." And it is booming. "More people are doing competitive intelligence and doing it better," says intelligence-consultant Jan P. Herring, a former CIA officer.

FRIENDLY FAVOR. As the CIA mulls whether to go into the corporate spying business, U.S. industry is plunging in. With product cycles shortening, profit margins thinning, and foreign companies gaining muscle, U.S. companies are finding the competition ever tougher. At the same time, some experts say, companies and intelligence agencies in Japan, France, and other places are collecting vital data on U.S. companies—via acquisitions, alliances, and espionage. U.S. companies are turning to intelligence-gathering just to stay afloat, let alone get ahead.

Take supercomputer maker Convex Computer Corp. Recently, David P. Settle, competitive-analysis manager, obtained a copy of a rival's sales presentation for a soon-to-be announced product. A prospective customer had slipped the copy to a favored Convex sales rep. It showed the product's price

and the same disk drives as one of Convex' upcoming products. So the Richardson (Tex.) company is using the tip to offer customers a lower price and better features.

Until a few years ago, managers shunned formal intelligence-gathering. Now, companies from Corning to Helene Curtis devote staffs to it (table). The five-year-old Society of Competitive Intelligence Professionals has swelled from a handful

requests—often anonymously through FOI Services Inc.—to get such data as FDA inspection reports on competitors' plants. The drug houses also use prescription-tracking services. From their surveys of doctors and pharmacies, the companies can deduce whose drugs the physicians are prescribing—and then cater to heavy prescribers of their own drugs and woo the others.

FUZZY LINE. Companies seeking more controversial data often turn to private investigators like Kroll Associates, famed for uncovering hidden Iraqi assets. One U.S. drugmaker recently asked Kroll to find out whether a rival had stolen proprietary processes, says Thomas Helsby, managing director of the London office. The firm agreed to help but only after stipulating that it wouldn't probe the rival's secrets. Kroll found an industry insider to tour the factory as a potential buyer, and he found the client wasn't being ripped off. Another time, a Japanese executive eyeing an acquisition in the U.S. asked Helsby to find out his rivals' potential bids. He refused.

His qualms were justified. Trade-secret laws bar acquiring data through "improper means" such as theft. But the line between what companies legally may do and what they ethically should avoid is fuzzy. Questionable tactics include posing as a reporter to get into a rival's boardroom or hiring a plane to look over its plant, says intellectual-property lawyer Michael A. Epstein.

Fears of espionage or just plain employee leaks are forcing companies that collect data on others to step up their own security or conduct counter-intelligence. American Telephone & Telegraph Co. just held an information-protection awareness week to remind workers through signs and a video that information is a bottom-line issue. With the rise of intelligence as a competitive weapon, it's a warning that both briefcase snoops and their victims can heed.

By Michele Galen in New York, with Joseph Weber in Philadelphia and Stephanie Anderson Forest in Dallas

HOW SOME COMPANIES SPY

CORNING Employees from the janitor up to the CEO send tidbits on rivals to a central data base where the data are analyzed and fed to employees worldwide. Divisions hire intelligence consultants to profile rivals

NUTRASWEET The 'strategic and business information' group recently started creating personality profiles of key decision-makers at the company's competitors that might anticipate and explain their strategic moves. It also monitors rivals' junior executives who rise through the ranks

PRIME COMPUTER A manager of 'competitor intelligence' and sales analysis for the Computervision unit collects sales and product-development data on U.S. and foreign competitors. The unit also publishes an electronic tipsheet of unfavorable information about competitors for use by its salespeople

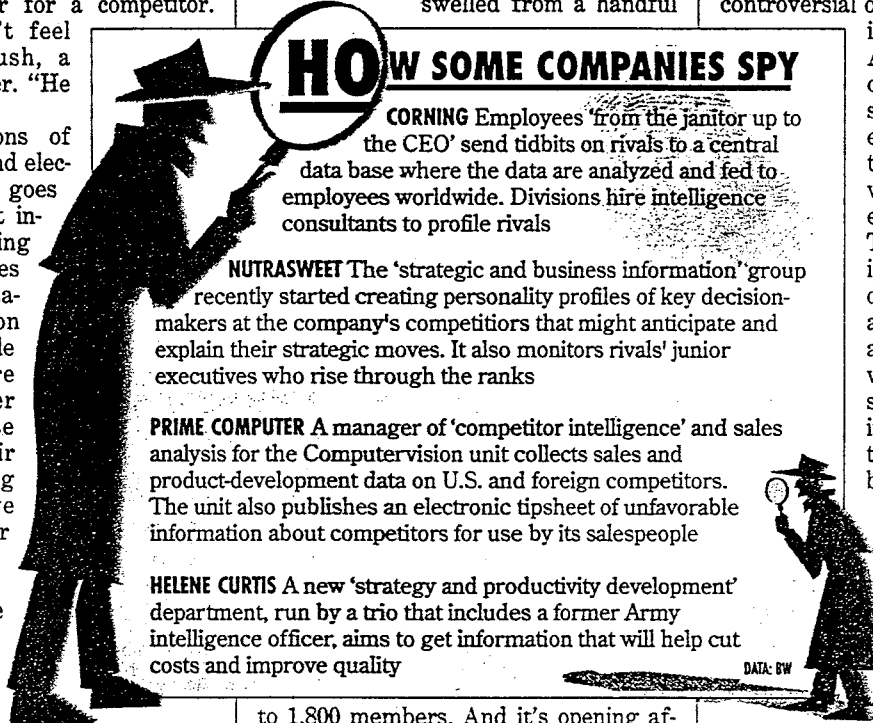
HELENE CURTIS A new 'strategy and productivity development' department, run by a trio that includes a former Army intelligence officer, aims to get information that will help cut costs and improve quality

to 1,800 members. And it's opening affiliates in Europe and the Pacific Rim.

The drug industry, for one, views competitive intelligence as critical. Merck CEO P. Roy Vagelos insists that his researchers be No. 1 or 2 in cutting-edge advances. If not, they have to know what rivals are doing so that Merck & Co. can grab licenses. Researchers pore over scientific journals, picking up what Vagelos calls "clues" to crucial developments.

But the drug companies hardly stop there. To elicit key information on rivals from the Food & Drug Administration, they make heavy use of the Freedom of Information Act. They file

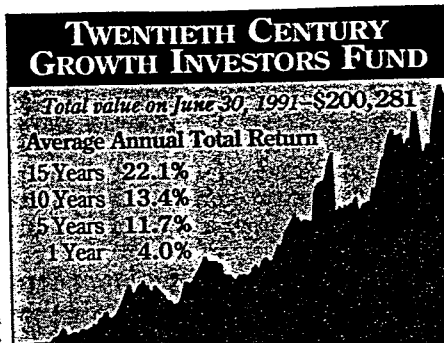
To elicit key data on rivals from the FDA, drug companies file Freedom of Information requests



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prises and governments of the republics. For a fee, the KGB would investigate potential joint-venture and trade partners.

The French are also active industrial snoops. In the 1950s and 1960s, France's secret service sometimes hired French executives to search the papers of foreign businessmen and diplomats. More recently, experts contend, French spies tried to plant "moles" inside overseas offices of IBM and Texas Instruments Inc. And they are suspected of posing as flight attendants or passengers on Air France jets to glean information useful to French companies.

Japan has no official spy service, but its far-flung trading companies constitute a de facto commercial intelligence network. John Quinn, a former CIA Far East specialist who now provides intelligence for private companies, estimates that on average more than half of a trading company's work force is engaged in information-gathering. A main goal is to drum up commercial ventures for the trading company. But close ties with bureaucrats ensure that Tokyo policymakers are well-informed. Most of the

Says a former NSC staffer: 'I will break and enter for my country, but I'm not going to do it for Kmart or Citicorp'

data flow from open sources. But Allied Signal, Texas Instruments, and General Motors complain that Japanese bureaucrats sometimes stall patent approvals to let local companies catch up—or get an advance peek at the technologies.

In Germany, too, companies get valuable business data from the private sector—mainly the country's banks. Its Interior Ministry, though, combats industrial theft by foreign spy services.

For now, it's probably out of the question for the CIA to establish a direct pipeline to U. S. companies, let alone spy for them. Since the likely targets would be such allies as Japan and Germany, industrial intelligence-gathering would invite a foreign-policy flap as well as retaliation in kind.

CULTURE CLASH. Deciding which U. S. companies would get commercial secrets is equally problematic. And the definition of an "American" company is blurring as corporations expand overseas.

Government-sponsored industrial espionage clashes with U. S. spy-service culture as well as American values. The prevailing view in the intelligence community, says former National Security



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Council staffer Kenneth de Graffenreid, now vice-president at JAYCOR, a defense contractor, is: "I will break and enter for my country, but I'm not going to do it for Kmart or Citicorp."

But the CIA faces plenty of flak even if it sticks to less contentious modes of economic intelligence. Its analysts greatly underestimated the weakness of the Soviet economy in the 1980s. That cost U.S. taxpayers dearly: Overblown estimates by the CIA and the Defense Dept. of the size and growth rate of the Soviet economy led Washington to spend more than it needed on weapons systems.

MEDIOCRE ANALYSES. Overall, the CIA's economic-analysis track record gets decidedly mixed reviews. Many intelligence experts recall a stream of other, if less egregious, mistakes and undistinguished analyses. "I don't remember an oil [production] estimate we ever got right," says Allan E. Goodman, a former intelligence officer now at the Georgetown School of Foreign Service. Nor are executives at major U.S. corporations impressed. Says Raymond J. Waldmann, Boeing Co.'s director for government affairs: "I'm not really sure what an intelligence agency can tell us that we can't learn from close coordination with our customers."

But others give CIA economists high marks—and blame policymakers for ignoring their reports. A decade ago, top NSC officials, unnerved by the Treasury Dept.'s complacency about the Third World debt buildup, asked the CIA to assess the problem. In a report to then-President Reagan, the agency described the debt overhang as bigger and more destabilizing than the Treasury was acknowledging. "The CIA was right, but nothing ever happened," recalls former NSC staffer Gregory Treverton, currently a senior fellow at the Council on Foreign Relations. "Treasury policy prevailed."

Former Commerce Dept. official Clyde V. Prestowitz Jr. recalls similar prescient CIA reports in the 1980s of declining U.S. competitiveness in semiconductors and machine tools. "The real problem is that the economic intelligence we have is not used," Prestowitz says.

That may change. Economic intelligence isn't a silver bullet that will magically improve U.S. competitiveness. Careful attention to quality, management, and the market count, too. But as the East-West military standoff fades into memory, the temptation to put the tools of cold-war rivalry to commercial use may be hard to resist.

By Amy Borrus in Washington, with Charles Hoots in Paris, Rose Brady in Moscow, Roger Schreffler in Tokyo, and bureau reports



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