

BUSINESS EXTRA

CIA Getting Down

Spy agency's mission in Silicon Valley

BY DON CLARK

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Few issues are more sensitive than U.S. spying on friendly countries, except possibly CIA operations in this country. But both have been going on in Silicon Valley for years.

CIA agents have secretly enlisted high-ranking U.S. executives to help monitor key technology developments in Japan and other rival economic powers, businessmen who cooperated with the spy agency have told The Chronicle. And the incidents came long before the current debate in Washington over an expanded role for the agency in economic intelligence-gathering.

Sources said CIA agents approach chief executives or other officials at Bay Area high-tech companies who have inside knowledge of Japanese companies'

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efforts in semiconductors, computers and other technologies. Some agree to share confidential information.

In one dramatic example, a prominent entrepreneur says he spied on his employer, a major Japanese electronics

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company, in the early 1980s while holding a high-ranking job at the company's Silicon Valley unit. For several years he passed sensitive company documents concerning high-speed microchips and other plans to a CIA agent who drove up to his office in a pale blue Ford.

"This guy would call me from the lobby with a pseudonym, and I would go out and give him a packet," the executive said.

Another source, who says he passed the agency information about technology development in Japan and China, believes that the CIA is stepping up such efforts amid evidence that foreign intelligence agencies conduct spying operations against U.S. companies.

"I'd bet my last nickel on it," the executive said. "Everybody is doing it to and we're getting smart and doing it

too."

The executives' stories provide a glimpse into a small corner of the CIA's domestic operations, which are usually overshadowed by actions abroad. They come to light at a time of unusual ferment in the U.S. intelligence community.

A radical proposal from the chairman of Congress' intelligence committees would cut the CIA in half and create a new czar over several restructured agencies. CIA Director Robert Gates is expected to weigh in with his own reform plan, possibly next month.

These are peace dividends. U.S. intelligence agencies since World War II have been obsessed with the Soviet military threat. Although the splintering of the U.S.S.R. actually could complicate the CIA's job, policy makers are rushing forward with plans to improve efficiency and cut the \$30 billion intelligence budget.

Technology also has transformed the agency's agenda. Integrated circuits, which gave Silicon Valley its name, are essential to the type of smart weaponry that bludgeoned Iraq. To monitor compliance with an arms-control agreement, a CIA analyst might use satellite photos, high-tech microscopes, desktop workstations and supercomputers — all made possible by the ubiquitous microchip.

Japan's lead in several critical technology areas, including some semiconductors and computer displays, make its companies an obvious target as the CIA tries to keep U.S. leaders informed of key events.

"We assess developments in specific

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technology areas, from semiconductors to advanced materials," said a spokesman at CIA headquarters in Langley, Va.

The CIA does not comment on specific operations involving friendly countries. But Gates has publicly complained that some foreign intelligence services plant "moles" in U.S. high technology companies. If the agency does target foreign companies in some circumstances, those complaints may seem hypocritical.

But there are key distinctions. Based on the accounts of Silicon Valley executives, CIA activities there have generally focused on developments that affect national security and the world economy. Other intelligence services allegedly work to help their countries' industries or particular companies.

Sharing Issue

Although some policy makers think the CIA should share foreign company secrets with U.S. competitors, there is little evidence it has. "We are not in the business of industrial espionage, nor will we be," the CIA spokesman said flatly.

CIA officials also don't discuss domestic operations. It won't even disclose the location of its long-time San Francisco office, nor any of the others believed to operate in 37 U.S. cities. One former agent said one CIA office is in the Presidio, though other sources say the agency rents downtown office space in the guise of bogus companies.

Calls to the CIA's listed San Francisco phone number are answered with a recorded message, or sometimes only a beep to prompt callers to leave a message. That office didn't return calls; at another unpublished number, an agent who has interviewed Silicon Valley executives declined comment.

One CIA unit, recently called the national collection division, interviews travelers returning from countries of interest to the agency and other people knowledgeable about foreign affairs. Another domestic unit, the foreign resources division, carries out more covert intelligence-gathering against foreign targets in this country, according to Jeffrey Richelson, an author of several books on U.S. spy agencies.

In Silicon Valley, CIA contacts apparently range from chief executives to market researchers. "There are businessmen who volunteer information to the U.S. government," the CIA spokesman said. "We are happy to listen."

Executives' Stories

All of the Silicon Valley executives who spoke about their involvement with the CIA insisted on anonymity. They are identified here by fictitious first names.

Henry, the first executive quoted in this article, said the CIA was concerned that the high-frequency chips his Japanese employer was developing might find their way into spy satellites, sonar systems and communications hardware in China and the former Soviet Union.

As a high-ranking executive, Henry frequently traveled to Japan and sat in on advanced planning sessions during which five-year technology plans were discussed. "Copies were provided to the CIA,"

he said.

His CIA contact was described as a conservative dresser in his early 30s. "This fellow you could not pick out of a crowd," Henry said. "He certainly had a handle on what was going on in Japan."

In this case and others, patriotism rather than money was the motivation for helping the agency. Martin, chief executive of another medium-sized high-technology company, put it this way: "I'm a former Air Force officer. I still go to bed with the flag."

Louis, who heads another small Silicon Valley company, said his first contact came when he traveled

to Japan a few years ago with the chief executive of a large Bay Area chipmaker. Their first appointment in Tokyo was with a senior CIA agent; they discussed issues such as Japan's production and pricing of microchips, and the ways its Ministry of International Trade and Industry influences companies. Contacts with a CIA agent followed in Silicon Valley.

"He asked me to write down whenever I spoke to a Japanese company or their agents here," Louis said.

The agent was particularly interested in developments concerning prices on certain memory and logic chips, Louis said. Such products have been the focus in recent years of allegations that Japan has "dumped" chips on the market at less than production cost.

Sources said a CIA approach often starts with a phone call, followed up with a face-to-face meeting at which agents ask an executive to call if he learns something that might interest the agency. In some cases, agents' business cards disclose they work for the CIA; sometimes the cards simply list a person's name and phone number.

Louis reached an agent by calling a phone number in the San Jose area. "I remember six months later we had occasion to call him again," Louis said. "He was gone."

Market Research

Silicon Valley market research firms are another resource for the CIA. Daniel, a former analyst at Dataquest Inc., said he traveled to CIA headquarters to meet with buyers of the San Jose firm's research reports.

"They wanted a heads-up with

regard to U.S. competitiveness vs. the rest of the world," Daniel said.

Military technology is another key focus. Pentagon officials have expressed concerns about the growing U.S. reliance on Japan for electronic components used in weapon systems. During the Persian Gulf War, CIA agents asked at least one Silicon Valley chipmaker about Japanese competition in military sales.

"They were trying to gauge the penetration of the Japanese in the military market," said Kari, a mid-level executive who has been contacted several times by CIA agents over the years.

A more traditional CIA concern is technology in the former Soviet Union and Eastern Europe. Paul, another mid-level executive who has met with one CIA agent at least twice, said the agency feared that a piece of sophisticated chip production equipment may have been diverted from India to the Soviet Union. That didn't happen, it turned out.

Michael, who works for another San Jose market research firm, said his company occasionally tipped off the agency to other cases involving suspected transfers of sensitive technology to Soviet-bloc countries.

But he also suspects that the CIA or some other intelligence professionals have burglarized his firm's offices to inspect confidential files and also may have tapped phones.

"There is nothing taken, but it's obvious that all the files have been gone through," Michael said. "You see phone wires lying outside the phone box that weren't there the night before."





BY ROGER RESSMEYER/SPECIAL TO THE CHRONICLE

Jim Sapp of the CIA's office of imagery analysis used a microscope to study pictures of Russian missiles