

Table of Contents

Chapter 1

Introduction	1
Huang Dao Pei	3
Peter H. Lee—Update	3
The Cox Report	4
Commercial and Intelligence Operations: PRC Acquisition of US Technology	5
The 863 and Super-863 Programs: Importing Technologies for Military Use	5
The PRC’s Use of Intelligence Services To Acquire US Military Technology	7
The “Pricelings”	7
Acquisition of Military Technology From the United States	9
Joint Ventures With US Companies	10
Acquisition and Exploitation of Dual-Use Technologies	11
Front Companies	13
Direct Collection of Technology by Non-Intelligence Agencies and Individuals	14
Illegal Export of Military Technology Purchased in the United States	18
PRC Purchase of Interests in US Companies	19
Methods Used by the PRC to Export Military Technology From the United States	21
PRC Incentives for US Companies To Advocate Relaxation of Export Controls	22
PRC Theft of US Thermonuclear Warhead Design Information	23
How the PRC Acquired Thermonuclear Warhead Design Information From the United States: PRC Espionage and Other PRC Techniques	24
How the US Government Learned of the PRC’s Theft of Our Most Advanced Thermonuclear Warhead Design Information	25
The “Walk-In”	25
US Government Investigations of Nuclear Weapons Design Information Losses	26
Investigation of Theft of Design Information for the W-88 Trident D-5 Thermonuclear Warhead	27
Investigation of Additional Incidents	27
The Department of Energy’s Counterintelligence Program at the US National Weapons Laboratories	28
PRC Gains Sensitive Information From Hughes	29
LORAL Investigation of Intelsat Launch Failure Provides PRC With Sensitive Information	31
PRC Targeting of Advanced Machine Tools	33
Case Study: McDonnell Douglas Machine Tools	33
PRC Targeting of US Jet Engines and Production Technology	34
Case Study: Garrett Engines	36
PRC Targeting of Garrett Engines	36
US Government Approval of the Initial Garrett Engine Exports	37
Commerce Department Decontrol of the Garrett Jet Engines	37
The Interagency Review of the Proposed Export of Garrett Engines	38
Consideration of Enhanced Proliferation Control Initiative Regulations	39
Consideration of COCOM and Export Administration Regulations	40
Resolution of the Garrett Engine Controversy	42

The PRC Continues To Acquire Jet Engine Production Processes	43
White House Response to Cox Report—1 February 1999	50
Security at US National Laboratories	50
Missile and Space Technology	51
Domestic and International Export Policies	53
High-Performance Computers	53
Chinese Technology Acquisition and Proliferation Activities	54
China's High-Tech Espionage Textbook	54
Operational Collection	56
Open Sources	56
Conferences	57
Old-Fashioned Espionage	58
Report on the Investigation of Espionage Allegations Against Dr. Wen Ho Lee—8 March 2000	58
Summary	58
The Investigation of 1982-84	59
The Investigation of Dr. Lee From 1994 to 2 November 1995	60
The Investigation Renewed—30 May 1996 to 12 August 1997	61
Investigation From 12 August 1997 to 23 December 1998	69
DOE's Interference in the Investigation	70
10 February 1999 to 8 March 1999	71
8 March 1999 to 7 April 1999	72
Reopening the W-88 Investigation and the Criminal Case Against Dr. Lee	72
David Tzu Wvi Yang and Eugene You Tsai Hsu	77
Public Announcement—US Department of State—Office of the Spokesman	78

Chapter 2

Introduction	79
Theodore Alvin Hall	81
State Department Security Breaches	81
David Sheldon Boone	83
Daniel King Case	89
Stanislav Gusev	93
George Trofimoff	93
George Trofimoff Affidavit	95
Robert Philip Hanssen	102
Hanssen's FBI Career	106
Letters to the KGB/SVR	107
Letters From the KGB/SVR	114
Newspaper Ads/Telephone Calls	116
Deaddrops	117
Escrow Account in Moscow	128
The End Game	129

Russian Counterintelligence Begins Comeback	132
Introduction	132
Yeltsin Begins CI Reorganization	132
Barsukov Takes FSB's Reins	133
Protection of State Secrets Upgraded	136
Other Security Services Changes	140
FSB Comes Out on Top	140
Yeltsin Fires FSB and SBP Chiefs	141
Media Plays Up Arrests	144
Influences on Yeltsin's Decision	144
Reformers' Versions	145
Kovalev Named FSB Chief	146
Kovalev Out—Putin In	148
Under President Putin: FSB Supplants the "Old Guard"	149
Putin's Second Year	149
Changes in the FSB	153
Returning to Yesteryear	154
FSB and the Media	154
The Roots of Putin's Attack on Media Freedom	156
FSB Legalizes Monitoring of Internet	157
Crackdown on Russian Scientists	157
FSB Takes Charge of Chechen Operations	158
Celebrating Chekist Day Again	158
Public Perception of the FSB	159
Putin: A Reflection of Andropov	159
Specific Cases	159
Targeting Humanitarian Groups	177
Foreign Intelligence	177
Russian Spies Caught	178
Poland Arrests Russian Spies	179
Poland Expels Russians	179
Reaction to US Expulsion of Russian Diplomats	179
Russian Defections	180
The GRU	180
Vladimir Semichastny	185
Ruth Werner	186
Chapter 3	
Introduction	187
Kai-Lo Hsu, Chester S. Ho, and Jessica Chou	188
Theresa Squillacote, Kurt Stand, and James Clark: The Espionage Careers of Three Americans	189
French SIGINT Targeting	202

Updates on Two Espionage Cases	204
Douglas F. Groat	204
Robert Kim	204
Cuban Spies in Miami	206
Geraldo Hernandez	207
Ramon Labanino	208
Antonio Guerrero	209
Alejandro Alonso	209
Rene Gonzalez	210
Nilo Hernandez and Linda Hernandez	210
Fernando Gonzalez	212
Joseph Santos and Amarylis Silverio	212
Five Ring Members Get Plea Bargains	213
Cuba Gets Christmas Gift From the United States	213
The Remaining Five Members Tried and Convicted	213
Brian P. Regan	215
Avery Dennison	218
Kelly Therese Warren	229
Jean-Philippe Wispelaere	231
Mariano Faget	232
Echelon	235
The Operations of Foreign Intelligence Services	238
The Operations of Certain Intelligence Services	240
Technical Conditions Governing the Interception of Telecommunications	242
The Example of the German Federal Intelligence Service	245
Satellite Communications Technology	246
The Most Important Satellite Communication Systems	248
Regional Satellite Systems	249
National Satellite Systems	250
The Allocation of Frequencies	250
Satellite Communications for Military Purposes	251
Clues to the Existence of at Least One Global Interception System	252
How Can a Satellite Communications Interception Station be Recognized?	253
Publicly Accessible Data About Known Interception Stations	254
The Stations in Detail	255
Further Stations	257
The UKUSA Agreement	259
Powers of the Intelligence Agencies	261
Information From Authors and Journalists	261
Information From Government Sources	265
Parliamentary Reports	266

Might There be Other Global Interception Systems?	267
Compatibility of an ECHELON Type Communications Interception System With Union Law	268
The Compatibility of Communications Surveillance by Intelligence Services With the Fundamental Right to Privacy	270
Protection Against Industrial Espionage	279
Intelligence Services	281
Legal Situation With Regard to the Payment of Bribes to Public Officials	291
Security of Computer Networks	293
Cryptography as a Means of Self-Protection	297
The EU's External Relations and Intelligence Gathering	302
Conclusions and Recommendations	304
Recommendations	307
George and Marisol Gari	320
Japan	322
The South Korean National Intelligence Service	326
Background	326
The Creation of the Korean Central Intelligence Agency	328
Agency for National Security Planning	329
Government and Private-Sector Efforts To Steal US Technological Secrets	332
South Korea's Informal Technology Acquisitions	334
Cooperation Centers To Acquire Technologies	336
Science Ministry Continues Foreign Recruitment Drive	337
Technology-Transfer Facility in San Diego	337

Chapter 4

Introduction	341
The Rudman Report	343
Foreword From the Special Investigative Panel	343
Prospects for Reforms	344
Solutions	345
Bottom Line	346
Findings	346
Root Causes	350
Big, Byzantine, and Bewildering Bureaucracy	350
Lack of Accountability	351
Culture and Attitudes	352
Changing Times, Changing Missions	352
Recurring Vulnerabilities	352
Management and Planning	353
Physical Security	356
Screening and Monitoring of Personnel	357

Protection of Classified and Sensitive Information	358
Foreign Visitors and Assignments Program	359
Responsibility	360
The Record of the Clinton Team	361
The 1995 “Walk-In” Document	362
W-88 Investigation	362
PFIAB Evaluation of the Intelligence Community Damage Assessment	363
Presidential Decision Directive 61: Birth and Intent	363
Timeliness of PDD-61	365
Secretary Richardson’s Initiatives	365
Prospects for Reforms	367
Trouble Ahead	367
Security and Counterintelligence Accountability	368
Personnel Security	368
Physical/Technical/Cyber Security	368
Business Issues	369
Intelligence Community Damage Assessment of China’s Acquisition of US Nuclear Weapons Information	369
Central Intelligence Agency Inspector General Report of Investigation—John M. Deutch	372
Aftermath of the IG Report	410
DOE Counterintelligence Failures	414
Report of the Redmond Panel	414
Leaks	427
Timothy Steven Smith	429
Waguespack Leaves NACIC	430
Jolene Hilda Neat Rector and Steven Michael Snyder	430
Takashi Okamoto and Hiroaki Serizawa	432
Ana Belen Montes	434
Communication From the Cuban Intelligence Service (CuIS) to Montes via Shortwave Radio	434
Communication Between the CuIS and Montes via Computer Diskette	435
Communication From Montes to the CuIS by Pager	435
Montes’s Transmission of Classified Information to the CuIS	436
FBI Physical Surveillance of Montes and Telephone Records for May to September 2001	437
The Threat to Laptop Computers	439
The Presidential Decision Directive on CI-21: Counterintelligence for the 21st Century	443
National Security Presidential Directive-1	446
Bibliography Volume IV	451
CI Calendar of Events	455