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U.S. Defense Tech Security Called 'Swiss Cheese'

By WILLIAM MATTHEWS
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As the value of the U.S. dollar declines, investing in U.S. defense firms becomes more attractive to foreign companies. That worries Rep. Duncan Hunter, R-Calif., who fears more foreign ownership will mean more pilfered defense technology secrets.

"This is not irrational fear or veiled protectionism, this is a real national security concern," Hunter assured his colleagues on the House Armed Services Committee April 16. "We are in a period where industrial espionage is on the rise."

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But globalization of the defense industry seems inevitable.

"We've got people with lots of cash" in the rest of the world, and American companies "that are desperate for cash." The increase of foreign entities buying U.S. defense companies "is going to be a problem for years to come," Hunter said.

So, how able is the United States to protect its defense secrets from prying foreign investors, the Armed Services Committee wanted to know.

Not very, said witnesses from the Pentagon and the Government Accountability Office (GAO).

A "safety net" of agencies and policies designed to protect classified industrial information "right now is Swiss cheese," said Ann Calvaresi-Barr, the GAO's director of acquisition and sourcing management.

It's not as bad as it was two years ago, said Kathy Watson, director of the Defense Security Service. But improvements are coming slowly.

The DSS is a little-known agency within the Defense Department that determines which defense companies qualify for access to classified information. It awards clearances to company officials and evaluates "foreign ownership, control or influence" over U.S. defense companies.

When she took over as director in 2006, Watson said the DSS was underfunded and understaffed. Today, the agency receives an adequate budget and has been allotted an additional 145 personnel - but so far, only about one-third of the new jobs have been filled, she said.

The agency still relies on paper files scattered among 71 field offices, Watson said. And while it has a computer system and is entering data, "it's not the system of the future," Watson told committee members.

Calvaresi-Barr said a GAO evaluation in 2005 showed that the Defense Security Service did not systematically collect and analyze information to assess the effectiveness of its operations. As a result, the agency does not know whether certain violations are increasing nor can it identify patterns of security violations and then plan how to keep classified information from being compromised, she said.

DSS agents also lacked basic understanding of complex transactions, such

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as the security implications of foreign hedge funds buying interests in U.S. defense firms. That is increasingly common, and "it's difficult to know where the money is coming from and who the players are," Calvaresi-Barr said.

Watson said DSS employees are receiving more training in those sort of transactions.

The GAO has not re-evaluated the DSS since Watson has begun making reforms, Calvaresi-Barr said. "We are very pleased" to hear that DSS is working to strengthen defense industrial security, she said.

DSS is hardly the only weak link. There are numerous agencies, laws, regulations, policies and processes intended to protect critical defense technology, and among them "there are alarming gaps," Calvaresi-Barr said.

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