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V. EXISTING LEGAL RESTRAINTS
AND POWERS OF USG TO
CONTROL FOREIGN INVESTMENT





V. EXISTING LEGAL RESTRAINTS AND POWERS OF USG TO CONTROL FOREIGN INVESTMENT

The purpose of this section of the study is to outline key laws and regulations (1) restricting foreign investment in the US or (2) controlling or regulating the conduct of foreign controlled business activity in the US. The section attempts to do this by summarizing the laws and regulations applicable to certain critical or sensitive sectors of the US economy.

General: In reviewing this section, the reader should keep in mind that, in addition to specific legislation dealing with foreign investors, every foreign investment is subject to the same laws and regulatory constraints which control US business (e.g. SEC, antitrust, labor and immigration laws). It is this factor -- i.e. complex and pervasive general laws to ensure that all economic activity is conducted in our national interest -- that provides us with the most protection against potential misuse of control by foreign investors.

Without a specific case in mind, it is impossible to say precisely how a foreign investor will be regulated and what laws will apply to him. What one can say is that -- given these general laws which are supplemented by various laws dealing specifically with foreign investment -- there is minimal danger that a foreign investor can use his investment in a way severely detrimental to the US national interest.

A. National Defense

1. Any activity involving classified contracts -- Under its Industrial Security Regulations the Defense Department may deny security clearances required to do classified work for the USG to any firm under "foreign ownership, control or influence." (Over 6% foreign equity ownership establishes a presumption of foreign control). The regulations do not directly prevent foreign ownership of producers of defense items but only provide protection against foreign access to classified information that could be gained by a company contracting with USG. However, they do act as an indirect prohibition on foreign acquisition of any firm that does classified work with USG in that such acquisition could cause the firm to lose its classified government business.



2. Armament Export Controls -- The Mutual Security Act of 1954 authorizes the President to control the import and export of arms and technical data related thereto. He has delegated his powers to the State Department which administers the International Traffic in Arms Regulations. The regulations require registration of arms manufacturers, exporters and importers and should effectively prevent the unwanted export by a foreign controlled corporation of arms or technical data related to arms manufacture.

3. Defense Procurement -- There is no general limitation of foreign ownership in connection with government supply contracts. A number of federal statutes do require that government agencies purchase only items produced in the US but nonrestrict procurement from a foreign controlled US corporation producing in the US. However, there may be major restrictions in connection with contracts for specific goods. For example 10 USC 2272(f) provides that no contract for the procurement of new designs of aircraft, aircraft parts or aeronautical accessories may be awarded to a firm unless (1) 75% of its stock is owned by US citizens and (2) all of its directors are US citizens.

4. Emergency Powers -- (A) The Defense Production Act (which terminated in 1972) gave the President powers to (1) require the priority performance of defense related contracts and (2) allocate materials and facilities necessary or appropriate for the national defense. (B) Section 18 of the Selective Service Act provides that under certain extreme circumstances (i.e. advice from National Security Resources Board and Congress authorize materials exclusively for the use of the armed forces), the President has power to place priority orders and take possession of the facility if they are not fulfilled. (C) The Trading with the Enemy Act gives the President power -- during war or a national emergency -- to regulate and control completely any property in which any foreign country of a national thereof has any interest.



B. Energy

1. Atomic Energy -- The Atomic Energy Act prohibits licenses for the operation of atomic energy utilization or production facilities to be issued to aliens or foreign owned or controlled corporations. There is no similar prohibition for fabrication of fuel elements, uranium mining or melting or activities involving radioactive isotopes. However, all of these activities are highly regulated by the AEC which can prohibit activities in these areas which are "inimical to the nation's welfare".
2. Hydroelectric Power -- Hydroelectric power sites on navigable streams in the US may be developed only by US citizens, associations of US citizens or domestically owned corporations. There is no limit on the degree of foreign ownership or control of the US corporation; however, any company operating such a facility must be licensed and regulated by the Federal Power Commission.
3. Mining and Drilling in the US -- There are certain restrictions on foreign controlled corporations mining and drilling for coal, gas, oil etc on federally owned lands. See C-2 below for details.
4. Regulation of Pipelines -- With respect to pipelines on federal lands, foreign controlled corporations can own an interest only if their home country grants reciprocal rights to US companies. With respect to pipelines on non-federal land, foreign investors are not precluded from ownership or control but are subject to ICC and FPC regulation.
5. Energy Export Controls -- The FPC regulates the export of natural gas from the US and issues a permit only if the export is in the national interest. In addition, Section 25 of the Federal Energy Act requires FEA to monitor exports of other forms of energy -- specifically coal, crude oil, residual oil or any refined petroleum product.

C. Natural Resources

1. Mineral Resources -- Under the Mineral Leasing Act of 1920, aliens cannot hold any interest in a pipeline or a mineral, coal or oil shale lease on federal lands. However, foreign controlled corporations may hold such



interests if their country grants reciprocal rights to US companies. There is, however, no prohibition on foreign controlled corporation holding a lease to (1) drill on the US outer continental shelf; (2) operate under Geothermal Steam Act or (3) locate and mine uranium under the Mining Law of 1972. Such corporations would be subject to the term of these acts and to the specific terms of the leases granted to them.

2. Fisheries -- Transfer of control of a foreign investor of a US fishing company or a US shipyard engaged in the construction, maintenance or repair of fishing vessels must be approved by the Maritime Administration (MARAD) with advice from the National Marine Fisheries Service. There are also other minor restrictions -- e.g. no fishing by aliens in Alaskan waters (48 USC 243) and no alien fishing vessels can land catch in the US (46 USC 251).
3. Land -- (a) Federal Land: The Alien Land Law of 1887 restricts alien ownership of federal public land to (i) US citizens (ii) partnerships with all US citizens, (iii) US controlled corporations and (iiii) foreign controlled corporations if the foreign country concerned grants reciprocal privileges to US citizens. (b) State Land: A few states have restrictions on foreign ownership of land under their jurisdiction.

D. Communications

The opportunity for foreign controlled corporations to invest in the communications field (telephone, telegraph, radio and/or tv) is sharply limited by the Federal Communications Act which prohibits foreign owned or controlled corporations from receiving a license to operate an instrument for the transmission of communications. A corporation is "foreign owned" if any officer or director is foreign and if more than one fifth of its capital stock is owned by foreign entities; and a corporation is "foreign controlled" if it is directly or indirectly controlled by a corporation with more than 25% foreign interests.

E. Publishing (including printing) and News Services

1. The Foreign Propaganda Dissemination Act (22 USC 611 et seq.) is designed to restrict foreign influence over the contents and policies of the US news media and requires any person acting as the "agent of a foreign principal" to file a comprehensive registration statement with the Attorney General.



F. Transportation

- 25%
- 10%
1. Aviation -- The only persons who may carry passengers or cargo within the US are (a) US citizens; (b) partnerships in which all partners are US citizens or (c) US corporations in which at least the president and 2/3 of the board are US citizens and at least 75% of the voting interest is owned or controlled by US citizens. In addition, CAB approval is required for any foreign air carrier or any person controlling a foreign air carrier (e.g. a foreign government) to acquire control of any US citizen engaged in any phase of aeronautics which is defined as the "science and art of flight"). Any person who is the beneficial owner of 10% or more of the voting capital is presumed to be in control of an air carrier.
 2. Maritime and Shipping -- Foreign investment in the US maritime industry is restricted by a series of laws which (1) limit ownership and operation of certain vessels to US citizens; (2) prohibit transfer or mortgage of US vessels, shipyards, drydocks or ship repair facilities to non-US citizens without Secretary of Commerce approval; (3) prevent non-US citizens from receiving construction or operating differential subsidies and (4) limit US coastwise trade to vessels owned by US citizens. No corporation is a US citizen unless (a) the controlling interest is owned by citizens of the US and (b) the chief executive officer, board chairman and a majority of the quorum of directors are US citizens.

G. Banking and Finance

1. Banking -- Existing state and federal banking laws provide for extensive regulation of foreign banking activity in the US. State Laws: Only a few states permit foreign banking activities and those that do require a license and closely regulate foreign banking activities. Existing Federal Laws: (a) A federally chartered bank must have all US citizen directors and must be a member of the FRB; (b) If a foreign corporation obtains controlling influence over the management policies of a bank, it is subject to the Bank Holding Company Act which requires (1) initial FRB approval for establishing a bank subsidiary or acquiring control (25% or more) and subsequent periodic supervision (2) Federal (and state) approval for acquisition of more than one state chartered bank subsidiary.



Proposed Federal Law: The Federal Reserve has proposed legislation (S. 4205) to regulate foreign banks acquiring, operating or controlling banking activity in the US.

2. Savings and Loan Associations -- All directors or members of the Federal Home Loan Bank system must be US citizens. But neither the Federal Home Loan Act nor the Federal Savings and Loan Insurance Corporation Act limit foreign ownership of savings and loan associations. Savings and loan associations are, however, regulated by the Federal Home Loan Bank Board and subject to extensive federal reporting requirements.
3. Insurance -- There are no restrictions on foreign alien or corporation ownership of insurance companies although five states do prevent foreign governments from owning insurance companies. Most states have special requirements for foreign controlled insurance companies -- including mandatory establishment of trusteed deposits up to the amount of the company's outstanding liabilities. Many states have citizenship requirements for directors and all states license and closely regulate insurance activities in their state.
4. Securities Industry -- The SEC, the NASD and most stock exchanges do not restrict or prohibit ownership of brokerage houses by aliens. However, foreign as well as domestic investors are subject to the same SEC, NASD and stock exchange regulations as domestic investors. The NYSE does, however, impose limits on foreign ownership of its members. The Trust Indenture Act of 1939 requires that at least one trustee under a qualified trust indenture be organized under the laws of the US (15 USC 77jjj(a)(1)).

H. Agriculture

Although there are no specific prohibitions on foreign investment in agriculture, foreign citizens and foreign controlled corporations are denied the benefits of many programs relating to agriculture. For example, Farmers Home Administration loans for rural housing are limited to US citizens; and grazing on public lands is regulated by the Forest Service and the Bureau of Land Management.



I. Export Controls

1. General -- Although export controls do not restrict foreign investment in the US, they are an important tool in ensuring that foreign investment is not used in a way detrimental to the US economy. The key fact in any investment is not who owns the productive facilities but whether the output is used to benefit our economy. One way to ensure that resources are retained in the US for our use is by export controls.
2. Export Administration Act -- Prevents drain of US resources when (1) national security is threatened (2) there is an excessive drain of scarce materials and a serious inflationary impact from foreign demand or (3) export controls are needed to fulfill U.S. foreign policy. 1974 amendments require Commerce to monitor exports when such exports would lead to domestic price increase or shortage which has serious impact on economy or any sector thereof. (See National Defense and Energy sections for special controls on armaments and energy exports).

K. Key Laws of General Applicability

1. SEC Laws: While the SEC laws do not prevent foreign investment, they do require disclosure of significant foreign investment (by beneficial owner) and regulate potentially harmful activities. Like the antitrust laws, the relevant SEC laws make no fundamental distinction between domestic and foreign investors. SEC regulations re tender offers, shareholder disclosure requirements, stock price manipulation and preservation of an orderly market apply to foreign investors as well as domestic investors. The most relevant SEC regulations are:
2. Antitrust Laws -- The antitrust laws contain no specific prohibitions on foreign investment. However they apply equally to US and foreign corporations and should prevent foreign investors from monopolizing a specific sector or engaging in other anti-competitive practices. (Note: There are technical problems with respect to the application of our antitrust laws to the acts of foreign sovereigns when its government does not act through a commercial corporation).

3. Immigration Laws -- The ability of a foreign investor to control effectively his US investment depends on his ability to send foreign managerial and technical personnel to the US. The requirements for admission of such persons are governed by the Immigration and Nationality Act which could be used to prevent admission of the personnel necessary to manage US investment.
4. Industrial Relations -- The National Labor Relations Act and other labor laws apply to all firms (foreign as well as domestic) operating in the US to prevent unfair labor practices (e.g. runaway plants, arbitrary dismissal or treatment of workers). All industrial plants must comply with federal health and Safety and Health Act of 1970 designed to assure every worker in the US safe and healthful working conditions.

M. Special Aspects of Foreign Government Investment

1. General -- Most US laws make no distinction between investment in the US by foreign private entities or investment by foreign governments or governmental entities. This means that the bulk of the restrictions and regulations outlined above apply to investment in the US by foreign governments and, where relevant, would prevent or regulate activities of foreign governmental investment in the US. There are, however, a few areas in which foreign government investment is treated differently. There are outlined in this section.
2. Sovereign Immunity -- The US follows the so-called restrictive theory of sovereign immunity which means that a foreign government engaging in public acts would be immune from suit in the US but not when engaged in commercial acts. Thus, foreign governments should not expect sovereign immunity to protect them from suit with respect to most investment in the US. There are, however, some minor problems concerning (1) the lack of a statutory procedure for service of process; (2) immunity of a foreign government from execution of a judgement and (3) the fact that the State Department and not the courts determine factual and legal questions about the validity of a foreign government's claim of sovereign immunity.





3. Reporting Requirements -- Existing reporting requirements relating to the collection of foreign direct investment data apply to foreign governments. However the Bureau of Economic Analysis in the Commerce Department indicates that the reporting regulations are rarely observed by companies in which a foreign government has a controlling interest and that the USG presently has no was of enforcing them against a foreign government or government controlled investor.
4. Tax Law -- Foreign governments are generally exempt from taxes on investment in the U.S. However, the exemption does not apply to the income of a separate profit making corporation which is owned by a foreign government. Distributions to the government from such corporations would, however, be tax free.
5. Antitrust Laws -- There is a technical legal issue over the application of our antitrust laws to foreign governments. American courts have held that the Sherman Act does not confer jurisdiction on US courts over acts by foreign sovereigns and that only acts by persons and corporations are covered. Thus, the key factor in any determination as to the applicability of US antitrust laws to the investment activity of a foreign government would be whether it used a separate corporation of the type generally engaged in commercial activity.
6. SEC Laws -- No differentiation is made between foreign governments and other foreign investors by federal laws confirming investment in US securities. There are, however, special regulations relating to the government issuance of securities in the US. The reporting and disclosure requirements of the securities exchange Act of 1934 do apply to foreign governments and foreign government controlled corporations.
7. Banking Laws -- Bank holding company legislation does not distinguish between US holding in foreign banks that are wholly or partly government owned.



DEPARTMENT OF DEFENSE
OFFICE OF GENERAL COUNSEL
WASHINGTON, D. C. 20301

January 23, 1975



MEMORANDUM FOR Dr. Roger E. Shields, Deputy Assistant
Secretary of Defense, OASD(ISA)

SUBJECT: Summary of Laws which Restrict or Otherwise Limit
Foreign Investment in Defense-related Industries and
Laws which Regulate Defense-related Production

This memorandum is in response to your request for a summary by this office of any laws which (a) restrict or otherwise limit foreign investment in businesses engaged in Defense work or Defense-related industries and those which regulate Defense production. To our knowledge there are no laws specifically limiting foreign investment in Defense-related industries. Secondly, we believe that the only laws which can be used to control Defense production are that section of the Defense Production Act, as codified in 50 App. U. S. C. 2071(a) and section 18 of the Selective Service Act, 50 App. U. S. C. 468.

The Defense Production Act, 50 App. U. S. Code 2071(a)(1) authorizes the President to require that performance under contracts or orders which he determines to be necessary to promote the national defense shall take priority over performance under any other contract or order. He may require acceptance of such contracts or orders in preference to all others by any person he finds to be capable of performance. Subsection (a)(2) authorizes the President to allocate materials and facilities in such manner, condition and extent as he determines to be necessary to promote the national defense.

There are no provisions under this law, as it presently exists, for condemnation by the Government of the property of a person who refuses to comply with an order. The only sanctions available are provided under 50 App. U. S. C. 2073 which states that any person who willfully fails to perform any act required by the provisions of the above section or any order thereunder shall upon conviction be fined not more than \$10,000 or imprisoned for not more than one year or both.

Subsection (a) of section 18 of the Selective Service Act authorizes the President, whenever he determines that it is in the interest of the



national security to obtain prompt delivery of any articles or materials authorized by Congress to be purchased exclusively for the use of the armed forces of the United States or for the use of the Atomic Energy Commission, to place an order with certain individuals, firms or companies. A recent amendment to this section requires that no order which requires payment in excess of \$25,000,000 will be placed unless the Committees on Armed Services of the Senate and House of Representatives have been notified in writing of the proposed order 60 days of continuous session of Congress prior to the placing of the order and no disapproving resolution has been adopted by either House of Congress within those 60 days. The requirement for the President to consult with and receive advice from the National Security Resources Board as originally expressed in the statute was abolished by section 5(a) of the Reorganization Plan No. 3 of 1953.

Under the provisions of this law the individual, firm or company is given notice that the order is placed under the authority of the statute to make him aware of the fact that compliance is mandatory and that refusal to comply may result in Government seizure of the facility.

Subsection (b) concerns the duty to comply with Government orders. Orders placed by the Government under this law shall have precedence with respect to all orders (Government or private) placed before or after such notice of the order. The subsection also requires that the order be filled within the period of time prescribed by the President or as soon as possible thereafter.

Subsection (c) provides authority for the President to seize the facilities if there is a failure to comply with properly placed orders. If any individual with whom an order is given under the authority of section 18 of the Selective Service Act refuses or fails--(1) to give the order the precedence which may be prescribed by the President; (2) to fill such order within the period of time prescribed or as soon thereafter as possible--such time to be determined by the President; (3) to produce the kind or quantity of articles or materials ordered; or (4) to furnish the quantity, kind and quality of articles or materials ordered at the price negotiated with the Government; the President is authorized to take immediate possession of any plant, mine or facility operated by such person and to proceed to operate it through any government agency for the production of such articles or materials as may be required by the

Government. Additionally, subsection (f) of section 18 provides that any person or any officer of any person as defined in this section who willfully fails to carry out the duty imposed on him by receipt of such an order shall be guilty of a felony and upon conviction thereof be punishable by imprisonment for not more than three years or by a fine of not more than \$50,000 or both.

Jerome Nelson
Assistant General Counsel
(Manpower, Health & Public Affairs)





ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

INTERNATIONAL SECURITY AFFAIRS

Senator Daniel K. Inouye
Chairman, Foreign Commerce and
Tourism Subcommittee
Committee on Commerce
Washington, D. C. 20510



Dear Senator Inouye:

Reference is made to your letter of 5 December 1974 in which you asked about various aspects of the Defense Department's policy towards foreign investments in defense industries. Enclosure (1) outlines the general Defense Industrial Security Program thrust and implementation.

Special care should be taken to safeguard our response to your question No.4 and our enclosed Lists No.2, "Facility Clearances Granted Where Foreign Ownership Control or Influence is a Factor" and No.3, "Facility Clearance not Granted or not Continued Due to Foreign Ownership Control or Influence."

These lists have not been released to the public. The information has been received by the Government in confidence since as a general rule the contractor considered the information to be "privileged." This is because contractors are required to report, among other things, the percentage of gross income derived from foreign sources and, more specifically to identify by percentage the particular countries from whence derived. This, and similar information, would be of value to competitors, because it points up marketing activities and the like. The Freedom of Information Act, Title 5, USC 552(b)(4) specifically exempts such commercial or financial information obtained from a person from the general disclosure requirement. Title 18, USC 1905 may also be applicable. Hence, our holding the data as "privileged".

As requested I am providing you the following additional responses to your specific inquiries:

Question 1: "Is the Department of Defense able to confirm the report that an offer for a controlling interest in Lockheed was in fact made by Arab investors?"

Response: The Department of Defense has no information other than what has appeared in the news media.

Question 2: "Is the Department able to confirm the claim that Lockheed rejected the offer in the manner described in the POST article?"

Response: The Department of Defense is not familiar with the action taken by Lockheed or the relationship described in the POST article.

Question 3: "If such an offer was made, was the Department advised of it? At what point in the negotiations was the Department told of the offer and rejection?"

Response: The Department of Defense has received no information of the reported offer and rejection.

Question 4: "Is the Department aware of any companies engaged in significant defense activities in which foreign investors have a controlling interest (10 percent or more of the voting stock)? If the answer is yes, please list them. (The term "significant" is intended to mean significant in volume or in importance because of the type of product, process, data, or service provided.)

Response: Enclosure (2) is a listing of all facilities for which the DoD has made a determination, as provided for in paragraph 2-203b of the Industrial Security Regulation (DoD 5220.22-R) as to their eligibility for a facility security clearance based on 6% or more foreign ownership of their voting stock. The listing also gives the rationale as to why a favorable determination was made and their current status. Enclosure (3) provides a separate listing of



facilities whose security clearance was either not granted or discontinued while being adjudicated after reporting 6% or more foreign ownership of their voting stock along with the reason why.

Question 5: "Does the Department of Defense know of any other bids for control (as defined above) of any such firms described above?"

Response: Under the Defense Industrial Security Program preliminary reports have been received from field components that Magnavox and Occidental Petroleum have experienced acquisitions of their stock by foreign investors. Both cases are now under review.

Question 6: "If such offers for control are made, does the Department require this information to be forwarded to the Department? If not, why not? If yes, at what point during the negotiation would this information have to be provided to the Department?"

Response: Under the Defense Industrial Security Program cleared Defense contractors are required to report when such offers become accepted and as a result a change in ownership occurred to an extent that control of a corporation was affected. Furthermore, should foreign interests own or become owners of 6% or more of the corporation's voting stock, we are furnished a report of such changed conditions in accordance with paragraph 6a(4) of the Industrial Security Manual for Safeguarding Classified Information (DoD 5220.22-M), together with a revised Certificate Pertaining to Foreign Affiliation (DD Form 441s).

Question 7: "Please list existing reporting requirements - laws, rules, regulations or other procedures - maintained by the Department as to the identity, location, and nationality of the foreign investors and the nature of the investment in companies engaged in significant defense work. In replying to this question, please cite the precise legal basis for the requirement."

Response: The only reporting requirements are established under the Defense Industrial Security Program. These reporting requirements are contained in the DD Form 441s (Certificate Pertaining to Foreign Affiliation), which the contractor is required to execute pursuant to paragraph 21a





of the Industrial Security Manual for Safeguarding Classified Information (DoD 5220.22-M). ASPR 7-104.12 (Military Security Requirements) requires the contractor to comply with the terms of the Security Agreement (DD Form 441) including the Industrial Security Manual which is attached to it and made a part, thereof, thus affording a contractual basis for the reporting requirement.

Question 8: "Please list all enforcement powers which exist to ensure compliance with the Department's data collection."

Response: Under the Defense Industrial Security Program a contractor's failure to furnish information pertaining to foreign ownership of stock may result in the denial or revocation of a facility security clearance. Misrepresentation of the extent of foreign ownership may result in a fine or imprisonment or both(18 USC 1001).

Question 9: "To your knowledge, have the disclosure and reporting requirements been effective or ineffective? Have the enforcement powers to require disclosure ever been used, and if so, in your opinion have they been sufficient to secure the necessary disclosure?"

Response: The disclosure and reporting requirements contained in the Defense Industrial Security Program have been accepted by participating contractors and are considered effective. No defense contractor's security clearance has been terminated for failure to report percent of foreign ownership, however, failure to report percent of foreign ownership or change thereto, could result in termination of a Defense contractor's facility clearance.

Question 10: "To what extent has the information collected been made available to the public and to the Congress?"

Response: We have no knowledge of such information being made available to the public or to the Congress. As stated above the information is considered to be privileged and is specifically exempt from public disclosure under the Freedom of Information Act (Title 5, USC 552(b)(4)).

Question 11: "Are there any gaps in the scope or coverage of reporting and disclosure? If so, in your opinion, what are they?"



Response: No gaps have been identified in the scope or coverage of reporting under the Defense Industrial Security Program.

Question 12: "Are there any factors such as foreign laws, use of foreign or domestic nominees, etc., which make it difficult or impossible to obtain information as to the identity, location, and nationality of the investors and the nature of the investment?"

was recorded on the books of United States Corporations,
Response: We are not aware of any foreign laws that restrict disclosure of stock ownership. However, corporate stock may be held by a domestic nominee under a private agreement with a non-U.S. citizen which may make it extremely difficult to ascertain whether the voting stock is, in fact, owned or controlled by non-U.S. citizens. Further, since stock can be held in any name and the records of the stock transfer agent need only show residence, not citizenship, a non-U.S. citizen can be a resident and his citizenship unknown. In most cases, U.S. firms are able to determine when foreign interests have a significant amount of their stock because they would be aware of any holding that could affect control over their firm by election of a director to their Board.

Question 13: "In your view, is any additional legislative authority needed to improve the data collection and disclosure program administered by the Department of Defense? If the answer is yes, please list your suggestion."

Response: The present method of obtaining information on percent of foreign ownership of Defense contractors' participation in the Defense Industrial Security Program is considered adequate. As you know, the recently enacted legislation which was sponsored by you and Congressman Culver (PL 93 479) requires the Commerce and Treasury Departments, as part of their overall review, to study the adequacy of information, disclosure and reporting requirements, and to recommend means whereby information on foreign investment can be kept current. Moreover, the Office of Management and Budget (OMB) and the Council on International Economic Policy (CIEP) are conducting an Interagency review of reporting requirements. This study will be supplied to the Congress by mid-February. Upon completion of the foregoing, we will be in a better position to determine if any further legislative



recommendations are necessary.

Question 14: "Can any changes or improvements be made administratively without further legislation? If so please list your suggestions."

Response: Yes, ^{even though} since present procedures are considered adequate it may be desirable to require prior notification of acquisition by a foreign investor of an interest in a US defense manufacturer. For example, companies with classified contracts might be required to notify DoD whenever negotiations ^{with} a prospective significant (e.g. 6% or more ownership) foreign investor commence~~x~~. This matter will be further assessed in light of the findings of the studies mentioned in response to Question 13, above.

For the purchase of company owned stock

Question 15: "Please list any laws which restrict or otherwise limit foreign investment in businesses engaged in defense work or in defense-related industries."

Response: We are not aware of any legislative basis which restricts foreign investments in defense industries. Although the industrial security regulations discussed above do not directly prohibit foreign investment in the defense sector, they do act as an indirect prohibition on foreign acquisition of any firm that does classified work with the government in that such acquisition could cause the firm to lose its classified government business. In addition, ~~with~~ the President has certain emergency powers which can be used to prevent abuse by any investor of his control of a defense related firm -- e.g. power to require priority performance of defense contracts in certain circumstances and broad powers under the Trading with the Enemy Act if a national emergency exists. In order to give the President added flexibility to protect national security in situations falling short of a declared emergency or war, you might want to consider broadening the case by case authority. For example, the President might be given authority to make a determination (based on national security grounds) to require that a specific firm should have ownership and control (e.g. voting rights) separated from management of the firm. (e.g. through establishment of a trust device). Alternatively, the President's power to act under the Trading with the Enemy Act might be made independent of the existence of a legal "state of emergency" and dependent only on his ad hoc determination

that regulation of a particular foreign investment was required in the interest of our national security.

I trust the information furnished you will be of assistance in your deliberations. If I can be of any further help in this matter, do not hesitate to call upon me.

Sincerely yours,



DASD/ISA INTER-OFFICE CONTROL SHEET

29 January 1975

LOG NO.

1-

SUBJECT:

Reply to Senator Inouye's letter of 5 December 1974 on DoD Foreign Investment Controls.

NAME, DIRECTORATE, EXTENSION, AND SIGNATURE OF ORIGINATING OFFICIAL:

Joseph W. Darling/BD/59282



| | INITIAL | DATE | | INITIAL | DATE |
|----------------------------|---------|------|-----------------------------|---------|-------------|
| ASSISTANT SECRETARY | S | | DASD NE, AF&SA AFF | N | |
| EXECUTIVE OFFICER | XO | | DIR, NE&SA REG | NE | |
| ASST FOR ADMINISTRATION | AO | | DIR, AFRICAN REG | NA | |
| RECORDS & CONTROL | RC | | | | |
| DEP FOR MC&TO | TO | | DASD-P/PL&NSC AFF | P | |
| PRINCIPAL ASSISTANT | SA | | DIR, P/PL&NSC AFF | PD | |
| SP ADV (POW AFF) | PW | | NSC COORD | PN | |
| CONF ASST TO ASD | CA | | DIR, M&FR TF | PF | |
| DIR, LAW OF SEA TF | LS | | | | |
| SPEC ASST (NUCLEAR POLICY) | RS | | | | |
| PRINCIPAL DASD | D | | DASD FOR SA | M | |
| MILITARY ASST | DM | | DIR, SA PLANS & POLICY | MD | |
| SPEC ASST FOR CONG REL | DS | | PLANS & PROGRAMS DIV | MP | |
| SPEC ASST TO PDASD | DT | | POLICY DIV | MN | |
| | | | | | |
| DASD FOR EA&PAC AFF | A | | DEF SCTY ASST AGCY | | |
| DIR, EA&PAC REG | AD | | DIRECTOR | T | |
| | | | DEP DIR | TD | |
| | | | SPEC ASST | TB | |
| DASD EUR&NATO AFF | E | | COMPTROLLER | TC | |
| DIR, EUR&NATO AFF | ED | | DIR FOR MIL ASST | TM | |
| | | | DIR FOR SALES NEG | TS | |
| DASD I-A, FTD&MR AFF | I | | | | |
| DIR, I-A REGION | IA | | 2 DASD - INT'L ECON AFFAIRS | B | |
| DIR, FMR AFFAIRS | IF | | 1 DIRECTOR, IEA | BD | KHJL 29 JAN |
| DIR, ST&D | IT | | | | |

COORDINATION OUTSIDE ISA

| ACTIVITY | NAME AND TITLE | INITIAL | DATE |
|-----------------|----------------|---------|------|
| GENERAL COUNSEL | | | |
| THE JOINT STAFF | | | |
| DEPT OF STATE | | | |

REMARKS (Including Coordination Outside ISA Not Shown Above)

Attached reply is responsive to the questions raised in Senator Inouye's letter of 5 December 1974. The reply points out that information contained in the two DoD lists of firms "cleared" and "not cleared" for classified DoD contracts under the Industrial Security Regulations are considered "privileged" and should not be released to the public. The proposed reply has been concurred in by the offices of General Counsel, the Assistant Secretary of Defense, Installations and Logistics, and the Assistant Secretary of Defense Comptroller, and approved in draft by staff of the Council on International Economic Policy. The section on the rumored Lockheed aircraft "take over" attempt was cleared with Admiral Carr of Mr. Clements' office.

SUSPENSE DATE

31 January 1975

DEFENSE INDUSTRIAL SECURITY PROGRAM

Foreign Ownership, Control and Influence Policy



As part of the Defense Industrial Security Program, the Department of Defense has established policies concerning foreign ownership, control, and influence in U.S. industry. The policy relates only to those U.S. companies who perform on classified contracts. A classified contract is defined as one the negotiation or performance of which will necessitate the contractor or his employees to have access to classified information. As a condition precedent to the award of a classified contract the contractor must be issued a facility security clearance. This is done as part of the Defense Industrial Security Program. Currently, there are approximately 11,500 cleared contractors or facilities participating in the program, and they employ approximately 1.2 million people who have been issued personnel security clearances. The DoD Industrial Security Program is administered by the Deputy Director, Contract Administration Services, Defense Supply Agency. Within the Defense Supply Agency there are eleven Regional Offices which have been delegated the responsibility for the security supervision and inspection of these 11,500 contractors. Overall, responsibility for policy development is vested in the Assistant Secretary of Defense (Comptroller) through the Deputy Assistant Secretary of Defense (Security Policy).

It should be pointed out that the Department of Defense pursuant to authority enunciated in Executive Order 10865 administers the Industrial Security Program, not only as it pertains to all Department of Defense classified contracts, but also on behalf of 14 other Departments and Agencies of Government. They are listed in Enclosure 1. Mention is made of these User Agencies because the foreign ownership, control, and influence policies and decisions affect not only DoD contractors, but also the contractors of these other Departments and Agencies of Government.

Since the inception of the Industrial Security Program within the Department of Defense in 1950, there has been a recognition of the need to insure those contractors who are entrusted with U.S. classified information are not subject to foreign ownership, control, or influence. This policy, which has been essentially unchanged since 1950, provides that facility clearances may be granted only to contractors organized and existing under the laws of any of the States or Puerto Rico, and that facilities which are determined to be under foreign ownership, control or influence are not eligible for a facility clearance. This policy is expressed in Section II, Part 2, Industrial Security Regulation (DoD 5220.22R).

Encl. 1.



The standard which is applied for determining the existence of foreign ownership is:

"a facility will be considered to be under foreign ownership, control or influence when the degree of ownership, control or influence from a foreign source is such that a reasonable basis exists for concluding that compromise of classified information may result."

There is an exception to this general rule. Pursuant to bilateral agreements, facilities which are under United Kingdom or Canadian ownership, control or influence may be cleared. These clearances are based on a security assurance on the foreign parent or owner from the government of Canada or the United Kingdom, as appropriate. These facility clearances are limited to the extent that classified information not releasable to the United Kingdom or Canada is likewise not releasable to facilities with United Kingdom or Canadian reciprocal facility clearances.

The reason for this foreign ownership policy is quite simple. The Industrial Security Program is based on an agreement between the Department of Defense and the top management of the company to safeguard classified information in accordance with the Industrial Security Manual for Safeguarding Classified Information (DoD 5220.22M). If the top management of the company consists of a foreign entity or is under the influence or control of a foreign entity, it would not be reasonable to entrust them with classified information which is not releasable to their foreign principal or owner. As a minimum, it would establish an untenable conflict of interest. As a maximum, it would be entrusting classified information with those who national policy has dictated should not have it -- for example, the foreign government, itself.

The inquiry to establish whether or not there are elements of foreign ownership, control or influence begins as part of the initial survey which is conducted as the first step in processing a company for a facility security clearance. The policy is explained and the company is asked to furnish information relating to foreign ownership, control or influence. To facilitate this factfinding, a form entitled "Certificate Pertaining to Foreign Affiliation" DD Form 441s was developed in 1959. This form, a copy of which is attached as Enclosure 2, asks the contractor to answer relevant questions with respect to foreign ownership, control and influence. Wherever the contractor indicates an affirmative answer, he is required to provide an explanation. Subsequent to the filing of this form with the DoD Cognizant Security Officer, the contractor is required to report any significant change in the information or answers previously provided. This requirement is set forth in paragraphs 6a(4)(f) and 21 of the Industrial Security Manual for Safeguarding Classified Information (DoD 5220.22M). From this it can be seen that primary source of foreign ownership, control and influence information is from the contractor itself.



The more common foreign ownership, control or influence elements are outlined in Enclosure 3. Income from foreign sources is far and away the largest single factor. Income from foreign sources is expressed and analyzed in terms of a percentage of gross income. With respect to ownership, 6% is the general threshold. Where less than 6% of the stock is foreign held, it generally will not be significant in terms of foreign influence. When the percentage exceeds 6%, then it may be a factor in influence and control. For example, in a very widely held corporation, a foreign owner controlling 6% of the voting stock may be in a position to exercise significant control. On the other hand, in a closely held corporation an amount considerably in excess of 6% may not be significant in terms of control of the corporation.

Interlocking directors standing alone will generally not be indicative of a problem. On the other hand, interlocking directors coupled with ownership by a foreign principal who appoints such directors may well be significant in terms of corporate control.

Licensing, patent, or trade secret agreements must be carefully reviewed to insure that they would not form a basis for intentional or inadvertent unauthorized disclosure of classified information.

Finally, with respect to foreign indebtedness, the debt must be reviewed in terms of its percentage of corporate assets and also in terms of collateral that might be pledged.

Because of the complexity and significance of foreign ownership, control or influence decisions the authority to make these decisions has always been held to a high level within the Department of Defense. Prior to 1965, the decision had to be made at the Secretarial level of the Military Departments. Since 1965, when Industrial Security was consolidated in DSA, the authority was specifically delegated to the Deputy Director of DSA for Contract Administration Services (DD/CAS). There are certain further delegations to region commanders which are set forth in Enclosure 4. These are strictly interpreted and whenever there is a doubt, the case is forwarded to DDCAS for decision.

Whenever there is significant evidence of foreign ownership, control or influence, the case is discussed in detail with the contractor and its counsel. If it appears that an adverse decision is indicated, the contractor is informed and advice and guidance is provided as to actions that the contractor might take to isolate or nullify this foreign ownership. Where there is a significant degree of foreign ownership, a voting trust agreement is generally suggested as a means of isolating this foreign owner. The voting trust which normally will consist of three disinterested individuals can be used to transfer legal title from a foreign owner to trustees who are U.S. citizens. The foreign owner becomes then simply a beneficiary. In order for such an arrangement to be approved, the foreign owner must agree to relinquish all the normal prerogatives of management. The trust must be de facto as well as de jura. In other words, the U.S. trustees must assume responsibility for management and control



of the corporation, thereby isolating the foreign owner from the cleared U.S. facility. If there are interlocking directors, the interlocking directors must resign, because otherwise they would circumvent the trust agreement. When a contractor establishes such a trust, it is generally possible for DSA to issue or continue the facility security clearance.

In making the clearance determination in foreign ownership, control or influence cases, DSA will generally analyze three primary channels for corporate control. They are ownership, management and technical commonality of interest. Ownership is obvious. When a foreign entity owns a significant portion of a company, he has the ability to influence or control. Generally speaking, this ownership will be manifest by the appointment of directors or officers. This constitutes the second, or management avenue, of control. If directors or officers are appointed by a foreign owner, then, of course, control and influence must be presumed. The third channel for potential control and influence relates to technical commonality of interest. If a foreign parent and U.S. subsidiary are engaged in the same general types of pursuit, or technical areas, there will be exchange and possibly dependence or interdependence in technical areas, and this situation may result in influence or control. It also establishes the possibility for a conflict of interest. On the other hand, when the foreign owner is strictly a financial institution and the U.S. subsidiary is involved in electronics, for example, there is no technical commonality of interest so this avenue would not be a potential source of difficulty in such a case.

To conclude, it should be pointed out that in the vast majority of cases foreign ownership is not a significant problem. Between 1968 and November 1974 there were a total of 682 foreign ownership, control or influence cases resolved at Headquarters, DSA. In most of these cases the ultimate decision is made to issue the facility clearance. In a small percentage it is necessary for the contractor to establish a trust before a favorable decision can be made. Some companies, albeit few in number, elect to not enter the classified procurement field, because their foreign owners choose not to relinquish the prerogatives of management. There have been very few adverse decisions.

Mention should also be made of the "utilization of facilities" policy set forth in paragraph 2-204, Industrial Security Regulation (DoD 5220.22R). Under this policy, a classified contract can be awarded even though the company is not cleared under the DoD Industrial Security Program. The advantage of this procedure is that it enables the Government to take advantage of the company's expertise, while, at the same time, not permitting the company to compete for other classified work which could be performed equally well by other U.S. contractors.

4 Enclosures:

1. List of User Agencies (in proper order)
2. DD Form 441s
3. Common elements of FOCT (from vignette)
4. Delegation of authority (from vignette) (6% ownership, etc.)

DEPARTMENTS AND AGENCIES WHICH UTILIZE THE
INDUSTRIAL SECURITY PROGRAM AS AUTHORIZED BY E.

DEPARTMENTS OF

- . STATE
- . TREASURY
- . INTERIOR
- . AGRICULTURE
- . COMMERCE
- . LABOR
- . HEALTH, EDUCATION AND WELFARE
- . TRANSPORTATION

AGENCIES:

- . FEDERAL ENERGY ADMINISTRATION
- . GENERAL SERVICES ADMINISTRATION
- . NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
- . ENVIRONMENTAL PROTECTION AGENCY
- . NATIONAL SCIENCE FOUNDATION
- . SMALL BUSINESS ADMINISTRATION



CERTIFICATE PERTAINING TO FOREIGN AFFILIATION

TYPE OR PRINT
ALL ANSWERS

Form Approved
Budget Bureau No. 22-R193

PENALTY - Failure to answer all questions, or any misrepresentation (by omission or concealment, or by misleading, false or partial answers) may serve as a basis for denial of clearance for access to classified Department of Defense information. In addition, Title 18, United States Code 1001, makes it a criminal offense, punishable by a maximum of five (5) years' imprisonment, \$10,000 fine, or both, knowingly to make a false statement or representation to any Department or Agency of the United States, as to any matter within the jurisdiction of any Department or Agency of the United States. This includes any statement made herein which is knowingly incorrect, incomplete or misleading in any important particular.

PROVISIONS

1. Before classified defense information may be disclosed by the Department of Defense to contractors, they must meet certain established security standards. You are requested to complete this form so that your eligibility for a facility security clearance for access to classified defense information may be determined.

2. As used below, the term "foreign interests" refers to (a) any natural person who is not a citizen or national of the U. S., (b) any form of business enterprise organized under the laws of any country other than the

U. S. or its possessions, and (c) any form of business enterprise organized or incorporated under laws of the United States or a state or other jurisdiction of the United States which is owned or controlled by a foreign firm or foreign national.

3. Complete all questions on this form. Answer each question in either the "Yes" or "No" column. If your answer to any question is "Yes", furnish full and complete information under "Remarks".

| QUESTION | YES | NO |
|--|-----|----|
| 1. DO FOREIGN INTERESTS OWN 6% OR MORE OF YOUR ORGANIZATION'S VOTING STOCK? | | |
| 2. IS YOUR ORGANIZATION ORGANIZED IN SUCH A MANNER SO THAT INTERLOCKING DIRECTORATES OR HOLDING COMPANY ARRANGEMENTS ARE BEING MAINTAINED WITH FOREIGN INTERESTS? | | |
| 3. DOES YOUR ORGANIZATION MAINTAIN ANY LICENSING, PATENT EXCHANGE OR TRADE SECRET AGREEMENTS WITH FOREIGN INTERESTS? | | |
| 4. DOES YOUR ORGANIZATION MAINTAIN ANY TRUST OR PROXY ARRANGEMENTS WITH FOREIGN INTERESTS? | | |
| 5. IS YOUR ORGANIZATION INVOLVED IN ANY AGENCY, CARTEL, PARTNERSHIP OR JOINT VENTURE AGREEMENTS WITH FOREIGN INTERESTS? | | |
| 6. DOES ANY FOREIGN INTEREST CONTROL THE APPOINTMENT OR TENURE OF ANY OF YOUR DIRECTORS, OFFICERS OR PRINCIPAL SUPERVISORY MANAGEMENT PERSONNEL? | | |
| 7. IS ANY FOREIGN INTEREST IN A POSITION TO INFLUENCE THE APPOINTMENT OR TENURE OF ANY OF YOUR DIRECTORS, OFFICERS OR PRINCIPAL SUPERVISORY MANAGEMENT PERSONNEL? | | |
| 8. ARE THERE ANY FOREIGN OWNERS, OFFICERS, DIRECTORS OR PRINCIPAL SUPERVISORY MANAGEMENT PERSONNEL WHO MAY BE IN A POSITION TO HAVE ACCESS TO CLASSIFIED INFORMATION? | | |
| 9. IS YOUR FACILITY CURRENTLY INDEBTED TO, OR SUPPORTED FINANCIALLY IN ANY WAY BY, FOREIGN INTERESTS? | | |
| 10. ARE THERE ANY CITIZENS OF FOREIGN COUNTRIES WHO MAY VISIT YOUR FACILITY (or facilities) IN A CAPACITY WHICH MAY PERMIT THEM TO HAVE ACCESS TO CLASSIFIED INFORMATION? | | |
| 11. HAS YOUR FACILITY EVER BEEN DENIED A FACILITY SECURITY CLEARANCE BY THE DOD OR ANY OTHER U. S. GOVERNMENTAL AGENCY BECAUSE IT HAS BEEN CONSIDERED TO BE UNDER FOREIGN OWNERSHIP, INFLUENCE OR CONTROL? | | |



DD FORM 441s
1 MAR 53

REPLACES EDITION OF 1 APR 59 WHICH MAY BE USED.

REMARKS (Attach additional sheets, if necessary, for a full detailed statement)



CERTIFICATION

I CERTIFY THAT THE ENTRIES MADE BY ME ABOVE ARE TRUE, COMPLETE, AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF AND ARE MADE IN GOOD FAITH.

WITNESS

| | |
|-------|----------------|
| _____ | DATE CERTIFIED |
| _____ | By _____ |
| | CONTRACTOR |
| | TITLE |
| | ADDRESS |

NOTE - In case of corporation, witnesses not required but certificate below must be completed. Type or print names under all signatures.

NOTE - Contractor, if a corporation, should cause the following certificate to be executed under its corporate seal, provided that the same officer shall not execute both the agreement and the certificate.

CERTIFICATE

I, _____ certify that I am the _____ of the corporation named as Contractor herein; that _____ who signed this certificate on behalf of the Contractor, was then _____ of said corporation; that said certificate was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

(Corporate Seal)

SIGNATURE AND DATE

MORE COMMON FOCI ELEMENTS

FOREIGN INCOME

FOREIGN OWNERSHIP

INTERLOCKING DIRECTORS

LICENSING AGREEMENTS

FOREIGN INDEBTEDNESS



7-10-1973

DELEGATION TO REGION COMMANDERS

LESS THAN 6% OWNERSHIP

INTERLOCKING DIRECTORS

LICENSING AGREEMENTS

FOREIGN INCOME LESS THAN 10% OF GROSS INCOME



500619100-47

Information is Considered Privileged and Is Protected From Public Disclosure by 5 USC 552(b) (4)

DATE OF LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION

US Companies with Foreign Ownership Facility Clearances Granted

NAME AND LOCATION OF FACILITY

PERCENT FOREIGN OWNED

ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE

TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED

FACILITY CLEARANCE STATUS

Dec 74

International Telephone & Telegraph Corp. New York, NY

16.6 %

The ownership of ITT is extremely diversified; of the 222,900 stockholders, a total of 4,364 are foreign nationals with 704 of this number actually residing in the U.S. No foreign group is represented by more than 5% of the stock and no single individual, regardless of nationality, owns more than 1%. Stockholders in Communist countries receive no dividends and take no part in voting actions.

Communications

Active



Encl 2

Sep 74

Addington Labs, Inc., Sunnyvale, CA

11.7 %

11.7% of stock owned by a Liechtenstein firm. Officers and Directors of U.S. firm control 52% of stock and have executed a Board resolution to notify DCASR of change in stock distribution. DCASR, San Francisco, instructed to make percentage of foreign ownership special interest during inspections.

Manufacturing Microwave Components

Active

| DATE FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|---|---|-----------------------|---|---|--|
| Sep 74 | Dynalectron Corp. Washington, D. C.  | 8.33 % | Three Canadian citizens own the 8.33% of stock and are associated with U.S. firms wholly owned subsidiary. Percentage of stock not large enough to affect control. All officers and directors of U.S. firm are U.S. citizens and can isolate foreign control. | Missile Maintenance and Operations | Active |
| Feb 74 | Dannont Corp. Huntsville, AL | 15 % | Canadian citizens own 15% of stock. Largest single Canadian holder is 1% of stock. 85% of stock owned by U.S. citizens. | | Excluded parent of Astro-Space Laboratories, Inc. Huntsville, AL |
| Feb 74 | The A. H. Emery Co. New Canaan, CT | 8 % | 92% of stock owned by four U.S. citizens who are Officers or Directors of U.S. firm. Mexican national's 8% ownership of stock effectively isolated by U.S. 92% ownership of stock. | Manufacture Hydraulic Load Cells Weighing Equipment | Active |
| Sep 74 | I-T-E Imperial Corp. Spring House, PA | 6.01 % | European Investment Co. owns 6.01% stock, which resulted in a foreign national being elected | Manufacturing Electrical Equipment | Active |

OWNERSHIP,
CONTROL OR
INFLUENCE
ACTION

NAME AND LOCATION
OF FACILITY

PERCENT
FOREIGN
OWNED

ACTION TAKEN TO
NULLIFY FOREIGN
OWNERSHIP, CONTROL
OR INFLUENCE

TYPE OF PRODUCT,
PROCESS, DATA OR
SERVICE PROVIDED

FACILITY
CLEARANCE
STATUS



Aug 74

Fugro National Inc.
Long Beach, CA

100 %

to U.S. firm's board. U.S. firm has taken board action by resolution which isolates the foreign director-from management action involving classified information.

Consulting Engineers on Earth Sciences

Active

Mar 73

Cablewave Systems, Inc., North Haven, CT

50 %

50% stock ownership by West German firm. Placed in voting trust agreement established with two U.S. citizens trustees. Trust agreement contains sufficient terms and conditions assuring trustees sole and absolute discretion with all rights and powers in the same manner as if they own the stock.

Manufacture Coax Cable and Electrical Wave Guide and Connectors

Active

Apr 73

Checchi and Company
Washington, D. C.

7.4 %

6.4% of the voting stock of Checchi and Company is owned by Ganta Trading and Investments, Ltd., a

Terminated

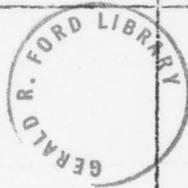
| NO. | DATE FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|-----|---|---|-----------------------|---|--|---------------------------|
| 9 | |  | | Bahamian corporation owned by Roberto Vullaneuva, one of the directors of subject facility. An additional 1% of voting stock is owned by shareholders in England, Italy, the Philippines and Switzerland for an overall total of 7.4%. Foreign ownership of stock widely diversified. | | |
| 10 | Jul 73 | General Semiconductor Industries, Inc., Tempe, AZ | 27 % | Trust agreement established to effectively isolate the U.S. company from foreign ownership of 27% of its stock by Swiss and U.K. individuals and corporations. | R&D Semiconductors | Active |
| 11 | Jan 73 | Keydata Corporation Watertown, MA | 8.6 % | 8.6% of stock owned by Canadian firm, non-cumulative. Canadian firm has been excluded from access to classified information by Board action. | Computer Equipment, Design and Development | Active |
| 12 | Feb 73 | Leach Corporation Los Angeles, CA | 30 % | 30% ownership by British interest, no cumulative voting rights. 59% of stock owned by | R&D Electronic Instruments | Active |

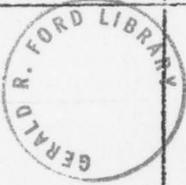
| NO. | OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|-----|---|---|-----------------------------|--|--|--|
| 12 | |  | | U.S. family (Ohrstron). At this ratio, U.S. control is maintained nullifying foreign control. | | |
| 13 | Aug 73 | UMC Industries, Inc. New York, NY | 7.7 % | Foreign stock owner- ship is sufficiently diversified between 59 citizens of Canada and 58 other foreign nationals to preclude any single foreign interest from exert- ing control on the U. S. firm. | | Excluded parent of Unidynamics St. Louis, MO. and Phoenix, A |
| | May 72 | DeBell & Richardson, Inc., Enfield, CT | 10.1 % | 10.1% stock owned by deceased British citi- zen. Hartford National Bank & Trust Company is sole executor of estate of deceased British citizen (Mr Warner) and has sole authority to vote stock. | Plastic Engineering and Development | Active |
| | May 72 | Loomis Corporation Seattle, WA | 7.9 % | 7.9% stock owned by Canadian firm. 92.1% of stock is held by U.S. interest who in turn owns 100% of Canadian firm which owns 7.9% of U.S. firm's stock, thus all stock is controlled by U.S. | | Excluded parent of Loomis Elec- tronics Protec Inc., Seattle, |

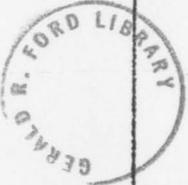
| NO. | LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|-----|---|---|-----------------------|--|--|---------------------------|
| 16 | Sep 72 | Unexcelled, Inc. Depew, NY | 8.8 % | The 8.8% of stock held by foreign interest is widely diversified (69 owners in 12 countries) with the largest single amount (2.8%) held by the Bank of Bermuda. | | Terminated |
| 17 | Apr 68 | Aiken Industries, Inc., New York, NY | 80 % | An Ecuadorian Corporation which is 80% owned by U.S. citizens in turn owns 80% of U.S. firm. U.S. firm established executive committee comprised of three Directors with full authority on all classified matters. | Manufacture Electronic Equipment | Active |
| 18 | Mar 71 | Comma Corporation Los Angeles, CA | 13.38 % | 13.38% of U.S. firm's stock is owned by 8 Canadian shareholders, none of whom owns more than 3.30% of stock. No single foreign ownership enough to exert control. | Computer Repair and Maintenance | Active |
| 9 | Apr 71 | Argus Incorporated West Columbia, SC | 9.5 % | Voting trust agreement established to isolate U.S. firm from Italian | | Terminated |



| NO. | LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|-----|---|---|-----------------------|---|---|---------------------------|
| 19 | | | | stock owners, thus nullifying foreign control. | | |
| 20 | Sep 72 | North American Philips, New York, NY | 63 % | U.S. Philips trust created in 1941 to isolate the 63% stock held by N.V. Philips (Holland). File reviewed in 1957, 1962, 1971 and is currently under review due to recent granting of money by Dutch parent to purchase Magnavox Company. | Manufacturing of Electronic Components and Appliances | Active |
| 21 | Sep 71 | InfoDyne, Inc. Arlington, VA | 13 % | 13% owned by British citizen. U.S. firm controls 74.7%. U.S. firm considered to have adequate stock to offset foreign control. | | Terminated |
| 22 | May 71 | Cappa Systems Arlington, VA FORMERLY: The J. D. Kettelle Corporation | 6.2 % | 6.2% is divided among three foreign countries, none of whom are considered to be in a position to control U.S. firm. | Operations Research (Mathematics) | Active |
| | Mar 71 | Icore Electro-Plastics Inc., Santa Clara, CA | 17.2 % | The 17.2% owned by British firm. Irrevocable proxy obtained from British controlling firm, | | Terminated |



| DATE OF LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|--|--|-----------------------------|---|--|---|
| Aug 71 |  Liquidonics Industries, Inc., Plainsview, NY | 9.9 % | naming the President and Secretary of Icore as agents of proxy. 9.9% owned by Swiss investment company which operates as a mutual fund organiza- tion that holds stocks for growth potential, not for exercising own- ership perogatives. | | Terminated |
| Nov 70 | American Metal Climax, Inc., New York, NY | 11.8 % | 11.8% of stock divided between two British and one Canadian invest- ment firms, none of which are considered enough to control U.S. firm. | Mining and Refin- ing Research | Active |
| Oct 70 | Schlumberger Technolo- gy Corp., New York, NY and Weston Instrument, Inc., Newark, NJ | 100 % | Voting trust established to isolate the 100% stock ownership by Schlumberger Limited, a Netherlands Antilles Corporation. Case was subject of a favorable determination in 1957-1961 by Navy, and reviewed in 1967, 1970. | | Excluded parent of Weston Instru- ment, Inc., New NJ |
| Jun 70 | Allied Chemical Corp. Morristown, NJ | 10.67 % | 9.72% of stock held by Belgium firm which is | Research and Devel- opment of Chemicals | Active |

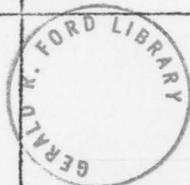
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|-----|---|--------------------------------------|-----------------------|---|---|---------------------------|
| 27 | | | |  <p>a N.Y. brokerage firm. .95% of stock diversified among other foreign countries, none of which are considered to be in a position to control U.S. firm.</p> | | |
| 28 | Jan 70 | Griffin Industries, Inc., Miami, FL | 8.45 % | <p>8% of voting stock of U.S. firm owned by Montreal Trust Co.; .45% owned by Canadian and English citizens and one Mexican. No single foreign owner of stock is considered in a position to control U.S. firm.</p> | | Terminated |
| 29 | Feb 70 | Geotel, Inc. Amityville, NY | 25.2 % | <p>Voting stock trust appointing a U.S. citizen as trustee established to control the 25.2% of stock owned by a Netherlands Antilles Corp. and a Canadian company.</p> | <p>Manufacture of Photographic Instrumentation and Electronic Systems</p> | Active |
| 30 | May 70 | Ground/Data Corp. Ft. Lauderdale, FL | 7.50 % | <p>7.50% of stock ownership is divided between two countries (U.K. - .0045%, F.R.G. - 7.50%). 62% of stock owned by Board of Directors of U.S. firm.</p> | | Terminated |

| NO. | DATE OF LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|-----|---|---|-----------------------|---|--|---------------------------|
| 31 | Feb 70 | Pall Corporation Glen Cove, NY | 11.2 % | 6.8% of stock is owned by a Canadian company. 4.4% owned by numerous foreign countries. No foreign source is considered to be in a position to control the U.S. firm. | Manufacture Filters and Enviromental Products | Active |
| 32 | Nov 70 | Pneumafil Corporation Charlotte, NC | 60 % | All foreign-owned shares are in an irrevocable trust with two U.S. citizens as executors. | | Terminated |
| 33 | Jul 70 | Rolm Corporation Cupertino, CA | 15.4 % | 15.4% held by a Panama company - remainder percentage of stock is U.S. owned, mostly by management of U.S. firm. | Research and Development Electro-Optics | Active |
| 34 | Nov 70 | Hovermarine Corp. Pittsburg, PA FORMERLY: Transportation Technology, Inc. | 12.21 % | 12.21% owned by 4 diverse U.K. firms. Directors, officers and employees of U.S. firm own 60.1% of stock with the remaining 27.7% of stock owned by U.S. citizens. | Manufacturing of Ships | Active |

| NO. | DATE OF LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|-----|--|--|-----------------------------|--|--|---------------------------------|
| 40 | Apr 68 | Warnecke Electron Tubes, Inc., Des Plaines, IL | 11 % | 11% of stock owned by a French firm. 89% is owned by a cleared U.S. firm which votes the stock as a block, thus nullifying the possibility of foreign control. | Manufacture Elec- tronic Tubes | Active |
| 41 | Mar 68 | Arcos Corporation Philadelphia, PA | 100 % | Voting trust executed by Belgian firm which transfers 100% of stock to U.S. citizens with full authority. | R&D Electrical Welding | Active |
| 42 | Apr 68 | Bird Johnson, Co. Walpole, MA | 100 % | Voting trust establish- ed to isolate U.S. firm from Swedish owned parent (A. John- son and Co., New York, NY). | Manufacture Marine Hardware | Active |
| 43 | Feb 67 | Cecil H. Wrightson Inc., DBA/Wrightson Typographers, Boston, MA | 12 % | Family corporation. Mr Cecil Wrightson (U.S.) owns principle stock, Mr Wrightson's brother and two sisters (U.K.) own 12%. | Graphic Arts | Active |
| 44 | Jun 67 | Magnetic Controls Co. Minneapolis, MN | 18.90 % | 18.90% of stock owned by a Hong Kong company. Three U.S. citizens have | Manufacturing of Temperature Controls and Communications | Active |



| DATE OF LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|--|---|-----------------------------|--|--|---------------------------------|
| Jun 66 | Mark Hurd Aerial Surveys, Inc., Minneapolis, MN | 13.938% | cover the 18.90% foreign owned stock. 13.938% of stock owned by a Mexican national. Company by-laws amended to require Directors to be U.S. citizens. | Graphic Arts (Topo- graphical) | Active |
| Feb 66 | Monotype Composition Corp., Miami, FL | 30 % | 30% of stock owned by national of Cuba. All foreign owned stock placed in trust with U.S. citizen. | | Terminated |



Information is Considered Privileged and is Protected from Public Disclosure by 5 USC 552(b) (4) 11

FACILITIES CLEARANCES NOT CONTINUED OR GRANTED DUE TO FOREIGN OWNERSHIP, CONTROL OR INFLUENCE

| O. | DATE OF LAST ACTION | NAME | PERCENT OF FOREIGN OWNERSHIP | REASON FOR DISCONTINUANCE OF FACILITY PROCESSING ACTION |
|----|---------------------|--|------------------------------|--|
| 1 | 24 Sep 68 | B&K Instruments, Inc. Cleveland, OH | 20 % | Procurement need lapsed. Action to clear discontinued on 24 Sep 68. |
| 2 | 22 Jul 70 | OCRA, Inc. Cambridge, MA | 22 % | Clearance action discontinued on 19 Jun 70 at request of the facility. |
| 3 | 5 Oct 70 | U.S. Time (Timex) Bridgeport, CT | 33 % | Clearance terminated at request of management. Facility elected not to establish a voting trust to isolate their foreign owned stock. |
| 4 | 21 Apr 71 | Interdata, Inc. Oceanport, NJ | 17 % | Action to clear the firm was discontinued on 16 Apr 71 at request of management. |
| 5 | 19 Oct 72 | Howmet Corp. Greenwich, CT | 56 % | Clearance terminated on 2 Oct 72 when procurement need could not be justified. |
| 6 | 17 Apr 72 | Shell Oil Co. Houston, TX | 69 % | Shell Oil indicated a voting trust was not feasible when the facility was found to be under foreign ownership and control. AF elected to utilize them under para 2-204, ISR. |
| | 28 Nov 72 | United Graphics, Inc. Seattle, WA | 85 % | Facility clearance was administratively terminated on 17 Nov 72. Facility elected not to be processed for a Canadian Reciprocal Clearance or establish a voting trust. |



Encl 3

Information is considered Privileged and is Protected from Public Disclosure by 5 USC 552(b)(4)

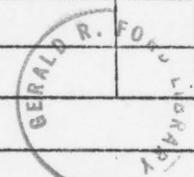
FACILITIES CLEARANCES NOT CONTINUED OR GRANTED DUE TO FOREIGN OWNERSHIP, CONTROL OR INFLUENCE

III

| O. | DATE OF LAST ACTION | NAME | PERCENT OF FOREIGN OWNERSHIP | REASON FOR DISCONTINUANCE OF FACILITY PROCESSING ACTION |
|----|---------------------|--|------------------------------|--|
| 8 | 6 Feb 73 | DeLaval Separator Co. Poughkeepsie, NY | 100 % | Facility clearance was administratively terminated on 6 Feb 73 when a procurement need no longer existed. |
| 9 | 12 Oct 73 | Dynamic Communications Rivera Beach, FL | 36.8 % | Action to clear the firm was discontinued 24 May 73. Management elected not to establish a voting trust. |
| 0 | 6 Feb 73 | LIPS, Inc. Oakland, CA | 100 % | Dutch parent of U.S. firm would not endorse a voting trust to isolate their stock ownership. |
| 1 | 25 Jul 73 | Stouffer Corp. Cleveland, OH | 100 % | Swiss parent, of U.S. firm would not endorse a voting trust. Clearance terminated when Navy advised clearance was not needed. |
| 2 | 17 Aug 73 | Sigmatron, Inc. Santa Barbara, CA | 100 % | Clearance terminated on 16 Aug 73 when issue of a voting trust agreement could not be resolved. |
| | 15 Jun 73 | Gaulin Corp. Everett, MA | 100 % | British parent did not endorse a voting trust and the Navy elected not to request a U.K. Reciprocal Clearance for U.S. firm in lieu of a voting trust to isolate U.S. firm from U.K. |
| | 5 Dec 73 | Graphtek Corp. Phoenix, AZ | 22.6 % | U.S. facility elected not to establish a voting trust to isolate foreign ownership and request withdrawal from the Defense Industrial Security Program. |

SECRETARY OF DEFENSE ROUTING SLIP

| TO | ACT COPY TO | INFO COPY TO | TO | ACT COPY TO | INFO COPY TO |
|--|-------------|--------------|------------------------------------|-------------|--------------|
| SECRETARY OF DEFENSE | | ✓ | ASD (Public Affairs) | | |
| DEPUTY SECRETARY OF DEFENSE | | ✓ | GENERAL COUNSEL | | ✓ |
| THE SPECIAL ASSISTANT | | | DIR, TACCS | | |
| SECRETARY OF THE ARMY | | | ATSD (Atomic Energy) | | |
| SECRETARY OF THE NAVY | | | ASST TO SEC DEF & DEP SEC DEF | | |
| SECRETARY OF THE AIR FORCE | | | DEF ADV RES PROJ AGENCY | | |
| CHAIRMAN, JOINT CHIEFS OF STAFF | | | DEFENSE CIVIL PREPAREDNESS AGENCY | | |
| DIR OF DEF RESEARCH AND ENGINEERING | | | DEFENSE COMMUNICATIONS AGENCY | | |
| ASD (Comptroller) | | | DEFENSE CONTRACT AUDIT AGENCY | | |
| DASD (Administration) | | | DEFENSE INTELLIGENCE AGENCY | | |
| ASD (Health and Environment) | | | DEFENSE MAPPING AGENCY | | |
| ASD (Installations and Logistics) | ✓ | | DEFENSE NUCLEAR AGENCY | | |
| ASD (Intelligence) | | | DEFENSE SECURITY ASSISTANCE AGENCY | | |
| 2 ASD (International Security Affairs) | | ✓ | DEFENSE SUPPLY AGENCY | | |
| 1 ASD (Legislative Affairs) | | | NATIONAL SECURITY AGENCY | | |
| ASD (Manpower and Reserve Affairs) | | | | | |
| ASD (Program Analysis and Evaluation) | | | | | |



ACTION REQUIRED

| | |
|---|------------------------------------|
| PREP OF REPLY FOR SEC OF DEF SIGNATURE | INFORMATION AND RETENTION |
| PREP OF REPLY FOR DEP SEC OF DEF SIGNATURE | COMMENTS AND/OR RECOMMENDATION |
| 2 REPLY DIRECT (Fwd cy of reply for Sec of Def records) | COORDINATE REPLY WITH 1LA, 1EA, GC |
| 1 APPROPRIATE ACTION | |

REMARKS

Requires more time for coordinating - update to...
 22 Jan 75
 31 Jan 75
 See 1Nonye

CONGRESSIONAL

THE ATTACHED CORRESPONDENCE REQUIRES SPECIAL HANDLING IN ACCORDANCE WITH INSTRUCTIONS CONTAINED IN MEMORANDUM FROM THE SECRETARY OF DEFENSE DATED 27 MARCH 1969, SUBJECT, "CONGRESSIONAL CORRESPONDENCE."

THIS IS AN *

18

ACTION COPY

ADVANCE ACTION COPY

INFORMATION COPY

ACTION DUE NOT LATER THAN

DEC 15 1974

ROUTING DATE

3 DEC 1974

OSD CONTROL NUMBER

15321 I-11267/74

This form must be completed and delivered to the Correspondence Control Section, OSD, Room 3A948, not later than 10 Dec 74

DATE
10 Dec 74

TO: CORRESPONDENCE CONTROL SECTION, OSD, ROOM 3A948

ACTION HAS BEEN COMPLETED (Copy attached).

ACTION HAS NOT YET BEEN COMPLETED BECAUSE

Transfer action to DASD(International Economic Affairs) (ISA),

Mr. Joe Darling X- 78189 Rm 4E 825

THE EXPECTED DATE OF COMPLETION IS 31 Jan 1975

CCS CONTROL NUMBER

Adv 15321

SIGNATURE OF REPORTING INDIVIDUAL AND ORGANIZATION

H. L. FISHER, OASD(I&L)PP
H. L. Fisher

TELEPHONE NUMBER

X-76419

SD FORM 391
1 AUG 61

REPORT ON SECRETARY OF DEFENSE CORRESPONDENCE



VANCE HARTKE, ILL.
PHILIP J. HART, MICH.
HOWARD W. CANNON, NEV.
RUSSELL D. LONG, LA.
FRANK F. MOSS, UTAH
ERNEST F. HOLLINGS, S.C.
DANIEL K. INOUE, HAWAII
JOHN V. TURNER, CALIF.
ADLAI E. STEVENSON III, ILL.

JAMES H. EASTON, ILL.
JAMES B. EASTON, KANS.
ROBERT P. GRIFFIN, MICH.
HOWARD H. BAKER, JR., TENN.
MARTIN W. COOK, KY.
TED STEVENS, ALASKA
J. GLENN BEALL, JR., MD.

United States Senate

COMMITTEE ON COMMERCE
WASHINGTON, D.C. 20510

FREDERICK J. LORDAN, STAFF DIRECTOR
MICHAEL PERTSCHUK, CHIEF COUNSEL

December 5, 1974

Honorable James Schlesinger
Secretary of Defense
Department of Defense
Washington, D. C.



Dear Mr. Secretary:

On Sunday, December 1st, the Washington POST carried a story on a proposed attempt by foreign investors to purchase a substantial block of common stock in the Lockheed Corporation. The proposed purchase would have been of such a magnitude as to constitute a controlling interest in that firm.

According to one version reported in the POST, the initial offer was accepted and then subsequently rejected. It was further reported that the foreign investors suspected that the United States Government vetoed the bid although there was no evidence to support such a suspicion.

Without prejudging the accuracy of the article, I have developed some misgivings over foreign investments in American firms involved in national security activities and the Administration's policies with respect to such investments - or proposed investments. Our policy has been to permit foreign investment in the United States with the exception of a few areas traditionally reserved for domestic control and investment and to extend to such foreign investment - once made - "national treatment". I have supported and still support that policy. I believe in the need to maintain an open world economy. Enactment of unnecessary restrictions would seriously undermine free trade and the free flow of capital.

Nevertheless, I believe that it would be advisable if the policy with respect to foreign investment in American companies with a large or important stake in defense work were clarified. Therefore, I would appreciate your response to several questions which I have prepared about the news story and about the Defense Department's policy in general.

15321

Honorable James Schlesinger
Page 2
December 5, 1974



1. Is the Department of Defense able to confirm the report that an offer for a controlling interest in Lockheed was in fact made by Arab investors?
2. Is the Department able to confirm the claim that Lockheed rejected the offer in the manner described in the POST article?
3. If such an offer was made, was the Department advised of it? At what point in the negotiations was the Department told of the offer and rejection?
4. Is the Department aware of any companies engaged in significant defense activities in which foreign investors have a controlling interest (10 per cent or more of the voting stock)? If the answer is yes, please list them. (The term "significant" is intended to mean significant in volume or in importance because of the type of product, process, data, or service provided).
5. Does the Department of Defense know of any other bids for control (as defined above) of any such firms described above?
6. If such offers for control are made, does the Department require this information to be forwarded to the Department? If not, why not? If yes, at what point during the negotiation would this information have to be provided to the Department?
7. Please list existing reporting requirements - laws, rules, regulations or other procedures - maintained by the Department as to the identity, location, and nationality of the foreign investors and the nature of the investment in companies engaged in significant defense work. In replying to this question, please cite the precise legal basis for the requirements.
8. Please list all enforcement powers which exist to ensure compliance with the Department's data collection.
9. To your knowledge, have the disclosure and reporting requirements been effective or ineffective? Have the enforcement powers to require disclosure ever been used, and if so, in your opinion have they been sufficient to secure the necessary disclosure?
10. To what extent has the information collected been made available to the public and to the Congress?
11. Are there any gaps in the scope or coverage of reporting and disclosure? If so, in your opinion, what are they?

Honorable James Schlesinger
Page 3
December 5, 1974

12. Are there any factors such as foreign laws, use of foreign or domestic nominees, etc. which make it difficult or impossible to obtain information as to the identity, location, and nationality of the investors and the nature of the investment?
13. In your view, is any additional legislative authority needed to improve the data collection and disclosure program administered by the Department of Defense? If the answer is yes, please list your suggestions.
14. Can any changes or improvements be made administratively without further legislation? If so, please list your suggestions.
15. Please list any laws which restrict or otherwise limit foreign investment in businesses engaged in defense work or in defense-related industries.
16. Has the Department of Defense encountered any special problems with foreign government investors or foreign government-controlled investors?

Your cooperation in responding to this inquiry is greatly appreciated.

Sincerely yours,



DANIEL K. INOUE, Chairman
Foreign Commerce and Tourism
Subcommittee



DKI:elf



INTERNATIONAL
SECURITY AFFAIRS

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

31 JAN 1975

hanks

In reply
Refer to: I-11268/74

Senator Daniel K. Inouye
Chairman, Foreign Commerce and
Tourism Subcommittee
Committee on Commerce
Washington, D. C. 20510



Dear Senator Inouye:

Reference is made to your letter of 5 December 1974 in which you asked about various aspects of the Defense Department's policy towards foreign investments in defense industries. Enclosure (1) outlines the general Defense Industrial Security Program thrust and implementation.

In connection with our response to your Question No. 4. your attention is invited to the enclosed Lists No. 2, "Facility Clearances Granted Where Foreign Ownership Control or Influence is a Factor" and No. 3, "Facility Clearance not Granted or not Continued Due to Foreign Ownership Control or Influence." These lists have not been released to the public. Information contained therein has been received by the Government in confidence since as a general rule the contractor considered the information to be "privileged." In this connection we would like to point out that the Freedom of Information Act, Title 5, USC 552 (b) (4) specifically exempts commercial or financial information obtained from a person from the general disclosure requirement.

As requested I am providing you the following additional responses to your specific inquiries:

Question 1: "Is the Department of Defense able to confirm the report that an offer for a controlling interest in Lockheed was in fact made by Arab investors?"

Response: The Department of Defense has no information other than what has appeared in the news media.

Question 2: "Is the Department able to confirm the claim that Lockheed rejected the offer in the manner described in the POST article?"

GC-384
AMERICAN RESEARCH CENTER
1776-1975

Response: The Department of Defense is not familiar with the action taken by Lockheed or the relationship described in the POST article.

Question 3: "If such an offer was made, was the Department advised of it? At what point in the negotiations was the Department told of the offer and rejection?"

Response: The Department of Defense has received no information of the reported offer and rejection.

Question 4: "Is the Department aware of any companies engaged in significant defense activities in which foreign investors have a controlling interest (10 percent or more of the voting stock)? If the answer is yes, please list them. (The term "significant" is intended to mean significant in volume or in importance because of the type of product, process, data, or service provided.)"

Response: Enclosure (2) is a listing of all facilities for which the DoD has made a determination, as provided for in paragraph 2-203b of the Industrial Security Regulation (DoD 5220.22-R) as to their eligibility for a facility security clearance based on 6% or more foreign ownership of their voting stock. The listing also gives the rationale as to why a favorable determination was made and their current status. Enclosure (3) provides a separate listing of facilities whose security clearance was either not granted or discontinued while being adjudicated after reporting 6% or more foreign ownership of their voting stock along with the reason why.

Question 5: "Does the Department of Defense know of any other bids for control (as defined above) of any such firms described above?"

Response: Under the Defense Industrial Security Program preliminary reports have been received from field components that Magnavox and Occidental Petroleum have experienced acquisitions of their stock by foreign investors. Both cases are now under review.

Question 6: "If such offers for control are made, does the Department require this information to be forwarded to the Department? If not, why not? If yes, at what point during the negotiation would this information have to be provided to the Department?"



Response: Under the Defense Industrial Security Program cleared Defense contractors are required to report when such offers become accepted and as a result a change in ownership occurred to an extent that control of a corporation was affected. Furthermore, should foreign interests own or become owners of 6% or more of the corporation's voting stock, we are furnished a report of such changed conditions in accordance with paragraph 6a(4) of the Industrial Security Manual for Safeguarding Classified Information (DoD 5220.22-M), together with a revised Certificate Pertaining to Foreign Affiliation (DD Form 441s).

Question 7: "Please list existing reporting requirements - laws, rules, regulations or other procedures - maintained by the Department as to the identity, location, and nationality of the foreign investors and the nature of the investment in companies engaged in significant defense work. In replying to this question, please cite the precise legal basis for the requirement."

Response: The only reporting requirements are established under the Defense Industrial Security Program. These reporting requirements are contained in the DD Form 441s (Certificate Pertaining to Foreign Affiliation), which the contractor is required to execute pursuant to paragraph 21a of the Industrial Security Manual for Safeguarding Classified Information (DoD 5220.22-M). ASPR 7-104.12 (Military Security Requirements) requires the contractor to comply with the terms of the Security Agreement (DD Form 441) including the Industrial Security Manual which is attached to it and made a part, thereof, thus affording a contractual basis for the reporting requirement.



Question 8: "Please list all enforcement powers which exist to ensure compliance with the Department's data collection."

Response: Under the Defense Industrial Security Program a contractor's failure to furnish information pertaining to foreign ownership of stock may result in the denial or revocation of a facility security clearance. Misrepresentation of the extent of foreign ownership may result in a fine or imprisonment or both (18 USC 1001).

Question 9: "To your knowledge, have the disclosure and reporting requirements been effective or ineffective? Have the enforcement powers to require disclosure ever been used, and if so, in your opinion have they been sufficient to secure the necessary disclosure?"

Response: The disclosure and reporting requirements contained in the Defense Industrial Security Program have been accepted by participating contractors and are considered effective. No defense contractor's security clearance has been terminated for failure to report percent of foreign ownership, however, failure to report percent of foreign ownership or change thereto, could result in termination of a Defense contractor's facility clearance.

Question 10: "To what extent has the information collected been made available to the public and to the Congress?"

Response: We have no knowledge of such information being made available to the public or to the Congress.

Question 11: "Are there any gaps in the scope or coverage of reporting and disclosure? If so, in your opinion, what are they?"

Response: No gaps have been identified in the scope or coverage of reporting under the Defense Industrial Security Program.



Question 12: "Are there any factors such as foreign laws, use of foreign or domestic nominees, etc., which make it difficult or impossible to obtain information as to the identity, location, and nationality of the investors and the nature of the investment?"

Response: We are not aware of any foreign laws that restrict disclosure of stock ownership as recorded on the books of United States corporations. However, corporate stock may be held by a domestic nominee under a private agreement with a non-U.S. citizen which may make it extremely difficult to ascertain whether the voting stock is, in fact, owned or controlled by non-U.S. citizens. Further, since stock can be held in any name and the records of the stock transfer agent need only show residence, not citizenship, a non-U.S. citizen can be a resident and his citizenship unknown. In most cases, U.S. firms are able to determine when foreign interests have a significant amount of their stock because they would be aware of any holding that could affect control over their firm by election of a director to their Board.

Question 13: "In your view, is any additional legislative authority needed to improve the data collection and disclosure program administered by the Department of Defense? If the answer is yes, please list your suggestion."

Response: The present method of obtaining information on percent of foreign ownership of Defense contractors' participation in the Defense Industrial Security Program is considered adequate. As you know, the recently enacted legislation which was sponsored by you and Congressman

Culver (PL 93-479) requires the Commerce and Treasury Departments, as part of their overall review, to study the adequacy of information, disclosure and reporting requirements, and to recommend means whereby information on foreign investment can be kept current. Moreover, the Office of Management and Budget (OMB) and the Council on International Economic Policy (CIEP) are conducting an Interagency review of reporting requirements. This study will be supplied to the Congress by mid-February. Upon completion of the foregoing, we will be in a better position to determine if any further legislative recommendations are necessary.

Question 14: "Can any changes or improvements be made administratively without further legislation? If so, please list your suggestions."

Response: Yes, even though present procedures are considered adequate it may be desirable to require prior notification of acquisition by a foreign investor of an interest in a US defense manufacturer. For example, companies with classified contracts might be required to notify DoD whenever negotiate for the purchase of company owned stock with a significant (e.g. 6% or more ownership) foreign investor commence. This matter will be further assessed in light of the findings of the studies mentioned in response to Question 13, above.

Question 15: "Please list any laws which restrict or otherwise limit foreign investment in businesses engaged in defense work or in defense-related industries."

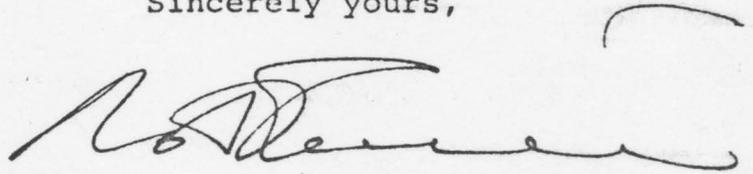
Response: We are not aware of any legislative basis which restricts foreign investments in defense industries. Although the industrial security regulations discussed above do not directly prohibit foreign investment in the defense sector, they do act as an indirect prohibition on foreign acquisition of any firm that does classified work with the government in that such acquisition could cause the firm to lose its classified government business. In addition, the President has certain emergency powers which can be used to prevent abuse by any investor of his control of a defense related firm -- e.g. power to require priority performance of defense contracts in certain circumstances and broad powers under the Trading with the Enemy Act if a national emergency exists. In order to give the President added flexibility to protect national security in situations falling short of a declared emergency or war, you might want to consider broadening the case by case authority. For example, the President might be given authority to make a determination (based on national security grounds) to require that a specific firm should have ownership and control (e.g. voting rights) separated from management of the firm. (e.g. through establishment of a trust device). Alternatively, the President's



power to act under the Trading with the Enemy Act might be made independent of the existence of a legal "state of emergency" and dependent only on his ad hoc determination that regulation of a particular foreign investment was required in the interest of our national security.

I trust the information furnished you will be of assistance in your deliberations. If I can be of any further help in this matter, do not hesitate to call upon me.

Sincerely yours,



Robert L. Worth
Assistant Secretary of Defense
International Security Affairs

Encls. a/s



→ Coordination:
Office of General Counsel

ASD Installations & Logistics
ASD Comptroller
ASD Legislative Affairs
Admiral Carr (ODSD)

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Prepared by: Joseph W. Darlingj/BD/59282/cn
31 January 1975

DEFENSE INDUSTRIAL SECURITY PROGRAM



Foreign Ownership, Control and Influence Policy

As part of the Defense Industrial Security Program, the Department of Defense has established policies concerning foreign ownership, control, and influence in U.S. industry. The policy relates only to those U.S. companies who perform on classified contracts. A classified contract is defined as one the negotiation or performance of which will necessitate the contractor or his employees to have access to classified information. As a condition precedent to the award of a classified contract the contractor must be issued a facility security clearance. This is done as part of the Defense Industrial Security Program. Currently, there are approximately 11,500 cleared contractors or facilities participating in the program, and they employ approximately 1.2 million people who have been issued personnel security clearances. The DoD Industrial Security Program is administered by the Deputy Director, Contract Administration Services, Defense Supply Agency. Within the Defense Supply Agency there are eleven Regional Offices which have been delegated the responsibility for the security supervision and inspection of these 11,500 contractors. Overall, responsibility for policy development is vested in the Assistant Secretary of Defense (Comptroller) through the Deputy Assistant Secretary of Defense (Security Policy).

It should be pointed out that the Department of Defense pursuant to authority enunciated in Executive Order 10865 administers the Industrial Security Program, not only as it pertains to all Department of Defense classified contracts, but also on behalf of 14 other Departments and Agencies of Government. They are listed in Enclosure 1. Mention is made of these User Agencies because the foreign ownership, control, and influence policies and decisions affect not only DoD contractors, but also the contractors of these other Departments and Agencies of Government.

Since the inception of the Industrial Security Program within the Department of Defense in 1950, there has been a recognition of the need to insure those contractors who are entrusted with U.S. classified information are not subject to foreign ownership, control, or influence. This policy, which has been essentially unchanged since 1950, provides that facility clearances may be granted only to contractors organized and existing under the laws of any of the States or Puerto Rico, and that facilities which are determined to be under foreign ownership, control or influence are not eligible for a facility clearance. This policy is expressed in Section II, Part 2, Industrial Security Regulation (DoD 5220.22R).

Encl. 1

The standard which is applied for determining the existence of foreign ownership is:

"a facility will be considered to be under foreign ownership, control or influence when the degree of ownership, control or influence from a foreign source is such that a reasonable basis exists for concluding that compromise of classified information may result."



There is an exception to this general rule. Pursuant to bilateral agreements, facilities which are under United Kingdom or Canadian ownership, control or influence may be cleared. These clearances are based on a security assurance on the foreign parent or owner from the government of Canada or the United Kingdom, as appropriate. These facility clearances are limited to the extent that classified information not releasable to the United Kingdom or Canada is likewise not releasable to facilities with United Kingdom or Canadian reciprocal facility clearances.

The reason for this foreign ownership policy is quite simple. The Industrial Security Program is based on an agreement between the Department of Defense and the top management of the company to safeguard classified information in accordance with the Industrial Security Manual for Safeguarding Classified Information (DoD 5220.22M). If the top management of the company consists of a foreign entity or is under the influence or control of a foreign entity, it would not be reasonable to entrust them with classified information which is not releasable to their foreign principal or owner. As a minimum, it would establish an untenable conflict of interest. As a maximum, it would be entrusting classified information with those who national policy has dictated should not have it -- for example, the foreign government, itself.

The inquiry to establish whether or not there are elements of foreign ownership, control or influence begins as part of the initial survey which is conducted as the first step in processing a company for a facility security clearance. The policy is explained and the company is asked to furnish information relating to foreign ownership, control or influence. To facilitate this factfinding, a form entitled "Certificate Pertaining to Foreign Affiliation" DD Form 441s was developed in 1959. This form, a copy of which is attached as Enclosure 2, asks the contractor to answer relevant questions with respect to foreign ownership, control and influence. Wherever the contractor indicates an affirmative answer, he is required to provide an explanation. Subsequent to the filing of this form with the DoD Cognizant Security Officer, the contractor is required to report any significant change in the information or answers previously provided. This requirement is set forth in paragraphs 6a(4)(f) and 21 of the Industrial Security Manual for Safeguarding Classified Information (DoD 5220.22M). From this it can be seen that primary source of foreign ownership, control and influence information is from the contractor itself.

The more common foreign ownership, control or influence elements are outlined in Enclosure 3. Income from foreign sources is far and away the largest single factor. Income from foreign sources is expressed and analyzed in terms of a percentage of gross income. With respect to ownership, 6% is the general threshold. Where less than 6% of the stock is foreign held, it generally will not be significant in terms of foreign influence. When the percentage exceeds 6%, then it may be a factor in influence and control. For example, in a very widely held corporation, a foreign owner controlling 6% of the voting stock may be in a position to exercise significant control. On the other hand, in a closely held corporation an amount considerably in excess of 6% may not be significant in terms of control of the corporation.

Interlocking directors standing alone will generally not be indicative of a problem. On the other hand, interlocking directors coupled with ownership by a foreign principal who appoints such directors may well be significant in terms of corporate control.

Licensing, patent, or trade secret agreements must be carefully reviewed to insure that they would not form a basis for intentional or inadvertent unauthorized disclosure of classified information.

Finally, with respect to foreign indebtedness, the debt must be reviewed in terms of its percentage of corporate assets and also in terms of collateral that might be pledged.

Because of the complexity and significance of foreign ownership, control or influence decisions the authority to make these decisions has always been held to a high level within the Department of Defense. Prior to 1965, the decision had to be made at the Secretarial level of the Military Departments. Since 1965, when Industrial Security was consolidated in DSA, the authority was specifically delegated to the Deputy Director of DSA for Contract Administration Services (DD/CAS). There are certain further delegations to region commanders which are set forth in Enclosure 4. These are strictly interpreted and whenever there is a doubt, the case is forwarded to DDCAS for decision.

Whenever there is significant evidence of foreign ownership, control or influence, the case is discussed in detail with the contractor and its counsel. If it appears that an adverse decision is indicated, the contractor is informed and advice and guidance is provided as to actions that the contractor might take to isolate or nullify this foreign ownership. Where there is a significant degree of foreign ownership, a voting trust agreement is generally suggested as a means of isolating this foreign owner. The voting trust which normally will consist of three disinterested individuals can be used to transfer legal title from a foreign owner to trustees who are U.S. citizens. The foreign owner becomes then simply a beneficiary. In order for such an arrangement to be approved, the foreign owner must agree to relinquish all the normal prerogatives of management. The trust must be de facto as well as de jure. In other words, the U.S. trustees must assume responsibility for management and control



of the corporation, thereby isolating the foreign owner from the cleared U.S. facility. If there are interlocking directors, the interlocking directors must resign, because otherwise they would circumvent the trust agreement. When a contractor establishes such a trust, it is generally possible for DSA to issue or continue the facility security clearance.

In making the clearance determination in foreign ownership, control or influence cases, DSA will generally analyze three primary channels for corporate control. They are ownership, management and technical commonality of interest. Ownership is obvious. When a foreign entity owns a significant portion of a company, he has the ability to influence or control. Generally speaking, this ownership will be manifest by the appointment of directors or officers. This constitutes the second, or management avenue, of control. If directors or officers are appointed by a foreign owner, then, of course, control and influence must be presumed. The third channel for potential control and influence relates to technical commonality of interest. If a foreign parent and U.S. subsidiary are engaged in the same general types of pursuit, or technical areas, there will be exchange and possibly dependence or interdependence in technical areas, and this situation may result in influence or control. It also establishes the possibility for a conflict of interest. On the other hand, when the foreign owner is strictly a financial institution and the U.S. subsidiary is involved in electronics, for example, there is no technical commonality of interest so this avenue would not be a potential source of difficulty in such a case.



To conclude, it should be pointed out that in the vast majority of cases foreign ownership is not a significant problem. Between 1968 and November 1974 there were a total of 682 foreign ownership, control or influence cases resolved at Headquarters, DSA. In most of these cases the ultimate decision is made to issue the facility clearance. In a small percentage it is necessary for the contractor to establish a trust before a favorable decision can be made. Some companies, albeit few in number, elect to not enter the classified procurement field, because their foreign owners choose not to relinquish the prerogatives of management. There have been very few adverse decisions.

Mention should also be made of the "utilization of facilities" policy set forth in paragraph 2-204, Industrial Security Regulation (DoD 5220.22R). Under this policy, a classified contract can be awarded even though the company is not cleared under the DoD Industrial Security Program. The advantage of this procedure is that it enables the Government to take advantage of the company's expertise, while, at the same time, not permitting the company to compete for other classified work which could be performed equally well by other U.S. contractors.

4 Enclosures:

1. List of User Agencies (in proper order)
2. DD Form 441a
3. Common elements of FOCT (from vignette)
4. Delegation of authority (from vignette) (6% ownership, etc.)



DEPARTMENTS AND AGENCIES WHICH UTILIZE THE
INDUSTRIAL SECURITY PROGRAM AS AUTHORIZED BY E.

DEPARTMENTS OF

- . STATE
- . TREASURY
- . INTERIOR
- . AGRICULTURE
- . COMMERCE
- . LABOR
- . HEALTH, EDUCATION AND WELFARE
- . TRANSPORTATION

AGENCIES:

- . FEDERAL ENERGY ADMINISTRATION
- . GENERAL SERVICES ADMINISTRATION
- . NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
- . ENVIRONMENTAL PROTECTION AGENCY
- . NATIONAL SCIENCE FOUNDATION
- . SMALL BUSINESS ADMINISTRATION

CERTIFICATE PERTAINING TO FOREIGN AFFILIATION

TYPE OR PRINT
ALL ANSWERS

Form Approved
Budget Bureau No. 27-8193

PENALTY - Failure to answer all questions, or any misrepresentation (by omission or concealment, or by misleading, false or partial answers) may serve as a basis for denial of clearance for access to classified Department of Defense information. In addition, Title 18, United States Code 1001, makes it a criminal offense, punishable by a maximum of five (5) years' imprisonment, \$10,000 fine, or both, knowingly to make a false statement or representation to any Department or Agency of the United States, or to any matter within the jurisdiction of any Department or Agency of the United States. This includes any statement made herein which is knowingly incorrect, incomplete or misleading in any important particular.

PROVISIONS

1. Before classified defense information may be disclosed by the Department of Defense to contractors, they must meet certain established security standards. You are requested to complete this form so that your eligibility for a facility security clearance for access to classified defense information may be determined.

2. As used below, the term "foreign interests" refers to (a) any natural person who is not a citizen or national of the U. S., (b) any form of business enterprise organized under the laws of any country other than the

U. S. or its possessions, and (c) any form of business enterprise organized or incorporated under laws of the United States or a state or other jurisdiction of the United States which is owned or controlled by a foreign firm or foreign national.

3. Complete all questions on this form. Answer each question in either the "Yes" or "No" column. If your answer to any question is "Yes", furnish full and complete information under "Remarks".

| QUESTION | YES | NO |
|--|-----|----|
| 1. DO FOREIGN INTERESTS OWN 6% OR MORE OF YOUR ORGANIZATION'S VOTING STOCK? | | |
| 2. IS YOUR ORGANIZATION ORGANIZED IN SUCH A MANNER SO THAT INTERLOCKING DIRECTORATES OR HOLDING COMPANY ARRANGEMENTS ARE BEING MAINTAINED WITH FOREIGN INTERESTS? | | |
| 3. DOES YOUR ORGANIZATION MAINTAIN ANY LICENSING, PATENT EXCHANGE OR TRADE SECRET AGREEMENTS WITH FOREIGN INTERESTS? | | |
| 4. DOES YOUR ORGANIZATION MAINTAIN ANY TRUST OR PROXY ARRANGEMENTS WITH FOREIGN INTERESTS? | | |
| 5. IS YOUR ORGANIZATION INVOLVED IN ANY AGENCY, CARTEL, PARTNERSHIP OR JOINT VENTURE AGREEMENTS WITH FOREIGN INTERESTS? | | |
| 6. DOES ANY FOREIGN INTEREST CONTROL THE APPOINTMENT OR TENURE OF ANY OF YOUR DIRECTORS, OFFICERS OR PRINCIPAL SUPERVISORY MANAGEMENT PERSONNEL? | | |
| 7. IS ANY FOREIGN INTEREST IN A POSITION TO INFLUENCE THE APPOINTMENT OR TENURE OF ANY OF YOUR DIRECTORS, OFFICERS OR PRINCIPAL SUPERVISORY MANAGEMENT PERSONNEL? | | |
| 8. ARE THERE ANY FOREIGN OWNERS, OFFICERS, DIRECTORS OR PRINCIPAL SUPERVISORY MANAGEMENT PERSONNEL WHO MAY BE IN A POSITION TO HAVE ACCESS TO CLASSIFIED INFORMATION? | | |
| 9. IS YOUR FACILITY CURRENTLY INDEBTED TO, OR SUPPORTED FINANCIALLY IN ANY WAY BY, FOREIGN INTERESTS? | | |
| 10. ARE THERE ANY CITIZENS OF FOREIGN COUNTRIES WHO MAY VISIT YOUR FACILITY (or facilities) IN A CAPACITY WHICH MAY PERMIT THEM TO HAVE ACCESS TO CLASSIFIED INFORMATION? | | |
| 11. HAS YOUR FACILITY EVER BEEN DENIED A FACILITY SECURITY CLEARANCE BY THE DOD OR ANY OTHER U. S. GOVERNMENTAL AGENCY BECAUSE IT HAS BEEN CONSIDERED TO BE UNDER FOREIGN OWNERSHIP, INFLUENCE OR CONTROL? | | |



DD FORM 441s
1 MAR 53

REPLACES EDITION OF 1 APR 59 WHICH MAY BE USED.

REMARKS (Attach additional sheets, if necessary, for a full detailed statement)



CERTIFICATION

I CERTIFY THAT THE ENTRIES MADE BY ME ABOVE ARE TRUE, COMPLETE, AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF AND ARE MADE IN GOOD FAITH.

WITNESS

| | |
|-------|----------------------|
| _____ | DATE CERTIFIED _____ |
| _____ | By _____ |
| | CONTRACTOR _____ |
| | TITLE _____ |
| | ADDRESS _____ |

NOTE - In case of corporation, witnesses not required but certificate below must be completed. Type or print names under all signatures.

NOTE - Contractor, if a corporation, should cause the following certificate to be executed under its corporate seal, provided that the same officer shall not execute both the agreement and the certificate.

CERTIFICATE

I, _____ certify that I am the _____ of the corporation named as Contractor herein; that _____ who signed this certificate on behalf of the Contractor, was then _____ of said corporation; that said certificate was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

(Corporate Seal)

SIGNATURE AND DATE



MORE COMMON FOCI ELEMENTS

FOREIGN INCOME

FOREIGN OWNERSHIP

INTERLOCKING DIRECTORS

LICENSING AGREEMENTS

FOREIGN INDEBTEDNESS



DELEGATION TO REGION COMMANDERS

LESS THAN 6% OWNERSHIP

INTERLOCKING DIRECTORS

LICENSING AGREEMENTS

FOREIGN INCOME LESS THAN 10% OF GROSS INCOME

WARREN G. MAGNUSON, WASH., CHAIRMAN

JOHN O. PASTOR, R.I.
VANCE HARTKE, IND.
PHILIP J. HART, MICH.
HOWARD W. CANON, NEV.
RUSSELL D. LONG, LA.
FRANK F. MOSS, UTAH
ERNEST F. HOLLINGS, S.C.
DANIEL K. INOUYE, HAWAII
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ADLAI E. STEVENSON III, ILL.

NORRIS COTTON, N.H.
JAMES R. PEARSON, KANS.
ROBERT P. GRIFFIN, MICH.
HOWARD H. BAKER, JR., TENN.
MARLOW W. COOK, KY.
TED STEVENS, ALASKA
J. GLENN BEALL, JR., MD.

United States Senate

COMMITTEE ON COMMERCE
WASHINGTON, D.C. 20510

FREDERICK J. LORDAN, STAFF DIRECTOR
MICHAEL PERTSCHUK, CHIEF COUNSEL

December 5, 1974

Honorable James Schlesinger
Secretary of Defense
Department of Defense
Washington, D. C.

Dear Mr. Secretary:

On Sunday, December 1st, the Washington POST carried a story on a proposed attempt by foreign investors to purchase a substantial block of common stock in the Lockheed Corporation. The proposed purchase would have been of such a magnitude as to constitute a controlling interest in that firm.

According to one version reported in the POST, the initial offer was accepted and then subsequently rejected. It was further reported that the foreign investors suspected that the United States Government vetoed the bid although there was no evidence to support such a suspicion.

Without prejudging the accuracy of the article, I have developed some misgivings over foreign investments in American firms involved in national security activities and the Administration's policies with respect to such investments - or proposed investments. Our policy has been to permit foreign investment in the United States with the exception of a few areas traditionally reserved for domestic control and investment and to extend to such foreign investment - once made - "national treatment". I have supported and still support that policy. I believe in the need to maintain an open world economy. Enactment of unnecessary restrictions would seriously undermine free trade and the free flow of capital.

Nevertheless, I believe that it would be advisable if the policy with respect to foreign investment in American companies with a large or important stake in defense work were clarified. Therefore, I would appreciate your response to several questions which I have prepared about the news story and about the Defense Department's policy in general.



15321



1. Is the Department of Defense able to confirm the report that an offer for a controlling interest in Lockheed was in fact made by Arab investors?
2. Is the Department able to confirm the claim that Lockheed rejected the offer in the manner described in the POST article?
3. If such an offer was made, was the Department advised of it? At what point in the negotiations was the Department told of the offer and rejection?
4. Is the Department aware of any companies engaged in significant defense activities in which foreign investors have a controlling interest (10 per cent or more of the voting stock)? If the answer is yes, please list them. (The term "significant" is intended to mean significant in volume or in importance because of the type of product, process, data, or service provided).
5. Does the Department of Defense know of any other bids for control (as defined above) of any such firms described above?
6. If such offers for control are made, does the Department require this information to be forwarded to the Department? If not, why not? If yes, at what point during the negotiation would this information have to be provided to the Department?
7. Please list existing reporting requirements - laws, rules, regulations or other procedures - maintained by the Department as to the identity, location, and nationality of the foreign investors and the nature of the investment in companies engaged in significant defense work. In replying to this question, please cite the precise legal basis for the requirements.
8. Please list all enforcement powers which exist to ensure compliance with the Department's data collection.
9. To your knowledge, have the disclosure and reporting requirements been effective or ineffective? Have the enforcement powers to require disclosure ever been used, and if so, in your opinion have they been sufficient to secure the necessary disclosure?
10. To what extent has the information collected been made available to the public and to the Congress?
11. Are there any gaps in the scope or coverage of reporting and disclosure? If so, in your opinion, what are they?

Honorable James Schlesinger

Page 3

December 5, 1974

12. Are there any factors such as foreign laws, use of foreign or domestic nominees, etc. which make it difficult or impossible to obtain information as to the identity, location, and nationality of the investors and the nature of the investment?
13. In your view, is any additional legislative authority needed to improve the data collection and disclosure program administered by the Department of Defense? If the answer is yes, please list your suggestions.
14. Can any changes or improvements be made administratively without further legislation? If so, please list your suggestions.
15. Please list any laws which restrict or otherwise limit foreign investment in businesses engaged in defense work or in defense-related industries.
16. Has the Department of Defense encountered any special problems with foreign government investors or foreign government-controlled investors?

Your cooperation in responding to this inquiry is greatly appreciated.

Sincerely yours,



DANIEL K. INOUE, Chairman
Foreign Commerce and Tourism
Subcommittee

DKI:elf



| NO. | DATE OF LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | NAME & LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO REMOVE FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|-----|---|---|-----------------------|--|--|---------------------------|
| 1 | Dec 74 | International Telephone & Telegraph Corp. New York, NY | 16.6 % | The ownership of ITT is extremely diversified; of the 222,900 stockholders, a total of 4,364 are foreign nationals with 704 of this number actually residing in the U.S. No foreign group is represented by more than 5% of the stock and no single individual, regardless of nationality, owns more than 1%. Stockholders in Communist countries receive no dividends and take no part in voting actions. | Communications | Active |
| 2 | Sep 74 | Addington Labs, Inc., Sunnyvale, CA | 11.7 % | 11.7% of stock owned by a Liechtenstein firm. Officers and Directors of U.S. firm control 52% of stock and have executed a Board resolution to notify DCASR of change in stock distribution. DCASR, San Francisco, instructed to make percentage of foreign ownership special interest during inspections. | Manufacturing Microwave Components | Active |



| OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted Where FOCI is a factor. | | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|---|--|-----------------------------|---|--|---|
| | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | | | |
| Sep 74 | Dynalectron Corp. Washington, D. C. | 8.33 % | Three Canadian citizens own the 8.33% of stock and are associated with U.S. firms wholly owned subsidiary. Percentage of stock not large enough to affect control. All officers and directors of U.S. firm are U.S. citizens and can isolate foreign control. | Missile Maintenance and Operations | Active |
| Feb 74 | Danmont Corp. Huntsville, AL | 15 % | Canadian citizens own 15% of stock. Largest single Canadian holder is 1% of stock. 85% of stock owned by U.S. citizens. | | Excluded parent of Astro-Space Laboratories, Huntsville, AL |
| Feb 74 | The A. H. Emery Co. New Canaan, CT | 8 % | 92% of stock owned by four U.S. citizens who are Officers or Directors of U.S. firm. Mexican national's 8% ownership of stock effectively isolated by U.S. 92% ownership of stock. | Manufacture Hydraulic Load Cells Weighing Equipment | Active |
| Sep 74 | I-T-E Imperial Corp. Spring House, PA | 6.01 % | European Investment Co. owns 6.01% stock, which resulted in a foreign national being elected | Manufacturing Electrical Equipment | Active |



| OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted Where FOCI is a factor. | | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|---|--|-----------------------------|---|---|---------------------------------|
| | NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | | | |
| Aug 74 | Fugro National Inc. Long Beach, CA | 100 % | to U.S. firm's board. U.S. firm has taken board action by reso- lution which isolates the foreign director- from management action involving classified information. |  Consulting Engi- neers on Earth Sciences | Active |
| Mar 73 | Cablewave Systems, Inc., North Haven, CT | 50 % | 50% stock ownership by West German firm. Placed in voting trust agreement established with two U.S. citizens trustees. Trust agree- ment contains sufficient terms and conditions assuring trustees sole and absolute discretion with all rights and powers in the same man- ner as if they own the stock. | Manufacture Coax Cable and Electric- al Wave Guide and Connectors | Active |
| Apr 73 | Checchi and Company Washington, D. C. | 7.4 % | 6.4% of the voting stock of Checchi and Company is owned by Ganta Trading and Investments Ltd. in | | Terminated |

| OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted Where FOCI is a factor. NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|---|--|-----------------------------|---|---|---------------------------------|
| 2 | | | Bahamian corporation owned by Roberto Vullamueva, one of the directors of subject facility. An additional 1% of voting stock is owned by shareholders in England, Italy, the Philippines and Switzerland for an overall total of 7.4%. Foreign ownership of stock widely diversified. |  | |
| Jul 73 | General Semiconductor Industries, Inc., Tempe, AZ | 27 % | Trust agreement established to effectively isolate the U.S. company from foreign ownership of 27% of its stock by Swiss and U.K. individuals and corporations. | R&D Semiconductors | Active |
| Jan 73 | Keydata Corporation Watertown, MA | 8.6 % | 8.6% of stock owned by Canadian firm, non-cumulative. Canadian firm has been excluded from access to classified information by Board action. | Computer Equipment, Design and Development | Active |
| Feb 73 | Leach Corporation Los Angeles, CA | 30 % | 30% ownership by British interest, no cumulative voting rights. 59% of stock owned by | R&D Electronic Instruments | Active |



| OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted Where FOCI is a factor. NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|---|--|-----------------------------|---|--|---|
| Aug 73 | UMC Industries, Inc. New York, NY | 7.7 % | U.S. family (Ohrstron). At this ratio, U.S. control is maintained nullifying foreign control. Foreign stock owner- ship is sufficiently diversified between 59 citizens of Canada and 58 other foreign nationals to preclude any single foreign interest from exert- ing control on the U. S. firm. | | Excluded part of Unidynami St. Louis, MO and Phoenix, |
| May 72 | DeBell & Richardson, Inc., Enfield, CT | 10.1 % | 10.1% stock owned by deceased British citi- zen. Hartford National Bank & Trust Company is sole executor of estate of deceased British citizen (Mr Warner) and has sole authority to vote stock. | Plastic Engineering and Development | Active |
| May 72 | Loomis Corporation Seattle, WA | 7.9 % | 7.9% stock owned by Canadian firm. 92.1% of stock is held by U.S. interest who in turn owns 100% of Canadian firm which owns 7.9% of U.S. firm's stock, thus all stock is controlled. | | Excluded part of Loomis Elec tronics Protec Inc., Seattle. |

| D. | OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted | | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|----|--|---|-----------------------|--|---|---------------------------|
| | | Where FOIC is a factor. | PERCENT FOREIGN OWNED | | | |
| | | NAME AND LOCATION OF FACILITY | | | | |
| 6 | Sep 72 | Unexcelled, Inc. Depew, NY | 8.8 % | The 8.8% of stock held by foreign interest is widely diversified (69 owners in 12 countries) with the largest single amount (2.8%) held by the Bank of Bermuda. |  | Terminated |
| 7 | Apr 68 | Aiken Industries, Inc., New York, NY | 80 % | An Ecuadorian Corporation which is 80% owned by U.S. citizens in turn owns 80% of U.S. firm. U.S. firm established executive committee comprised of three Directors with full authority on all classified matters. | Manufacture Electronic Equipment | Active |
| | Mar 71 | Comma Corporation Los Angeles, CA | 13.38 % | 13.38% of U.S. firm's stock is owned by 8 Canadian shareholders, none of whom owns more than 3.30% of stock. No single foreign ownership enough to exert control. | Computer Repair and Maintenance | Active |
| | Apr 71 | Argus Incorporated West Columbia, SC | 9.5 % | Voting trust agreement established to isolate U.S. firm from Italian | | Terminated |

| LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted Where FOCI is a factor. NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|---|--|-----------------------|--|--|---------------------------|
| Sep 72 | North American Philips, New York, NY | 63 % | <p>stock owners, thus nullifying foreign control.</p> <p>U.S. Philips trust created in 1941 to isolate the 63% stock held by N.V. Philips (Holland). File reviewed in 1957, 1962, 1971 and is currently under review due to recent granting of money by Dutch parent to purchase Magnavox Company.</p> |  <p>Manufacturing of Electronic Components and Appliances</p> | Active |
| Sep 71 | InfoDyne, Inc. Arlington, VA | 13 % | <p>13% owned by British citizen. U.S. firm controls 74.7%. U.S. firm considered to have adequate stock to offset foreign control.</p> | | Terminated |
| May 71 | <p>Cappa Systems Arlington, VA</p> <p>FORMERLY: The J. D. Kettelle Corporation</p> | 6.2 % | <p>6.2% is divided among three foreign countries none of whom are considered to be in a position to control U.S. firm.</p> | <p>Operations Research (Mathematics)</p> | Active |
| Mar 71 | Icore Electro-Plastics Inc., Santa Clara, CA | 17.2 % | <p>The 17.2% owned by British firm. Irrevocable proxy obtained from British controlling firm.</p> | | Terminated |

| DATE OF LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted Where FOCI is a factor, NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|--|--|-----------------------------|---|---|---|
| Aug 71 | Liquidonics Industries, Inc., Plainsview, NY | 9.9 % | naming the President and Secretary of Icore as agents of proxy. 9.9% owned by Swiss investment company which operates as a mutual fund organiza- tion that holds stocks for growth potential, not for exercising own- ership perogatives. |  | Terminated |
| Nov 70 | American Metal Climax, Inc., New York, NY | 11.8 % | 11.8% of stock divided between two British and one Canadian invest- ment firms, none of which are considered enough to control U.S. firm. | Mining and Refin- ing Research | Active |
| Oct 70 | Schlumberger Technolo- gy Corp., New York, NY and Weston Instrument, Inc., Newark, NJ | 100 % | Voting trust established to isolate the 100% stock ownership by Schlumberger Limited, a Netherlands Antilles Corporation. Case was subject of a favorable determination in 1957-1961 by Navy, and reviewed in 1967, 1970. | | Excluded parent of Weston Instr ment, Inc., New NJ |
| Jun 70 | Allied Chemical Corp. Morristown, NJ | 10.67 % | 9.72% of stock held by | Research and Devel | Active |

Facility Clearances Granted
 Where FOCL is a factor
 NAME AND LOCATION
 OF FACILITY

PERCENT
 FOREIGN
 OWNED

NULLIFY FOREIGN
 OWNERSHIP, CONTROL
 OR INFLUENCE

TYPE OF PRODUCT,
 PROCESS, DATA OR
 SERVICE PROVIDED

FACILITY
 CLEARANCE
 STATUS

II

5.

7

Jan 70

Griffin Industries,
 Inc., Miami, FL

8.45 %

a N.Y. brokerage firm.
 .95% of stock diversif-
 ied among other
 foreign countries, none
 of which are considered
 to be in a position to
 control U.S. firm.



Terminated

Feb 70

Gestel, Inc.
 Amityville, NY

25.2 %

Voting stock trust
 appointing a U.S.
 citizen as trustee
 established to control
 the 25.2% of stock
 owned by a Netherlands
 Antilles Corp. and a
 Canadian company.

Manufacture of
 Photographic
 Instrumentation
 and Electronic
 Systems

Active

May 70

Ground/Data Corp.
 Ft. Lauderdale, FL

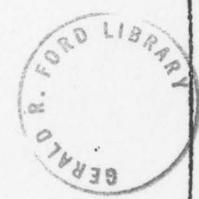
7.50 %

7.50% of stock owner-
 ship is divided between
 two countries (U.K. -
 .0045%, F.R.G. - 7.50%).
 62% of stock owned by
 Board of Directors of
 U.S. firm.

Terminated

II

| DATE OF LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted Where FOCI is a factor. NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|--|--|-----------------------------|---|--|---------------------------------|
| 1 Feb 70 | Pall Corporation Glen Cove, NY | 11.2 % | 6.8% of stock is owned by a Canadian company. 4.4% owned by numerous foreign countries. No foreign source is considered to be in a position to control the U.S. firm. | Manufacture Filters and Enviromental Products | Active |
| Nov 70 | Pneumafil Corporation Charlotte, NC | 60 % | All foreign-owned shares are in an irrevocable trust with two U.S. citizens as executors. | | Terminated |
| Jul 70 | Rolm Corporation Cupertino, CA | 15.4 % | 15.4% held by a Panama company - remainder percentage of stock is U.S. owned, mostly by management of U.S. firm. | Research and Development Electro-Optics | Active |
| Nov 70 | Hovermarine Corp. Pittsburg, PA FORMERLY: Transportation Technology, Inc. | 12.21 % | 12.21% owned by 4 diverse U.K. firms. Directors, officers and employees of U.S. firm own 69.1% of stock with the remaining 27.7% of stock owned by U.S. citizens. | Manufacturing of Ships | Active |



| O. | DATE OF LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS |
|----|---|---|-----------------------|--|--|---------------------------|
| | | WHERE FACT is a factor. | | | | |
| | | NAME AND LOCATION OF FACILITY | | | | |
| 0 | Apr 68 | Warnecke Electron Tubes, Inc., Des Plaines, IL | 11 % | 11% of stock owned by a French firm. 89% is owned by a cleared U.S. firm which votes the stock as a block, thus nullifying the possibility of foreign control. | Manufacture Electronic Tubes | Active |
| 7 | Mar 68 | Arcos Corporation Philadelphia, PA | 100 % | Voting trust executed by Belgian firm which transfers 100% of stock to U.S. citizens with full authority. | R&D Electrical Welding | Active |
| | Apr 68 | Bird Johnson, Co. Walpole, MA | 100 % | Voting trust established to isolate U.S. firm from Swedish owned parent (A. Johnson and Co., New York, NY). | Manufacture Marine Hardware | Active |
| | Feb 67 | Cecil H. Wrightson Inc., DBA/Wrightson Typographers, Boston, MA | 12 % | Family corporation. Mr Cecil Wrightson (U.S.) owns principle stock, Mr Wrightson's brother and two sisters (U.K.) own 12%. | Graphic Arts | Active |
| | Jun 67 | Magnetic Controls Co. Minneapolis, MN | 18.90 % | 18.90% of stock owned by a Hong Kong company. Three U.S. citizens have | Manufacturing of Temperature Controls | Active |



" LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION Information Considered Privileged under Title 5 USC 552 (b) (4) - Should not be Released to the Public

| LAST FOREIGN OWNERSHIP, CONTROL OR INFLUENCE ACTION | Facility Clearances Granted Where FOCL is a factor. NAME AND LOCATION OF FACILITY | PERCENT FOREIGN OWNED | ACTION TAKEN TO NULLIFY FOREIGN OWNERSHIP, CONTROL OR INFLUENCE | TYPE OF PRODUCT, PROCESS, DATA OR SERVICE PROVIDED | FACILITY CLEARANCE STATUS -11 |
|---|--|-----------------------|---|--|--|
|---|--|-----------------------|---|--|--|

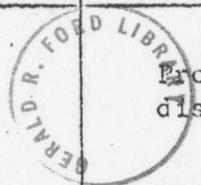
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|--------|---|---------|--|---|--------|
| Jun 66 | Mark Hurd Aerial Surveys, Inc., Minneapolis, MN | 13.938% | cover the 18.90% foreign owned stock. 13.938% of stock owned by a Mexican national. Company by-laws amended to require Directors to be U.S. citizens. | Graphic Arts (Topographical)  | Active |
|--------|---|---------|--|---|--------|

| | | | | | |
|--------|---------------------------------------|------|--|--|------------|
| Feb 66 | Monotype Composition Corp., Miami, FL | 30 % | 30% of stock owned by national of Cuba. All foreign owned stock placed in trust with U.S. citizen. | | Terminated |
|--------|---------------------------------------|------|--|--|------------|

Information Considered Privileged under Title 5 USC 552 (b)(4) - Should not be Released to the Public
FACILITIES CLEARANCES NOT CONTINUED OR GRANTED DUE TO FOREIGN OWNERSHIP, CONTROL OR INFLUENCE

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| NO. | DATE OF LAST ACTION | NAME | PERCENT OF FOREIGN OWNERSHIP | REASON FOR DISCONTINUANCE OF FACILITY PROCESSING ACTION |
|-----|---------------------|--|------------------------------|--|
| 1 | 24 Sep 68 | E&K Instruments, Inc. Cleveland, OH | 20 % | Procurement need lapsed. Action to clear discontinued on 24 Sep 68. |
| 2 | 22 Jul 70 | OCRA, Inc. Cambridge, MA | 22 % | Clearance action discontinued on 19 Jun 70 at request of the facility. |
| 3 | 5 Oct 70 | U.S. Time (Timex) Bridgeport, CT | 33 % | Clearance terminated at request of management. Facility elected not to establish a voting trust to isolate their foreign owned stock. |
| 4 | 21 Apr 71 | Interdata, Inc. Oceanport, NJ | 17 % | Action to clear the firm was discontinued on 16 Apr 71 at request of management. |
| 5 | 19 Oct 72 | Howmet Corp. Greenwich, CT | 56 % | Clearance terminated on 2 Oct 72 when procurement need could not be justified. |
| 6 | 17 Apr 72 | Shell Oil Co. Houston, TX | 69 % | Shell Oil indicated a voting trust was not feasible when the facility was found to be under foreign ownership and control. AF elected to utilize them under para 2-204, ISR. |
| 7 | 28 Nov 72 | United Graphics, Inc. Seattle, WA | 85 % | Facility clearance was administratively terminated on 17 Nov 72. Facility elected not to be processed for a Canadian Reciprocal Clearance or establish a voting trust. |



| O. | DATE OF LAST ACTION | NAME | PERCENT OF FOREIGN OWNERSHIP | REASON FOR DISCONTINUANCE OF FACILITY PROCESSING ACTION |
|----|---------------------|--|------------------------------|--|
| 8 | 6 Feb 73 | DeLaval Separator Co. Poughkeepsie, NY | 100 % | Facility clearance was administratively terminated on 6 Feb 73 when a procurement need no longer existed. |
| 9 | 12 Oct 73 | Dynamic Communications Rivera Beach, FL | 36.8 % | Action to clear the firm was discontinued 24 May 73. Management elected not to establish a voting trust. |
| 3 | 6 Feb 73 | LIPS, Inc. Oakland, CA | 100 % | Dutch parent of U.S. firm would not endorse a voting trust to isolate their stock ownership. |
| | 25 Jul 73 | Stouffer Corp. Cleveland, OH | 100 % | Swiss parent, of U.S. firm would not endorse a voting trust. Clearance terminated when Navy advised clearance was not needed. |
| 7 | 17 Aug 73 | Sigmatron, Inc. Santa Barbara, CA | 100 % | Clearance terminated on 16 Aug 73 when issue of a voting trust agreement could not be resolved. |
| | 15 Jun 73 | Gaulin Corp. Everett, MA | 100 % | British parent did not endorse a voting trust and the Navy elected not to request a U.K. Reciprocal Clearance for U.S. firm in lieu of a voting trust to isolate U.S. firm from U.K. |
| | 5 Dec 73 | Graphtek Corp. Phoenix, AZ | 22.6 % | U.S. facility elected not to establish a voting trust to isolate foreign ownership and request withdrawal from the Defense Industrial Security Program. |

