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Author(s): Duncan L. Clarke

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ISRAEL'S ECONOMIC ESPIONAGE IN THE UNITED STATES

DUNCAN L. CLARKE

Israel has conducted an aggressive campaign of economic espionage in the United States since 1948. This campaign has been critical to sustaining and modernizing Israel's nuclear weapons program and an array of its most advanced conventional weapons even while it has caused American firms to lose valuable proprietary information and unfairly advantaged Israeli companies in the international arms market. While other countries conduct economic espionage against the United States, Israel is the only major recipient of U.S. foreign aid to do so.

ISRAEL HAS CONDUCTED ESPIONAGE in the United States, especially economic espionage,¹ since its creation in 1948.² This espionage principally targets military and dual use items (goods and technology with civilian and military uses) and furthers strategic as well as economic objectives. This article examines the scope and nature of this activity, its distinctiveness, its apparent benefits and costs for Israel, and the U.S. response.

In one sense, Israel is hardly unique: it is just one of the dozen countries identified by the National Counterintelligence Center (NACIC) as active against U.S. interests.³ Israeli operations are reflective of the larger global phenomenon of economic espionage. Like more than half of these countries, Israel is a U.S. ally whose intelligence and armed services work closely with U.S. counterparts. Like most of the twelve, Israel's defense firms are closely tied to the state and compete actively with American firms. Like South Korea and Taiwan, Israel has sought to exploit potentially sympathetic American ethnic groups. Like Iran and China, Israel has employed economic espionage to advance a nuclear weapons program and the means to deliver such weapons. Like China and Russia, its political-strategic intelligence collection in the United States appears to be ongoing, often merging imperceptibly with its economic collection.

Yet Israeli espionage against the United States is also distinctive. No other country is more frequently said to have a unique "special relationship" with the United States. No ally's security, even survival, is more reliant on U.S. intelligence. No other ally on the list receives U.S. foreign aid. Few countries' defense industries and infrastructures are more dependent on close, cooperative ties with the United States. No other country has a more intimate grasp

DUNCAN L. CLARKE is coordinator of the United States Foreign Policy field at American University's School of International Service in Washington.

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of the American political system, and no country receives more reliable political protection from Congress. Finally, while allegations of "dual loyalty" are not confined to American citizens supportive of Israel, that explosive charge is particularly disturbing here.

CONSTANCY OF ISRAELI ECONOMIC ESPIONAGE

With the cooperation of some American Jews, Israeli espionage in the United States was underway throughout the late 1940s and early 1950s.⁴ A far more concerted, systematic effort to collect scientific and technical information was initiated in 1960 when Israel's Defense Ministry created what was to evolve into its Office of Special Tasks (LAKAM).⁵ LAKAM soon became a technical penetration and acquisition network designed to strengthen Israel's defense industry⁶ by giving top priority, according to a CIA report, to "the collection of scientific intelligence in the U.S."⁷

During the cold war, says John Davitt, former head of the Justice Department's internal security section, U.S. counterespionage specialists "regarded Israel as being the second most active foreign intelligence service in the United States."⁸ When in 1996 the CIA finally exposed Israel (and France) publicly for being "extensively engaged in espionage,"⁹ the U.S. General Accounting Office (GAO) also issued a report stating that Israel "conducts the most aggressive espionage operations against the United States of any ally. . . . [It] routinely resorts to state-sponsored espionage [to steal] classified military information and sensitive military technology [and] sensitive U.S. economic information."¹⁰

No foreign country has a more effective informational network inside the executive and, especially, legislative branches of the U.S. government.¹¹ It appears that several units within Israel's intelligence community are engaged in economic espionage.¹² They include Israel's foreign intelligence service (Mossad) and a new organization within the Defense Ministry—the Security Authority (Malmab).¹³

According to the U.S. intelligence community, Israel's motivations appear to be threefold: to strengthen its industrial base, to sell/trade the information to/with other countries (especially China) for profit, and to sell/trade the information to/with other countries to develop favorable political ties and alternative sources of arms and intelligence.¹⁴ To these, a fourth factor might be added: the certain knowledge that, in the words of a senior former U.S. intelligence official, "Israel can steal right and left, but we will still pump money in."¹⁵

The United States and Israel agreed in 1951 not to spy on one another.¹⁶ There is little evidence that the United States has conducted economic espionage against Israel,¹⁷ but the agreement has been flouted repeatedly and flagrantly by Israel. Israeli economic espionage has infuriated the U.S. intelligence community, especially the FBI and the Customs Service, and has left a legacy of distrust in that community.¹⁸ Still, such espionage does not have

the same impact as attempts to penetrate the national security bureaucracy, as in the notorious 1985 Jonathan Pollard case, which strained diplomatic relations and disrupted intelligence cooperation for some time.¹⁹ Economic espionage, on the other hand, has not significantly affected strategic cooperation, including the sharing of intelligence. Indeed, U.S.-Israel strategic ties are closer today than ever before. Among other things, since the U.S.-Israel Counterterrorism Accord was signed in 1996, the United States has continued to preposition munitions in Israel, and financial aid to Israel for counterterrorism and ballistic missile defense increased.²⁰

SPECIFIC TARGETS OF ECONOMIC ESPIONAGE

Israeli Defense Industrial Base

Israel maintains a strong defense industrial base. Both the quality of Israel's arsenal and the competitiveness of its armaments industry are enhanced by economic espionage.

Representative targets of Israeli economic espionage have included: U.S. technology for artillery gun tubes, coatings for missile reentry vehicles, avionics, missile telemetry, and aircraft communications systems.²¹ One particularly notorious case concerned Recon/Optical, an Illinois firm producing state-of-the-art aerial surveillance equipment for the Pentagon and the U.S. intelligence community. In 1986, Recon's security guards caught three Israeli air force officers stealing 50,000 pages of technical documents relating to the company's proprietary information. For at least a year, these officers had been exploiting contractually provided visitation rights and passing Recon's documents to a competing Israeli firm, El Op Electro-Optics Industries. An arbitration panel eventually ordered Israel to pay Recon \$3 million in damages for what it found to be "perfidious" illegal acts.²² Nonetheless, Recon suffered grievous damage and barely escaped bankruptcy. The optics technology stolen from Recon apparently provided critical elements of Ofek-3, Israel's first durable reconnaissance satellite.²³

There were other troubling episodes throughout the 1980s. For example, in the early 1980s some Israelis were caught illicitly taking classified blueprints of the F-16 fighter out of the General Dynamics plant in Fort Worth, Texas. A separate facility was then set up outside the plant for the Israelis (who were awaiting delivery of about fifty-five F-16s).²⁴ In another case, the Customs Service intercepted Israeli agents who were suspected of plotting to export U.S. cluster bomb technology to Israel. In 1982, the Reagan administration had banned the export of such weapons to Israel when Israel violated, during its war on Lebanon that year, its end-use agreement with the United States not to employ cluster weapons against civilians. Although there was abundant evidence of intentional wrongdoing, the State Department prevailed on the Justice Department not to prosecute.²⁵ A third case involved NAPCO, Inc., a Connecticut company. NAPCO worked with Israeli agents to illegally export sensitive new technology for chrome plating the

inside of 120mm tank barrels. Indeed, U.S. foreign aid paid for building a plant in Israel to utilize this process. NAPCO pleaded guilty to violating U.S. export law and was fined \$750,000. No Israelis were prosecuted.²⁶ In other cases, the Justice Department charged an executive of the Science Applications International Corporation with illegally transferring missile defense technology to Israel by "dealing with the highest levels of the military . . . in Israel,"²⁷ and Israel improperly acquired U.S. RPV (remotely piloted vehicles) technology, allowing the Israeli company Mazlot to underbid its American competitors.²⁸

Public U.S. government reports, including the 1996 GAO report and the 1997 NACIC annual report to Congress alluded to above, suggest that the problem has worsened since the end of the cold war. For instance, a 1997 FBI affidavit revealed that David Tenenbaum, a civilian with the U.S. Army Tank Automotive and Armaments Command (TACOM), admitted giving "nonreleaseable classified information to every Israeli liaison officer assigned to TACOM over the last 10 years."²⁹ This included classified data on theater missile defense systems, the Bradley fighting vehicle, ceramic armor, and other weapons systems.³⁰ These technologies are necessary to meet what General Matan Vilnai, deputy chief of Israel's defense staff, says are Israel's "operational environments," particularly resisting a Syrian armor attack and countering an over-the-horizon missile attack.³¹ Tenenbaum also appears to have furthered Israel's commercial interests as the Israeli company Elbit now offers upgrades of the U.S. army's Bradley fighting vehicle, Israeli companies have long been involved in ceramic designs for tanks, and Israel approached the United States in 1997 about selling its forthcoming Arrow theater missile defense system to Turkey.

Fraud and the Israeli Purchasing Mission

Israeli economic espionage is sometimes associated with two often inter-related factors: the fraudulent acts committed by Israeli officials in the United States and the activities of the Israeli Purchasing Mission in New York.

Concerning the former, Israeli general Rami Dotan was convicted by an Israeli court in 1991 for conspiring with an executive of the General Electric Company, Herbert Steindler, to illegally divert \$40 million of U.S. military assistance.³² Steindler, Dotan, and another person were indicted by a U.S. federal court in 1994 for the same offense.³³ Many of these fraudulent practices were taken at the express direction of senior Israeli defense officials, possibly at the highest levels.³⁴ A 1992 memorandum from the Justice Department to Secretary of Defense Dick Cheney stated that these fraudulent diversions of U.S. aid may have been intended to "finance Israeli intelligence operations . . . in the United States."³⁵ Investigators for the House Energy and Commerce Committee concurred, and a knowledgeable congressional source said that "Dotan was continuing a fraudulent diversion of military aid that had been going on *before* he ever arrived on the scene."³⁶

The Israeli Purchasing Mission was established in 1952, well before the United States became Israel's principal arms supplier. It is run by Israeli military officers and defense officials with a staff of about two hundred (many of whom are Israeli college students). The Purchasing Mission is Israel's locus

The Israeli Purchasing Mission is often aware of evolving new technologies long before key officials in Washington, thus enhancing opportunities for evading export controls.

of coordination with the U.S. defense industry, and it draws from the \$1.8 billion of annual U.S. military aid to buy defense goods and services in the United States. It awards contracts to U.S. firms and obtains export licenses from the Departments of State and Commerce for shipments to Israel. It has liaison officers at many defense plants, sites, and installations in the United States and is accredited to additional U.S. defense facilities. Mission personnel are often

aware of evolving new technologies long before key officials in Washington, thus enhancing opportunities for evading export controls.³⁷

The unusual access to U.S. firms facilitates economic espionage, as do Israel's unique arrangements for paying U.S. companies. For other countries that use U.S. military aid to buy defense goods in the United States, the government disburses funds directly to American companies, thereby enhancing oversight. For Israel, however, the Purchasing Mission pays the companies and is then reimbursed by the U.S. Treasury. This, plus other relaxed rules for Israel's use of U.S. military aid and the presence of many retired Israeli generals and defense officials in American firms seeking business from the Mission, sharply degrades U.S. monitoring of Mission expenditures and activities. This invites the kind of fraud and/or espionage that variously involved Mission personnel in the Dotan affair and the NAPCO, Recon, and cluster bomb cases.³⁸ When the Justice Department sought to move against some Purchasing Mission personnel for recurring involvement in illegal technology acquisition, Israel requested—and in 1988 received from the State Department—limited diplomatic immunity for most of its professional staff.³⁹

Nuclear Weapons and Means of Delivery

Although evidence remains officially inconclusive, there is a "widespread belief" in the CIA and elsewhere within the U.S. intelligence community that in the 1960s Israeli intelligence spirited about two hundred pounds of weapons-grade uranium from the Nuclear Materials and Equipment Corporation (NUMEC) in Apollo, Pennsylvania.⁴⁰ John Hadden, a former CIA station chief in Tel Aviv, states that NUMEC was an "Israeli operation from the beginning."⁴¹

This private corporation was owned by Zalman Mordecai Shapiro, an active member of the Zionist Organization of America, who had close ties to Israel. These ties and Shapiro's activities convinced the FBI and CIA that he had helped Israeli agents smuggle the material out the United States to Israel, where it provided fuel for the first four nuclear devices assembled at Dimona.⁴² The NUMEC case was investigated by the GAO and the House

Interior Committee in 1978, but their reports have never been declassified. Indeed, the political sensitivity of the issue led President Lyndon Johnson and successive administrations to bury various intelligence reports on the NUMEC affair.⁴³

Another case arose in May 1985 when Richard Smyth, an American Jew, was charged by a federal grand jury with smuggling 810 krytons to Israel. Krytons can act as electronic triggers for nuclear weapons. Smyth was released on \$100,000 bail and failed to appear for trial. He was later seen in Israel.⁴⁴ This was a premeditated act of nuclear weapons-related espionage by Israel.⁴⁵ Espionage was only one reason for Israel's successful drive for nuclear weapons. A sophisticated scientific base, early assistance from France on the Dimona reactor, the financial role of individual Jewish Americans, and covert cooperation with South Africa were important factors.⁴⁶ Yet espionage got Israeli scientists and engineers past crucial roadblocks, such as the acquisition of weapons-grade uranium and krytons.

Espionage may also help Israel keep pace with technological innovations in nuclear weaponry and missile technology. The 1997 annual report to Congress by the NACIC identifies "inappropriate conduct during visits to secure facilities" as one of the most common collection methods by foreign economic spies.⁴⁷ Using a variety of covers to gain access to sensitive U.S. facilities, the visitors "manipulate" the visit by taking pictures or notes, bringing unannounced guests, and utilizing fraudulent data-exchange agreements.⁴⁸

This is a potentially serious problem, given close cooperation between the Israeli and U.S. defense scientific communities on projects such as the Arrow missile. Scores of Israeli scientists visited U.S. nuclear weapons laboratories at Sandia, Los Alamos, and Livermore. Israeli visitors were often treated more openly than others.⁴⁹ During just one twenty-month period in the late 1980s, 188 Israeli scientists visited these three labs.⁵⁰ Most of the visits were under the auspices of U.S.-Israel cooperation agreements, especially one for the study of nuclear physics and fusion; opportunities for inappropriate behavior were considerable. The GAO has highlighted the need to improve security with respect to foreign visitations of U.S. defense facilities.⁵¹

Israeli nuclear- and weapons of mass destruction-related espionage has an important economic dimension. As Israel's nuclear doctrine and posture become more elaborate—and require the integration of command and control systems with satellite imagery—access to new developments in software and computer technology is crucial.⁵² The acquisition of these technologies, through licit and illicit means, has a valuable spinoff effect for the civilian economy.

DUAL LOYALTY

The issue of dual loyalty, though not assuming the dimensions it does in cases threatening national security such as the Pollard affair, has also figured

in economic espionage. For example, the 1997 case of David Tenenbaum (discussed above), a religious Jew fluent in Hebrew, instantly concerned many in the Jewish community.⁵³

The issue of dual loyalty also arose during a 1996 effort to draft legislation to strengthen trade secrets protection. As part of an effort to increase awareness of economic espionage throughout the intelligence community, the Defense Investigative Service (DIS) prepared a profile of Israel. After noting Israel's "voracious appetite" for information on U.S. defense technologies, the DIS profile stated that Israel's "very productive collection effort" in the United States was facilitated by "ethnic targeting" and "the strong ethnic ties to Israel present in the U.S."⁵⁴ Abraham Foxman of the Anti-Defamation League obtained a copy of the profile and wrote Secretary of Defense William Perry asserting that it "borders on anti-Semitism."⁵⁵ Senator Arlen Specter (R-PA), chairman of the Senate Select Committee on Intelligence, also wrote to Secretary Perry, and Specter's staff met with Defense Department officials. The Defense Department responded: "While the Israelis may have . . . attempted to exploit ethnic and religious ties with Jewish Americans, it does not follow that these Americans are necessarily any more susceptible to external exploitation than any other . . . American citizens."⁵⁶ Virtually no one, including Senator Specter, denies the reality of ethnic targeting by foreign intelligence services. Israel has employed this technique repeatedly,⁵⁷ as have China, Taiwan, and South Korea.⁵⁸ Indeed, instances of improper ties between Israel and some American Jews—ties that contribute to perceptions of dual loyalty—date from the earliest days of the Jewish state.⁵⁹ The FBI and CIA have long been aware of such ties. For instance, a 1979 CIA report stated: Israel's intelligence "depends heavily on various Jewish communities and organizations abroad for recruiting agents and eliciting informants," and, "a substantial effort is made to appeal to Jewish racial [*sic*] or religious proclivities."⁶⁰

The American Jewish community is rightly concerned that allegations (or insinuations) about the dual loyalty of some citizens could cast aspersions on the patriotism of Jewish Americans.⁶¹ A 1987 CBS News/*New York Times* poll indicated that fully 33 percent of the general public believed American Jews placed the interests of Israel above those of the United States; this figure was 35 percent in a 1992 poll by the Anti-Defamation League of B'nai B'rith.⁶² These findings, which have been consistent over the past thirty years, also indicate that another 20 percent of Americans say they do not know where Jews' loyalties lie.⁶³

In practice, of course, Jews serve in considerable numbers and at the highest levels of the American national security establishment; only very rarely does this issue arise in individual cases. Yet Israel seems insensitive to the damaging effects its illegal acts may have on Diaspora Jews. Former Reagan administration Pentagon official Dov Zakheim, an Orthodox rabbi, states flatly that Israel's conduct is responsible for it being viewed as an intelligence threat by the Department of Defense: "This is not an American prob-

lem, but an Israeli problem.”⁶⁴ Zakheim also cautions fellow Jews “not to play the card” of anti-Semitism when the U.S. government takes reasonable measures to counter Israeli intelligence activities.⁶⁵ In this area, as in so many others, the maintenance of a free and open multiethnic society requires that a balance be struck between guarding against sweeping, McCarthy-like allegations and implementing prudent security measures.⁶⁶

ESPIONAGE AND AN EMERGING TECHNOLOGY-BASED ECONOMY

As Israel's national priorities evolve, its government is actively promoting an export-oriented technology sector featuring, among other things, strong software, Internet services, and biotechnology firms. Some of the conditions underlying these current initiatives resemble those existing during the development of Israel's arms industry and nuclear weapons program in the 1950s and 1960s, when Israel could not have developed nuclear weapons and a sophisticated armaments industry quickly without the illicit acquisition of foreign technology and information. In its quest to “make the desert bloom” with software design firms and telecommunications labs, Israel must overcome its relatively late entry into the international competition for advanced technology. Despite some successful initial public offerings, the Israeli civilian technology sector has little capital to invest in expensive research and development programs,⁶⁷ and the stalled peace process discourages investment. The pace of technological innovation and obsolescence is staggering, thereby escalating the risks associated with investment in new product development. Moreover, military scientific research in countries like Israel is hampered by such factors as the emigration of top scientists, insufficient technical support, the relatively small scale of scientific communities, and difficulties in attracting the best minds to applied weapons research.⁶⁸ All of these factors point to a continued need for economic espionage in both the civilian and defense sectors.

To be sure, there are countervailing considerations that may dampen Israel's proclivity to steal from foreign firms. Israeli firms in the new global order have much better access to international customers, potential sources of capital, and joint ventures—something that was impossible for its nuclear arms program and difficult for its early conventional arms industry. In addition, Israel's innovative defense sector has spun off useful dual-use technologies for its civilian industries.⁶⁹

However, opportunities and incentives for economic espionage are inviting. The Department of Commerce confirms that Israel's technology-based industries are “eager” for joint ventures with U.S. firms and the U.S. government.⁷⁰ In Silicon Valley, there are scores of Israeli-owned or managed companies, and American firms hire many Israeli engineers. This facilitates “brain-theft and idea-theft.”⁷¹ Moreover, the U.S. government itself is providing Israeli intelligence with inviting targets. By 1997, the United States and Israel were moving toward several new agreements on everything from ba-

sic research to prototype testing under their joint Technology Research and Development Projects. Potential areas of cooperation include avionics, a range of armaments development projects, laser target identification systems, and others.⁷² While Israel has expressly agreed not to transfer technology

from such joint endeavors to third parties without prior U.S. approval, and while such unauthorized retransfers are prohibited by the Arms Export Control Act (PL 90-629), Israel has repeatedly violated both the law and identical prior commitments concerning technology retransfers.⁷³

Beyond this, institutional habits and missions should ensure that Israeli intelligence units continue to utilize existing networks for collecting economic intelligence, while developing new ones to meet

civilian needs. Confidential business information, particularly financial information, competitor bids, customer lists, and marketing plans may become as important targets as technical and scientific data. New forms of electronic intelligence collection, including satellites and computer intrusion, will contribute to improving Israel's capabilities in this area.

The U.S. government continues to give Israel numerous unique privileges which, cumulatively, advantage Israeli firms and disadvantage American ones.

U.S. RESPONSE TO ISRAELI ESPIONAGE

Like defense firms in most foreign countries, Israeli companies are closely linked to the government and compete with American firms in the international market. Yet excepting Egypt, Israel is the only country today whose defense industry is heavily subsidized by the United States. That is, even apart from the more than \$76 billion in foreign aid (over 90 percent in security assistance) from the United States through fiscal year 1998, the U.S. government, and especially Congress, continues to give Israel numerous unique privileges which, cumulatively, advantage Israeli firms and disadvantage American ones in the international armaments market.⁷⁴ In return, Israel conducts an aggressive campaign of economic espionage against American firms. Yet this campaign has never triggered a vigorous response from the U.S. government. Why is this?

While the Israeli case is unique in several respects, the tepid U.S. response (or nonresponse) to economic thievery is not unusual. Indeed, among the countries identified by the NACIC as targeting U.S. economic secrets, it is difficult to identify a single instance where relations were truly disrupted by economic espionage. This is especially true when the culprit is a close ally. Concerning Israel generally, Secretary of State Madeleine Albright said: "You don't use levers with friends."⁷⁵

A former senior U.S. defense intelligence official commented: "The closer you come to national defense, the more likely there is to be an effect on cooperation. Pollard really disrupted U.S.-Israeli relations, but Recon-type [economic] operations have less of an impact."⁷⁶ That is, significant political

fallout from espionage is limited to traditional national security cases; even then, it is rarely severe when an ally is involved. Thus, when Robert C. Kim, a naturalized Korean-American Navy computer specialist, pleaded guilty to passing classified documents to South Korea in 1997, the U.S.-South Korean strategic relationship remained largely undisturbed.⁷⁷

But there is more here than just a reluctance to punish an ally. Individual members of Congress occasionally criticize such allies as France or Japan for their economic espionage,⁷⁸ but similar behavior by Israel elicits only silence. Whereas Congress as an institution rarely demands retribution for any ally's espionage against the United States, Congress actively advances Israel's interests and shelters it from all but the most egregious violations of U.S. law.⁷⁹ Hence, as Recon/Optical executive William Owens discovered, any explanation of the moderate U.S. response to Israeli wrongdoing must be rooted in an understanding of the American policy process. Owens pleaded with his Illinois congressional delegation to help him recover from what Israel had done to his company, but it refused to confront Israel and its potent lobby. Said Owens, "We begged people [in Washington] to help us, but we got nothing but their backs."⁸⁰

In addition to hesitancy about reprimanding an ally and Congress's protectiveness of Israel, a third factor moderating the U.S. response is the special strategic tie between the two countries. Despite serious misgivings within the U.S. national security bureaucracy concerning Israel's net value as a strategic asset,⁸¹ the strategic relationship was formalized at least by 1983 and subsequently acquired significant breadth and depth. It was strengthened in the Clinton administration by, among other things, joint counterterrorism operations and defense research programs, an extension of U.S. defense satellite warning to Israel, and an increase in U.S. funding for Israel's Arrow missile.⁸²

A fourth factor is the Economic Espionage Act of 1996 (PL 109-294). While this law makes it much easier to prosecute economic spies successfully,⁸³ it punishes individuals, not nations. It makes no reference to sanctions against offending states. Criminal prosecutions, publicity, and diplomatic demarches will not alone be sufficient to deter systematic state-sponsored economic espionage, especially when that state is Israel. There is little indication today that Washington is politically disposed toward imposing weighty sanctions that might present a more credible deterrent.

In May 1997, it was reported that the National Security Agency had intercepted communications between Israeli intelligence officials that referred to a U.S. official code-named "Mega" who was illicitly passing sensitive diplomatic information to Israel. This appeared to confirm long-standing rumors to this effect. Israeli officials denied that Mega was a spy.⁸⁴ The episode soon vanished from public view, and with its disappearance went the possibility that it might upset U.S.-Israeli relations.⁸⁵

It may be, then, that another reason for the weak U.S. response to Israeli espionage is a kind of resignation or even cynicism as captured in the term

“friendly spies.” One key shaper of U.S. intelligence policy remarked in 1996, “The trend with Israel is to catch them, then back off politically.”⁸⁶ It is also conceivable that legislators like Senator Specter and other sentries alert to inappropriate inferences of dual-loyalty may foster an “investigation chill” among U.S. officials monitoring Israeli intelligence activity.

CONCLUSION

Israel’s economic espionage is surely part of the game of nations, but its chutzpah is unique. Few allies are more strategically and economically dependent on the United States. No ally that annually receives large foreign aid subsidies spies actively on its patron. Few close allies have conducted both economic and traditional strategic espionage against the United States. Few nations’ espionage activities in the United States suggest less sensitivity to their diasporas’ legitimate fears about the specter of dual loyalty. Yet no other foreign country enjoys the support of America’s most effective coalition of ethnic special interest groups, a coalition whose individual and organized members’ huge financial contributions affect virtually all major U.S. political campaigns.⁸⁷

Wholly apart from espionage, no U.S. ally has more frequently violated contractual obligations and laws relating to U.S. national security. The various categories of illegal behavior include the fraudulent diversion of U.S. foreign aid, the illicit retransfer of sensitive U.S. technologies to third parties, and violation of end-use restrictions on U.S. military items transferred to Israel. Few well-established democracies can be so accurately characterized by what Ehud Sprinzak calls an “elite illegalism” that pervades the country’s domestic political culture and international behavior. Elite illegalism depreciates the idea of the rule of law and assumes “that democracy can work without a strict adherence to . . . law.”⁸⁸ Especially in security matters, say Dan Raviv and Yossi Melman, Israelis “believe that anything goes; . . . lies, of course, but even violations of other countries’ laws.”⁸⁹

The greater concern, however, is not Israel’s behavior. Rather, it is with those senior U.S. officials and legislators who abide it. This aspect of the “special relationship” with Israel annoys, even embitters, much of the permanent national security bureaucracy. It is also a latent domestic political issue with divisive overtones. Whatever immediate advantages Israel’s illicit practices may bring, they could eventually weaken the long-run relationship that is the ultimate guarantee of Israel’s security.

NOTES

1. *Economic espionage* is defined as the employment of various means by foreign governments to target U.S. persons, firms, industries, or the U.S. government to unlawfully and covertly obtain classi-

fied data and/or sensitive policy or proprietary information with the intent of enhancing the economic competitiveness of a foreign country and its companies.

2. Dan Raviv and Yossi Melman, *Friends in Deed: Inside the U.S.-Israel Alliance* (New York: Hyperion, 1994), pp. 39–48, 63–64. See also Andrew Cockburn and Leslie Cockburn, *Dangerous Liaison: The Inside Story of the U.S.-Israeli Covert Relationship* (New York: Harper Collins, 1991), pp. 195–99.

3. NACIC is an interagency entity that monitors cases of economic espionage against the United States and coordinates prevention and response options with both the private sector and federal agencies and units such as the Overseas Advisory Council. Twelve countries are thought to account for 90 percent of the economic intelligence collection directed against the United States: China, Cuba, France, Germany, Iran, Israel, Italy, Japan, Russia, South Korea, Sweden, and Taiwan. National Counterintelligence Center, *Annual Report to Congress on Foreign Economic Collection and Industrial Espionage* (Washington, D.C.: Author, 1997), pp. 2, 7; U.S. Congress, Senate, Select Committee on Intelligence, *Hearing: Current and Projected National Security Threats To the United States and Its Interests Abroad*, 104th Cong., 2d sess., 1996, p. 99; Tony Cappaccio, "CIA: Israel Among Most 'Extensive' in Economic Espionage," *Defense Week*, 5 August 1996, p. 16.

4. Raviv and Melman, *Friends in Deed*, pp. 41–46.

5. Seymour M. Hersh, *The Samson Option: Israel's Nuclear Arsenal and American Foreign Policy* (New York: Random House, 1991), p. 62; Ian Black and Benny Morris, *Israel's Secret Wars: A History of Israel's Intelligence Services* (New York: Grove Wiedenfeld, 1991), p. 418.

6. Cockburn and Cockburn, *Dangerous Liaison*, p. 195; Ronald D. McLaurin, "Technology Acquisition: A Case Study of the Supply Side," in Kwang-Il Baek, Ronald D. McLaurin, and Chung-in Moon, ed., *The Dilemma of Third World Defense Industries* (Boulder, CO: Westview Press, 1989), p. 87.

7. U.S. Central Intelligence Agency (CIA), *Israel: Foreign Intelligence and Security Services*, Washington, D.C., March 1979, p. 9 (typescript). The report, classified SECRET, was released to the world by Iranian students who occupied the U.S. embassy in Tehran in 1979.

8. Edward T. Pound and David Rogers, "An Israeli Contract with a U.S. Company Leads to Espionage," *Wall Street Journal*, 17 January 1992, p. 1.

9. U.S. Congress, *Current and Projected National Security Threats*, p. 99; Paul Blustein, "France, Israel Alleged to Spy on U.S. Firms," *Washington Post*, 6 August 1996, p. A28.

10. U.S. General Accounting Office (GAO), *Defense Industrial Security: Weaknesses in U.S. Security Arrangements with Foreign-Owned Defense Contractors*, NSIAD-96-64, Washington, D.C., 1996, pp. 22–23; U.S. Congress, *Current and Projected National Security Threats*, p. 99. Israel is country "A" in the GAO report. Bill Gertz, "Allies' Spying in U.S. Reported," *Washington Times*, 22 February 1996, p. A9; Tony Capaccio, "Report Highlights Espionage Threat From Israel, Allies," *Defense Week*, 26 February 1996, p. 1. Some reports indicate that Israel employed thirty-five agents to gather economic intelligence in the United States between 1985 and 1995. Andrew Jack, "Post-Cold War Spies Turn to Commercial Targets," *Financial Times*, 24 February 1995, p. 2.

11. McLaurin, "Technology Acquisition," pp. 89–90, 94.

12. GAO, *Defense Industrial Security*, pp. 22–23; *Protecting Corporate America's Secrets in a Global Economy* (Framingham, MA: American Institute for Business Research, 1992), p. 43; "Inside Israel's Secret Organizations," *Jane's Intelligence Review* (October 1996), pp. 464–65.

13. Barbara Opall, "Turf Battle Exposes Secret Israeli Industry Surveillance Unit," *Defense News*, 5–11 January 1998, p. 6.

14. GAO, *Defense Industrial Security*, pp. 22–23. See also Duncan L. Clarke, "Israel's Unauthorized Arms Transfers," *Foreign Policy* 99 (Summer 1995), pp. 89–109.

15. Interview, former senior U.S. defense intelligence official, Washington, D.C., December 1996.

16. Dan Raviv and Yossi Melman, *Every Spy a Prince* (New York: Houghton Mifflin, 1990), p. 78.

17. On rare occasions the United States has attempted other types of intelligence operations in Israel, apparently with little success. Senior U.S. officials fear

a domestic political backlash in the United States should such operations be exposed. See Raviv and Melman, *Every Spy a Prince*, pp. 307–8; Raviv and Melman, *Friends in Deed*, pp. 64–65, 292–93, 296–97; Hersh, *The Samson Option*, pp. 107, 162–63. Indeed, some members of Congress have not maintained confidentiality. Shortly after stepping down as chairman of the Senate Select Committee on Intelligence in 1987, Senator David Durenberger (R-MN) angered U.S. officials when he revealed to American Jewish groups that the CIA had recruited an Israeli military officer to spy for the United States. “Israeli Spy Conviction Undercuts U.S. Denial,” *Washington Post*, 6 June 1993, p. A4. See also Charles Babcock, “Israel Uses Special Relationship to Get Secrets,” *Washington Post*, 15 June 1986, p. A1.

18. Interviews, several past and present U.S. intelligence officials, Washington, D.C., 1996–97; Pound and Rogers, “An Israeli Contract,” p. 1; Raviv and Melman, *Every Spy a Prince*, p. 305.

19. George P. Shultz, *Turmoil and Triumph* (New York: Charles Scribners’ Sons, 1993), pp. 458–59; Raviv and Melman, *Every Spy a Prince*, pp. 320, 322. According to then Secretary of Defense Caspar Weinberger, Pollard’s theft of classified documents had caused “substantial and irrevocable damage” to the nation. Wolf Blitzer, *Territory of Lies* (New York: Harper and Row, 1989), p. 233.

20. Clyde R. Mark, *Israel: U.S. Foreign Assistance*, CRS Issue Brief, Congressional Research Service, Washington, D.C., 1 October 1997.

21. GAO, *Defense Industrial Security*, p. 23; Pound and Rogers, “An Israeli Contract,” p. 1.

22. John J. Fialka, *War by Other Means: Economic Espionage in America* (New York: W. W. Norton, 1997), pp. 181–84; “Recon Tells Its Tale,” *National Center for Manufacturing Sciences Focus*, February 1995, pp. 2–3 (typescript); Cockburn and Cockburn, *Dangerous Liaison*, pp. 197–99.

23. *Protecting Corporate America’s Secrets*, pp. 45–46.

24. Interview, U.S. defense official, Washington, D.C., February 1990.

25. Pound and Rogers, “An Israeli Contract,” p. 1; Stephen Endelberg, “U.S.

Aids Say Policy Stands on Cluster Weapons Exports,” *New York Times*, 10 July 1986, p. 18; William Claiborne, “Israel Denies Trying to Skirt U.S. Arms Technology Ban,” *Washington Post*, 10 July 1986, p. A18; Charles Babcock, “Export Licenses to Israel Were Lifted Last Month,” *Washington Post*, 10 July 1986; David Ottaway, “Israel Seeks Immunity for 47 in Military Purchasing Office: Unit Suspected of Illegal Exports in the Past,” *Washington Post*, 12 September 1988, p. A1.

26. Charles Babcock, “Firm Guilty of Smuggling Technology: Israel Manufactures Tank Cannon Barrels,” *Washington Post*, 25 November 1987, p. A16; Douglas Frantz and James O’Shea, “Israel Arms Deals Strain U.S. Ties,” *Chicago Tribune*, 16 November 1986, p. 14; Cockburn and Cockburn, *Dangerous Liaison*, pp. 196–97.

27. “Executive Charged with Selling ‘Star Wars’ Data,” *New York Times*, 16 June 1990.

28. *INDICTMENT: United States of America v. Zvika Schiller and Uri Simhony*, U.S. District Court for the Eastern District of Virginia, Alexandria Division, April 1993 (typescript); Victor D. Ostrovsky, *By Way of Deception* (New York: St. Martin’s Press, 1990), p. 270.

29. Roberto Suro and Barton Gellman, “FBI Probes Engineer for Leaks to Israelis,” *Washington Post*, 20 February 1997, p. A12.

30. Shawn L. Twing, “American Engineer Under Investigation for Passing Secrets to Israel,” *Washington Report on Middle East Affairs*, no. 15 (April–May 1997), p. 32.

31. Joris Janssen, “Country Briefing: Israel,” *Jane’s Defense Weekly*, 19 June 1996, p. 53.

32. U.S. Congress, House, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, *Hearing: Illegal Military Assistance to Israel*, 102d Cong., 2d sess., 1992, pp. 1–4, 16–17. In fact, U.S. officials found that about \$100 million had been siphoned off. Interview, congressional source, Washington, D.C., August 1994.

33. “Three Indicted in Alleged GE-Israel Kickback Scheme,” *Washington Post*, 18 March 1994.

34. GAO, *Foreign Military Aid to Israel: Diversion of U.S. Funds and Circumvention of U.S. Program Restrictions*,

GAO/T-OSI-94-9, Washington, D.C., October 1993, pp. 1-9; U.S. Congress, *Hearing: Illegal Military Assistance to Israel*, pp. 5-9, 91-92; U.S. Congress, House, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, *Hearing: The Roles of United Technologies and National Airmotive Corporation and the Department of Defense in the Illegal Diversion of Tens of Millions of Dollars in Foreign Military Assistance to Israel*, 103d Cong., 1st sess., 1993; interview, congressional source, Washington, D.C., August 1994.

35. Steven Perlstein and John M. Goshko, "Israel Eases Stance in Arms Aid Probe," *Washington Post*, 29 July 1992, p. G1.

36. Ibid.; interview, congressional source, Washington, D.C., August 1994.

37. McLaurin, "Technology Acquisition," pp. 70, 88-89; GAO, *Military Sales to Israel and Egypt: DOD Needs Stronger Controls Over U.S.-Financed Procurements*, NSIAD-93-184, Washington, D.C., July 1993, p. 9; Edward Pound and David Rogers, "How Israel Spends \$1.8 Billion a Year at Its Purchasing Mission in New York," *Wall Street Journal*, 20 January 1992, p. A4; Mark, *Israel: U.S. Foreign Assistance*, p. 7; Cockburn and Cockburn, *Dangerous Liaison*, pp. 196-98; Claiborne, "Israel Denies Trying to Skirt," p. A1; Ottaway, "Israel Seeks Immunity," p. A1.

38. Pound and Rogers, "How Israel Spends \$1.8 Billion," p. A4; Mark, *Israel: U.S. Foreign Assistance*, p. 7; Cockburn and Cockburn, *Dangerous Liaison*, pp. 196-98; Claiborne, "Israel Denies Trying to Skirt," p. A1; Ottaway, "Israel Seeks Immunity," p. A1.

39. McLaurin, "Technology Acquisition," p. 70; Pound and Rogers, "An Israeli Contract," p. 1. Lt. Col. Oliver North came to the Purchasing Mission in 1985 to broach what was to become the diversion of U.S. arms sales profits to the contras in Central America. Pound and Rogers, "How Israel Spends \$1.8 Billion," p. A4.

40. Hersh, *The Samson Option*, pp. 187-89; Cockburn and Cockburn, *Dangerous Liaison*, pp. 71-97.

41. Quoted in Cockburn and Cockburn, *Dangerous Liaison*, pp. 78-81.

42. Hersh, *The Samson Option*, pp. 188-89, 242; Raviv and Melman, *Every Spy a Prince*, pp. 197-98.

43. Interview, congressional source, Washington, D.C., August 1994. The interviewee had access to most of these reports as well as personal knowledge of how they were received by consumers. See also Cockburn and Cockburn, *Dangerous Liaison*, pp. 73-75.

44. "Israelis Illegally Got U.S. Devices Used in Making Nuclear Weapons," *New York Times*, 16 May 1985, p. A5; Charles Babcock, "Computer Expert Used Firm to Feed Israel Technology," *Washington Post*, 31 October 1986, p. A24; John Goshko, "U.S. Asks Israel to Account for Nuclear Timers," *Washington Post*, 15 May 1985; Frantz and O'Shea, "Israel Arms Deals Strain U.S. Ties," p. 14; Raviv and Melman, *Friends in Deed*, p. 299.

45. Ibid.; interview, Defense Department official, Washington, D.C., August 1995.

46. The literature on this subject is voluminous. For all of these factors see Hersh, *The Samson Option*.

47. "Foreign Visits: What is Inappropriate?" *Counterintelligence News Digest* 3 (September 1997). World Wide Web at <http://www.nacic.gov/cind/vol.13html1#r3>.

48. Ibid.

49. William E. Burrows and Robert Windrem, *Critical Mass* (New York: Simon and Schuster, 1993), p. 290.

50. Ibid.; Hersh, *The Samson Option*, p. 206.

51. GAO, *Defense Industrial Security*, pp. 30-33, 53-54.

52. See generally Burrows and Windrem, *Critical Mass*, ch. 9.

53. Matthew Dorf, "New 'Dual Loyalty' Ripples," *Washington Jewish Week*, 27 February 1997, p. 16.

54. This document is reprinted in U.S. Congress, Senate, Joint Hearing before the Subcommittee on the Judiciary, Terrorism, Technology and Government Information, Committee on the Judiciary, and Select Committee on Intelligence, *Economic Espionage*, 104th Cong., 2d sess., 1996, pp. 83-86.

55. Letter is reprinted in Ibid., 79.

56. Ibid., 77.

57. Ibid., 94; Ostrovsky, *By Way of Deception*, pp. 86-88; "Inside Israel's Secret Organizations," p. 465.

58. R. Jeffrey Smith and Peter Pae, "Navy Worker's Case Raises Issue of Ethnic Sympathy," *Washington Post*, 26 September 1996, p. A15; Fialka, *War by*

Other Means, p. 5; William Claiborne, "Taiwan-Born Scientist Passed Defense Data," *Washington Post*, 12 December 1997, p. A23; Nicholas Eftimiades, *Chinese Intelligence Operations* (Annapolis, MD: Naval Institute, 1994), p. 60.

59. Raviv and Melman, *Friends in Deed*, pp. 39–48.

60. CIA, *Israel: Foreign Intelligence and Security Services*, pp. 21–22. For instances of ethnically-related security improprieties by Israeli authorities and American citizens see, *inter alia*, U.S. Congress, *Hearing: Illegal Military Assistance to Israel* (1992); U.S. Congress, House, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, *Hearing: Illegal Military Assistance to Israel*, 103d Cong., 1st sess., 1993, p. 65; Hersh, *The Samson Option*, pp. 83–92.

61. This intracommunity concern sometimes extends well beyond espionage to the more general identity many American Jews share regarding the overall welfare of the Jewish state. Hence, Rabbi David Lapin and David Klinghoffer state: "We [American] Jews love our country. But Non-Jews must wonder which country that is." "The Patriotism Problem," *Washington Jewish Week*, 27 November 1997, p. 23.

62. Blitzer, *Territory of Lies*, pp. 285–86; Anti-Defamation League of B'nai B'rith, *Highlights from an Anti-Defamation League Survey on Anti-Semitism and Prejudice in America*, New York, 26 November 1992, pp. 18–19.

63. Dorf, "New 'Dual Loyalty' Ripples," p. 16.

64. Lawrence Cohler, "Who Authorized Pentagon 'Dual Loyalty' Memo?" *The Jewish Week* (of Queens, New York), 9 February 1996, p. 32.

65. *Ibid.*

66. For a thoughtful analysis of historical relationships between anti-Semitism and the policy roles of Jews in government, see Benjamin Ginsberg, *The Fatal Embrace: Jews and the State* (Chicago: University of Chicago Press, 1993), especially pp. 9–10, 57–58. Also see Albert S. Lindemann, *Esau's Tears: Modern Anti-Semitism and the Rise of the Jews* (New York: Cambridge University Press, 1997).

67. Amy Dockser Marcus and Stephanie N. Melta, "Israel Stumbles in High-

Technology Push," *Wall Street Journal*, 10 June 1997, p. A12.

68. See James Everett Katz, "Factors Affecting Military Scientific Research in the Third World," in James Everett Katz, ed., *The Implications of Third World Militarization* (Lexington, MA: Lexington Books, 1986), p. 297.

69. See "Emanuel Gill, President and CEO, Elbit, Ltd.," *Defense News*, 13–19 December 1993, p. 38.

70. Mark Walsh, "Israeli Firms Could Challenge U.S. Tech Markets Study Shows," *Defense Week*, 27 August 1996, p. 1.

71. "Israel: Israeli Presence in Silicon Valley," *FBIS Daily Report*, Near East and South Asia, FBIS-NES-97-090, 6 May 1997. See also GAO, *Defense Industrial Security*, p. 16.

72. Barbara Opall, "U.S., Israel Launch Research Effort," *Defense News*, 10–16 February 1997, p. 4.

73. Clarke, "Israel's Unauthorized Arms Transfers," pp. 89–109; U.S. Department of State, Office of the Inspector General, *Report of Audit: Department of State Defense Trade Controls*, Washington, D.C., March 1992.

74. The \$76 billion figure excludes \$9.8 billion in housing loan guarantees. For aid data and a partial listing of Israel's special privileges, see Mark, *Israel: U.S. Foreign Assistance*. See also Shawn Twing, "Funding the Competition: Aid to Israel Returns to Haunt U.S. Industry," *Defense News*, 3–9 March 1997, p. 19.

75. Jim Hoagland, "A Foreign Policy That Asks 'Can't We All Just Get Along?'" *Washington Post*, 30 October 1997, p. A23.

76. Interview, former senior U.S. defense intelligence official, Washington, D.C., December 1996.

77. Charles W. Hall and Dana Priest, "Navy Worker Is Accused of Passing Secrets," *Washington Post*, 26 September 1996, p. A1; David Johnson, "Korean Spy Case Called More Serious Than Was Thought," *New York Times*, 3 October 1996, p. A8; Brooke Masters, "Ex-Computer Specialist Pleads Guilty to Espionage," *Washington Post*, 8 May 1997, p. A16.

78. For instance, see the remarks of Representative Helen Bentley (R-MD) in U.S. Congress, House of Representatives,

Congressional Record, 139 (21 April 1993), p. H1979.

79. See, for instance, Clarke, "Israel's Unauthorized Arms Transfers," pp. 98, 101–2, 109. Feldman finds that the U.S. Congress is a pivotal "focus of U.S. support for the Jewish state, sometimes even pursuing initiatives . . . more energetically than Israel's own government." Shai Feldman, *The Future of U.S.-Israel Strategic Cooperation* (Washington, D.C.: Washington Institute for Near East Policy, 1996), p. 6.

80. Fialka, *War by Other Means*, p. 182; Pound and Rogers, "An Israeli Contract," p. 1. The three culpable Israeli air force officers were disciplined by their government, not for thievery, but for getting caught.

81. Duncan L. Clarke, Daniel B. O'Connor and Jason D. Ellis, *Send Guns and Money: Security Assistance and U.S. Foreign Policy* (Westport, CT: Praeger, 1997), p. 173; Feldman, *The Future of U.S.-Israel Strategic Cooperation*, pp. 7, 16, 21, 46. Even such an outspoken academic partisan of Israel as Bernard Reich acknowledges that "Israel is of limited military or economic importance to the United States. . . . It is not a strategically vital state." Bernard Reich, *Securing the Covenant: United States-Israel Relations after the Cold War* (Westport, CT: Praeger, 1995), p. 123.

82. John Donnelly, "U.S. Gives NATO Nations, Israel Access to Missile Warning," *Defense Week*, 23 December 1996, p. 1; Martin Sieff, "Israel Assured of More Weapons," *Washington Times*, 4 April 1997, p. A1; "NSC Fact Sheet: Standing by Israel for Peace and Security," National Security Council, Washington, D.C., 1996

(typescript); Opall, "U.S. Israel Launch Research Effort," p. 4.

83. Interview, FBI agents, Washington, D.C., April 1997; author's confidential correspondence with retired FBI and CIA officials, May 1997; "FBI Hits Out at French Spies," *Intelligence Newsletter*, 12 December 1996.

84. Nora Boustany and Brian Duffy, "A Top U.S. Official May Have Given Sensitive Data to Israel," *Washington Post*, 6 May 1997, p. A1; Barton Gellman, "Israel Asserts Monitored Talk Was Not Spying," *Washington Post*, 17 May 1997, p. A1.

85. But see "Israel, United States: Commentator Analyzes Mega Spy Affair," *FBIS Daily Report*, Near East and South Asia, FBIS-NES-97-091, 9 May 1997.

86. Confidential briefing, U.S. government official, Washington, D.C., November 1996.

87. It is estimated that between 25 and 33 percent of *all* funds raised in major political campaigns in the United States, and about 50 percent of all funds raised for Democrats in major political campaigns come from the Jewish community. Seymour Martin Lipset and Earl Raab, *Jews and the New American Scene* (Cambridge, MA: Harvard University Press, 1995), p. 138; J. J. Goldberg, *Jewish Power: Inside the American Jewish Establishment* (New York: Addison-Wesley, 1996), pp. 275–77.

88. Ehud Sprinzak, "Elite Illegalism in Israel and the Question of Democracy," in Ehud Sprinzak and Larry Diamond, ed., *Israeli Democracy under Stress* (Boulder, CO: Lynne Rienner Publishers, 1993), p. 175.

89. Raviv and Melman, *Friends in Deed*, p. 283