

## CORPORATE STRATEGY

### The NATO push in electronics

The ITT executive reshuffle and IBM's dramatic marketing shift, which we covered last week, can be definitely linked to a London-sponsored NATO attempt to bring Europe and Japan under NATO's political umbrella. The carrot offered is the prospect of allowing NATO suppliers to freely bid on U.S. Department of Defense contracts. The stick is the intensified competition created in civilian electronics fields by IBM's marketing aboutface, and by the U.S. breaching of Japan's computer and electronics tariff walls.

#### ITT's 'military-industrial' push

The key shifts in ITT have been in the scientific posts. The most important staff shakeup below the already reported canning of ITT's European and North American presidents was the installation of Charles Maria Herzfeld as top R&D man. Herzfeld has been closely associated with new ITT president Rand V. Araskog, a linchpin in Robert McNamara's reorganization of the Department of Defense under President Kennedy. From his position at DOD's Advanced Research Project Agency in 1961-65, Herzfeld went to ITT's defense/space group.

Herzfeld sits on the Air Force Scientific Advisory Board, the British-controlled high-technology think-tank guided by Gen. George Keegan, and is a fellow of the Hudson Institute, known for its total nuclear war scenarios. He also belongs to the London Institute for Strategic Studies, said to be the operational "war room" for electronics strategy.

The current ITT mobilization

was announced June 29 by company chairman Harold Geneen at the ITT annual senior executives' barbecue in Brussels. At the same time, outgoing NATO chieftain Alexander Haig gave a briefing in Brussels to the Israeli intelligence branch of NATO at an affair called to celebrate the opening of a new Anti-Defamation League office in Paris.

The drive for NATO standardization and enlarged Defense Department procurement from NATO suppliers was prominently discussed at the Armed Forces Communications and Electronics Association convention in Washington last month. The leading pieces of bait being proffered are the \$100 million electronics package for the MX missile and the DOD's Tri-Tac Digital Nonsecure Voice Terminal, which will be opened to Siemens, Telefunken, Dutch Philips, Marconi Elliot of England, and Canadian Marconi.

According to Harold Miller, president of ITT defense communications, "Many developmental programs are now coming to fruition with substantial production coming over the next couple of years." Another participant said, "There are more bids than we have the resources to go after."

At the same time the Japanese are being invited to coordinate with NATO, Senator Henry Jackson is trying to make sure that Japan, as well as France, West Germany, and Italy, does not turn to Soviet markets instead. Jackson is seeking an amendment to the Export Administration Act that would impose validated license controls on exports to other nations—controls designed to prevent the re-export of such critical goods and technologies to nations threatening the national security of

the U.S." While aimed against foreign manufacturers who use American components, it would also enable ITT to justify ordering its foreign subsidiaries to embargo goods to the Soviet bloc.

#### Double squeeze on Japan

Meanwhile the recently released GATT tariffs indicate that the Japanese gave up all protection for their growing electronics industry but allowed the European Community to maintain its grotesque 17 percent tariff on semiconductors, sponsored by Britain. Japan allowed its computer tariffs to drop from 13.5 percent to 4.9 percent (the U.S. level), while related products were chopped from 18-25 percent to 6 percent.

While Japan was opening its domestic market to U.S. penetration, it was losing its marketing operations in the U.S. As we reported last week, Fujitsu's joint venture with Amdahl, the heavy computer manufacturer, and Hitachi's capitalization of Intel to provide a sales outlet in the U.S., are being wrecked by IBM's sudden strategy of selling a lot of new-model machines. Amdahl's stock collapsed from 75c4 ten months ago to 23 5/8 on Friday, June 22, and sent the company searching to expand its \$100 million credit line. Amdahl sales depended on IBM's holdbacks of computer production.

Intel, which markets Hitachi computers and peripherals, hit high second-quarter losses from its computer leasing operations and accepted a four-man panel headed by First Boston investment bank to "advise" Intel president Peter Redfield. Hitachi's several-hundred-million investment in Intel will thus be controlled by First Boston.

—Leif Johnson