

Draft - WCN - 3/18/76
Evening Meeting with CDC Directors - "ETHICS"
March 18, 1976

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THE SUBJECT FOR DISCUSSION TONIGHT IS CORPORATE ETHICS. ABOUT SIX MONTHS AGO IT APPEARED THAT CONTROL DATA SHOULD GIVE CONSIDERATION TO A WRITTEN CORPORATE CODE OF CONDUCT. A COMMITTEE WAS SET UP TO FACILITATE THE PROCESS OF DEVELOPING A CODE FOR BOARD CONSIDERATION. ALSO FOR CONSIDERATION IS THE MATTER OF USE OF A CORPORATE CODE IF ONE WERE ADOPTED, I.E., WOULD IT BE USED ONLY INTERNALLY OR IN ADDITION WOULD IT BE MADE PUBLIC.

THERE HAS BEEN A LOT OF WORK DONE ON A CONTROL DATA CORPORATE CODE, BUT THERE IS MORE TO DO. FOR ONE THING THE SITUATION CHANGES ALMOST WEEKLY ON ETHICS. THE CENTRAL ISSUE IS, OF COURSE, ETHICS AND HENCE ETHICS IS THE PRINCIPAL SUBJECT FOR DISCUSSION TONIGHT.

WSJ articles have begun to reflect more reality. I have some handouts out which include a clipping with WSJ article today.

ACTUALLY, IT HAD NOT OCCURRED TO US THAT WE NEED HAVE ANY PARTICULAR CONCERN ABOUT ETHICS UNTIL ALL THE PUBLICITY AND ACTIVITY BY THE GOVERNMENT IN CONNECTION WITH GULF, LOCKHEED, ETC. OCCURRED. CONTROL DATA IS A HIGHLY MORAL COMPANY. IN FACT, I WILL STACK OUR MORALS UP WITH ANY OTHER COMPANY IN THE WORLD. TOP MANAGEMENT OF THIS COMPANY HAS NEVER PARTICIPATED IN ANY POLITICAL CONTRIBUTION OR INTERVENTION, EITHER DOMESTICALLY OR ABROAD. WE HAVE BEEN SCRUPULOUS IN THIS AREA AND WILL CONTINUE TO BE SO. EVEN THOUGH WE HAD FELT CONFIDENT THROUGH THE YEARS OF COMPLIANCE WITH THE LAWS ON POLITICAL CONTRIBUTIONS, IN 1973, WE CONDUCTED A REVIEW OF OUR OPERATIONS. ALL OF OUR TOP EXECUTIVES CERTIFIED IN WRITING THAT THE ORGANIZATIONS UNDER THEIR CONTROL HAD COMPLIED WITH LAW. OUR GENERAL COUNSEL INDICATED THAT CONTROL DATA WAS ENTITLED TO CONCLUDE FROM THEIR RESPONSES THAT

As a matter of fact there appears to be a change in week - ton

THE COMPANY WAS IN FULL COMPLIANCE WITH LAWS. AS TO PURCHASE OF FAVOR AT HIGH LEVELS OF GOVERNMENT, I AM EQUALLY SURE THAT WE HAVE NOT BEEN INVOLVED IN THAT TYPE OF ACTIVITY. HOWEVER, WE ALL KNOW THERE ARE COUNTRIES IN WHICH PAYMENTS TO OBTAIN BUSINESS IS A WAY OF LIFE, IF NOT LITERALLY LEGAL. ^{about the north eye} THUS WE CONCLUDED THAT WE SHOULD INVESTIGATE EACH OF OUR COUNTRY OPERATIONS TO DETERMINE WHAT LEVEL, IF ANY, OF SUCH PAYMENTS HAVE BEEN MADE AND WHETHER WE FEEL IT IS MATERIAL INFORMATION FROM AN INVESTOR STANDPOINT.

BOB HAWKINS HAS BEEN PERFORMING THE INVESTIGATION. BEFORE HE REPORTS I WANT TO SHARE SOME PRELIMINARY THOUGHTS WITH YOU. THE MAIN PROBLEM WE CONFRONT IS THE REQUEST FOR PAYMENT SO THAT OUR PROPOSALS WILL NOT BE BLOCKED OR RECOMMENDED AGAINST -- WHICH IS REALLY EXTORTION. THE WORST SITUATION IS IN MEXICO. PAYMENTS THAT HAVE BEEN MADE OR COMMITTED TO BE MADE ARE IN THE NEIGHBORHOOD OF A MILLION DOLLARS OR SO. THE SO-CALLED COMMISSION PAYMENTS HAVE APPARENTLY BEEN ADDED TO THE RETAIL PRICE IN ALL CASES AND HENCE PAID FOR BY THE CUSTOMER. THEREFORE THEY HAVE NOT AFFECTED PROFITABILITY. PERCENTAGE-WISE THEY HAVE USUALLY RUN FROM SIX TO EIGHT PERCENT AND NEVER OVER TEN PERCENT. THERE ARE SOME ORDERS PENDING WHICH MAY ENTAIL COMMISSION PAYMENTS OF SEVERAL HUNDRED THOUSAND DOLLARS. WHILE I AM STRONGLY OPPOSED TO DISCLOSURE I WOULD NOT BE ASHAMED OF TELLING THE WORLD ABOUT THE SITUATION. I BELIEVE THE MOST DIFFICULT ASPECT IS THE ONGOING SITUATION, HOWEVER BEFORE GOING INTO MEXICO FURTHER, I WOULD LIKE TO SPEAK ABOUT THE REST OF THE WORLD.

NO PROBLEMS HAVE SHOWN UP IN THE U.S., NOR DO THERE APPEAR TO BE

ANY CONSEQUENTIAL ONES IN EUROPE WITH THE POSSIBLE EXCEPTION OF ITALY.

SOUTHEAST ASIA, THE MIDDLE EAST AND LATIN AMERICA ARE THE AREAS OF THE WORLD WHERE EXTORTION AND BRIBES ARE A WAY OF LIFE TO ONE EXTENT OR ANOTHER. I WILL SUMMARIZE THE SITUATION FOR CONTROL DATA IN THOSE AREAS AS FAR AS THE INVESTIGATION HAS GONE:

IN SOUTHEAST ASIA WE HAVE BEEN OR ARE DOING BUSINESS IN THAILAND, TAIWAN AND SOUTH KOREA.

THAILAND: IN THAILAND WE HAVE SOLD THREE COMPUTER SYSTEMS. SINCE IT IS A SMALL COUNTRY SHOT FULL OF POLITICS, GRAFT AND INSTABILITY, WE DECIDED TO GET OUT. WE ARE IN THE PROCESS OF SELLING THE BUSINESS, WHICH IS MAINTENANCE CONTRACTS ON THE COMPUTER SYSTEMS, TO A LOCAL COMPANY.

SOUTH KOREA AND TAIWAN: IN EACH OF THESE COUNTRIES WE HAVE SOLD EIGHT OR NINE COMPUTER SYSTEMS. WE HAVE USED CONSULTANTS TO HELP MARKET. THERE IS A CONTRACT WITH EACH. FEES RUN \$30,000 TO \$50,000 FOR ASSISTANCE IN SELLING COMPUTER SYSTEMS VALUED AT ONE TO TWO MILLION DOLLARS -- IN THE TWO TO FIVE PERCENT RANGE.

MIDDLE EAST: IN THE MIDDLE EAST WE HAVE SOLD COMPUTER SYSTEMS IN NIGERIA AND IRAN. THERE APPEAR TO BE NO PROBLEMS IN NIGERIA. IN IRAN THERE WERE PAYMENT SITUATIONS WITH TWO CONTRACTS APPROXIMATING \$500,000.

MEXICO: THAT BRINGS US BACK TO MEXICO. I SHOULD ELABORATE SOMEWHAT ON THE BUSINESS ENVIRONMENT. THERE ARE RELATIVELY FEW LARGE COMPANIES IN MEXICO. SINCE OUR MAIN PRODUCT IN MEXICO AT PRESENT IS LARGE COMPUTERS, THE GOVERNMENT IS THE PRINCIPAL MARKET. AS A CONSEQUENCE SEVENTY PERCENT OF OUR SALES IN MEXICO ARE TO THE GOVERNMENT. CONTROL

DATA IS IN THE MOST VULNERABLE POSITION IN MEXICO OF ANY FOREIGN COMPANY TO EXTORTION. I CAN'T IMAGINE ONE MORE VULNERABLE THAN WE ARE.

I WAS IN MEXICO DURING EARLY FEBRUARY AND MET WITH THE PRESIDENT OF ONE OF THE FEW LARGE COMPANIES THERE. THIS COMPANY UP UNTIL FIVE YEARS AGO WAS A SUBSIDIARY OF BRITISH AMERICAN TOBACCO. IT IS NOW MAJORITY-OWNED BY MEXICAN STOCKHOLDERS AND HAS OVER FIFTY PERCENT OF THE CIGARETTE AND CIGAR MARKET IN MEXICO. THE PRESIDENT STATED CATEGORICALLY THAT IT IS NOT POSSIBLE TO DO BUSINESS IN THE GOVERNMENT WITHOUT MORDIDA. TOP GOVERNMENT OFFICIALS' PAY SCALES ARE VERY LOW. OFFICIAL PAY IS EXPECTED TO BE SUPPLEMENTED FROM PAYOFFS. AS A CONSEQUENCE CONTROL DATA IS HIT AT SEVERAL LEVELS OF GOVERNMENT.

IBM IS ALLEGED TO BE UNABLE TO DISASSOCIATE FROM MEXICAN BUSINESS PRACTICES, ALTHOUGH IBM IN SOME CASES USES NON-CASH TYPES OF PAYMENTS, INCLUDING PAID VACATIONS, EDUCATIONAL SCHOLARSHIPS, BUILDING SCHOOLS, BUYING LAND, ETC., WHICH ARE EASY TO CONCEAL. THERE IS A STRONG LIKELIHOOD THAT IBM PAID THE FINANCE MINISTER \$580,000 TO BAN SHIPMENTS OF 360 MODEL COMPUTERS INTO MEXICO. THIS WAS DONE TO KNOCK OUT THE LEASING COMPANIES. ON THE SCALE OF PAYMENTS IT IS WIDELY BELIEVED IN MEXICO THAT THE LIST IS TOPPED BY BURROUGHS, FOLLOWED BY UNIVAC, CDC AND IBM.

ANOTHER SIGNIFICANT POINT IS THAT THE U.S. GOVERNMENT HIRES AN AGENT TO HANDLE THE IMPORTS -- OFFICE EQUIPMENT, ETC., REQUIRED IN MEXICO IN THE EMBASSY, CONSULATES AND OTHER OFFICES. AN IMPORTANT PART OF THE AGENT'S DUTIES IS TO TAKE CARE OF THE MORDIDA.

THE GOVERNMENT IS CHANGED EACH SIX YEARS IN MEXICO. THERE WILL BE A NEW ONE IN DECEMBER. EVEN FEDERAL JUDGES SERVE FOR ONLY SIX YEARS.

IT IS NO ACCIDENT THAT WE HAVE BEEN HIT BY A NUMBER OF DIFFERENT TYPES OF GOVERNMENT ACTIONS RECENTLY TO GOUGE US FOR MORE MONEY. THESE ACTIONS HAVE COME IN THE FORM OF AUDITS OF OUR TAX RATE AND IMPORT DUTIES.

MEXICO HAS BEEN A DIFFICULT PLACE TO BUILD UP A PROFITABLE BUSINESS. WE HAVE LOST ABOUT TEN MILLION DOLLARS AND WE ARE WITHIN A YEAR OR SO OF REACHING PROFITABILITY.

THERE ARE ABOUT TWO HUNDRED EMPLOYEES IN MEXICO. THE MANAGEMENT IS GOOD. THE COUNTRY MANAGER RESIGNED THREE MONTHS AGO. THE REASON FOR THE RESIGNATION WAS STATED TO BE CONCERN OVER THE RISING NATIONALISM IN MEXICO AND PRESSURES FOR LOCAL OWNERSHIP. HE WANTED TO GET WITH A COMPANY LOCALLY OWNED. SOME BELIEVE A MAJOR FACTOR IN THE RESIGNATION WAS THE EXTORTION PROBLEM. WE HAVE PUT AN AMERICAN MANAGER IN ON AN INTERIM BASIS. THERE IS A FAIRLY YOUNG BUT VERY CAPABLE MEXICAN EMPLOYEE WHO IN A YEAR OR TWO WILL BE ABLE TO TAKE OVER THE JOB.

WE MUST AGGRESSIVELY RESIST THE MEXICAN EXTORTION SYSTEM WITHIN THE CONSTRAINT OF NOT JEOPARDIZING OUR BUSINESS AND EMPLOYEES' JOBS IN MEXICO.

SOME OF THE MAIN CONSIDERATIONS FOR STRUCTURING THE MOST APPROPRIATE ONGOING PROGRAM WOULD INCLUDE FIRST THE CONSIDERATION THAT TIME WILL HELP AS WE BUILD UP SERVICES AND BECOME LESS DEPENDENT ON LARGE COMPUTERS.

SECOND, COMMISSION PAYMENTS HAVE BEEN AND CAN CONTINUE TO BE HELD WITHIN REASONABLE MARKETING EXPENSE GUIDELINES.

THERE ARE CURRENT INVESTIGATIONS BY THE MEXICAN GOVERNMENT INTO OUR IMPORT DUTY RATES AND TAX AUDIT. IT IS ESTIMATED THAT WE CAN SETTLE THE

TAX AUDIT FOR \$60,000 WHICH INCLUDES A LITTLE GREASE IN IT AND BE ASSURED OF NO TAX PROBLEMS FOR FIVE YEARS. THE MAXIMUM IMPORT DUTY LIABILITY IS ABOUT \$4.5 MILLION, INCLUDING PENALTIES. A LIKELY SETTLEMENT IS \$450,000, HOWEVER I DON'T KNOW ANY OF THE ATTENDANT CIRCUMSTANCES AND THE STATUS OF NEGOTIATIONS.

FOURTH, THE EFFECT ON ANY NEW BUSINESS OF AN ABRUPT CHANGE IN METHOD OF DOING BUSINESS IS DIFFICULT TO ESTIMATE SINCE WE DON'T KNOW THE TRUE PICTURE OF U.S. AND FOREIGN COMPETITORS. SIEMENS, ICL AND HITACHI ARE ACTIVE IN THE MEXICAN MARKET.

FIFTH, WE HAVE ABOUT \$20 MILLION IN ASSETS IN MEXICO. CUTTING OFF EXTORTION PAYMENT⁷ COMPLETELY COULD CAUSE A RISK OF AN ASSET WRITE-OFF WHICH IS AWFULLY HARD TO ESTIMATE BUT COULD WELL BE APPROXIMATELY FIVE OR SIX MILLION AND IN ADDITION, AN INCREASE IN OPERATING LOSS OF TWO MILLION IN 1976. THE OPERATING LOSS WOULD PROBABLY BE ABOUT THE SAME IN 1977. EMPLOYMENT WOULD PROBABLY HAVE TO BE REDUCED BY FIFTY PERCENT WITH TERMINATION PAY COSTING ABOUT \$500,000.

SIXTH, THERE IS RISK OF PHYSICAL VIOLENCE TO SOME OF OUR EMPLOYEES IF A DISCLOSURE OF NAMES WERE TO OCCUR. TWO GOVERNMENT CUSTOMERS ARE VERY ROUGH. THE EX-COUNTRY MANAGER WAS THREATENED WITH PHYSICAL VIOLENCE ON ONE OCCASION BY FOUR LARGE POLICEMEN.

SEVENTH, TWELVE TO EIGHTEEN MONTHS WOULD ALLOW A SUBSTANTIAL RE-ORIENTATION IN A MANNER THAT WOULD HAVE LESS IMPACT ON THE BALANCE SHEET.

THAT, BRIEFLY, IS A SNAPSHOT OF THE MEXICAN SITUATION. NEXT, I WOULD LIKE TO COMMENT BRIEFLY ON THE MANY ACTIVITIES THAT ARE IN PROCESS TO INVESTIGATE MULTINATIONAL COMPANY CONDUCT EACH WITH THE OBJECTIVE OF ESTABLISHING AN APPROPRIATE CODE OF CONDUCT.

SOME OF THESE ORGANIZATIONS INCLUDE OECD, THE UNITED NATIONS AND CONGRESS. IN ADDITION, PRESIDENT FORD IS TALKING ABOUT APPOINTING A CABINET-LEVEL COMMITTEE TO MAKE RECOMMENDATIONS. RIGHT AS OF TODAY IT WOULD APPEAR THAT THE CODE OF CONDUCT THAT SOME OF THE BUREAUCRATS AND MEMBERS OF CONGRESS WOULD LIKE TO PUT INTO LAW WOULD BE A RIGID ONE. THE ONES BEING DEVELOPED BY THE OECD AND THE UNITED NATIONS GROUPS ARE VOLUNTARY BUT COULD HAVE SERIOUS IMPLICATIONS. A DRAFT OF THE OECD CODE IS IN THE HANDOUT. I AM SURE THAT SOME OF THE UNDERDEVELOPED COUNTRIES LIKE MEXICO WILL SIGN SUCH A CODE AND THEN IGNORE IT. IN FACT, ONE OF THE MOST VOCAL IN FAVOR OF A STIFF CODE IS ECHIVERA, THE PRESIDENT OF MEXICO. HE IS REFERRED TO AS A "BANDIT" IN HIS OWN COUNTRY AND YET HE IS CAMPAIGNING

TO BECOME THE NEXT HEAD OF THE UNITED NATIONS. *The U.S. Chamber of Commerce sent us the draft of the OECD code and suggested that we send comments to the State Dept. Has a copy of the Chamber's letter with a draft copy of our ans.*
HILLS, CHAIRMAN OF THE SEC, STATED RECENTLY THAT NO MORE LAWS ARE REQUIRED, THAT IT IS PRIMARILY A MATTER OF DISCLOSURE SO I BELIEVE THAT CONTROL DATA WILL NOT BE FORCED INTO COMPLIANCE WITH A RIGID CODE IN THE NEAR FUTURE. HOWEVER, IF THIS HAPPENED, IT IS GOING TO WORK AGAINST US AND IN FAVOR OF IBM. IN OTHER WORDS, IBM'S ADVANTAGE WILL BE INCREASED BECAUSE ITS MARKET POSITION IS SO MUCH STRONGER AND HAS MORE ALTERNATIVES FOR PAY-OFFS WHICH ARE DIFFICULT TO DETECT.

FURTHERMORE, THE BRITISH, JAPANESE, GERMAN AND FRENCH COMPANIES WILL PAY LITTLE ATTENTION TO A RIGID CODE. IT WILL BE EXACTLY LIKE COCOM,

THE COORDINATING AGENCY TO CONTROL EXPORTS TO COMMUNIST COUNTRIES WHICH IS A FARCE. THE BRITISH, FRENCH AND JAPANESE DO ANY DAMN THING THEY WANT AND AMERICAN COMPANIES LOSE BUSINESS, AND YET TODAY IN WASHINGTON THERE ARE A LOT OF STUPID ASSES TALKING ABOUT STRENGTHENING COCOM. E.G., IBM WAS RECENTLY TURNED DOWN BY THE U.S. ON A TEN MILLION DOLLAR COMPUTER SYSTEM FOR INTOURIST ON THE GROUNDS OF NATIONAL INTEREST. ICL IS NOW NEGOTIATING FOR THE ORDER. ALSO IN THE MATERIAL HANDED OUT IS THE BRITISH VIEW ON BRIBES IN LCD'S -- EVEN THOUGH YOU ARE NO DOUBT AWARE OF IT. THERE IS A CLIPPING IN THE HAND-OUT DESCRIBING THE BRITISH ATTITUDE TOWARD ETHICS.

EVERYONE IN CONTROL DATA WOULD LIKE TO HAVE AS STRONG A POSITION AS POSSIBLE ON ETHICS, BUT STILL KEEP IT WITHIN THE BOUNDS OF COMMON SENSE. MY PRESENT THOUGHT IS THAT WE MUST BE VERY CAREFUL IN MAKING ANY MOVES. IT FINALLY GETS DOWN TO JOBS AND THAT IS WHAT A LOT OF THE CHURCH GUYS AND CONGRESSMEN DON'T UNDERSTAND OR DON'T WANT TO UNDERSTAND. THEY WOULD PURIFY A MAN'S SOUL AND LET HIM STARVE TO DEATH BECAUSE OF LACK OF A JOB. THE PEOPLE THAT WE HAVE HIRED IN MEXICO ARE JUST AS IMPORTANT TO CONTROL DATA AS OUR EMPLOYEES ANYWHERE AND WE'VE GOT TO FIGHT AS HARD TO MAINTAIN THEIR EMPLOYMENT AS WE WOULD IN THIS COUNTRY. FURTHERMORE, LOSS OF BUSINESS IN MEXICO MEANS LOSS OF JOBS IN THE U.S.

ANOTHER OF THE HAND-OUTS IS AN ARTICLE ON A SURVEY CONDUCTED BY THE CONFERENCE BOARD. YOU PROBABLY HAVE ALREADY SEEN IT BUT IF NOT THE ESSENCE OF IT IS THAT ABOUT FIFTY PERCENT OF THE EXECUTIVES SURVEYED HELD THE BELIEF THAT BRIBES WERE NECESSARY TO DO BUSINESS IN MANY COUNTRIES OVERSEAS. THE OTHER FIFTY PERCENT WITH THE OPPOSITE VIEW NO DOUBT HAVE PRODUCTS OR SERVICES WHICH ARE SMALL TICKET ITEMS AND HENCE MUCH LESS

VULNERABLE TO EXTORTION, ETC.

IF, FOR EXAMPLE, THE OECD WORDING ON ETHICS WAS ADOPTED AND ENFORCED, CONTROL DATA'S COMPUTER SYSTEMS BUSINESS COULD BE HURT IN MEXICO, TAIWAN, SOUTH KOREA, THE MIDDLE EAST AND LATIN AMERICA. WE ARE IN THE PROCESS OF ESTIMATING THE IMPACT IN THE AGGREGATE IN OUR SYSTEMS BUSINESS. IT COULD BE IN THE FIVE TO TEN PERCENT RANGE. IT IS VERY HARD TO ESTIMATE IMPACT BECAUSE IRAN, FOR EXAMPLE, IS SHOWING SIGNS OF CRACKING DOWN ON EXTORTION. IF THIS IS PERMANENT AND NOT TRANSITIONAL AND SOME OTHER COUNTRIES FOLLOWED SUIT, IT WOULD BE A MOST WELCOME DEVELOPMENT. BUT I AM AFRAID IT IS WISHFUL THINKING TO EXPECT THAT TO HAPPEN.

THERE IS ALSO IN THE MATERIAL GIVEN YOU A COPY OF THE ETHICS SECTION OF THE CATERPILLAR CODE OF CONDUCT. THEIR ACTION ON A CODE HAS BEEN WIDELY ACCLAIMED AS A MODEL FOR ALL COMPANIES. AT A RECENT MEETING OF BUSINESS INTERNATIONAL DURING A DISCUSSION ON ETHICS THE POINT WAS MADE THAT IT WAS WELL KNOWN THAT CATERPILLAR SALES OVERSEAS WERE SUPPORTED BY GENEROUS BRIBES, EXTORTION, ETC. THE RESPONSE OF THE CATERPILLAR EXECUTIVE PRESENT WAS THAT ALL OF THE BUSINESS DONE IN UNDERDEVELOPED COUNTRIES IS THROUGH DEALERS AND FRANCHISEES AND THEY ARE NOT EMPLOYEES OF CATERPILLAR. THAT IS A PRETTY THIN POSITION AND THEY ARE BEGINNING TO REGRET HAVING PUBLICIZED THEIR CODE SO WIDELY.

THUS FAR IN THE COMPUTER INDUSTRY DISCLOSURES HAVE BEEN MADE BY BURROUGHS, HONEYWELL AND NCR. FURTHER WITH RESPECT TO THE COMPUTER INDUSTRY I HAD LUNCH WITH PETE MCCLOSKEY, PRESIDENT OF CBEMA, TO DISCUSS THE OECD CODE AND TO ASCERTAIN WHAT CBEMA MIGHT BE DOING TO HELP RESOLVE ETHICS ISSUES.

I HAD A GOOD CONVERSATION WITH HIM. I THINK HE APPRECIATED THE DISCUSSION AS I BELIEVE HE GOT A BETTER SENSE OF DIRECTION. I URGED HIM TO HAMMER THE DESKS AT THE DEPARTMENT OF COMMERCE, SEC AND STATE DEPARTMENT TO BE REALISTIC ON ETHICS CODES AND NOT TO PUT U.S. COMPANIES AT A DISADVANTAGE VERSUS FOREIGN COMPUTER MANUFACTURERS. TODAY I RECEIVED A BRIEF LETTER FROM HIM STATING HE HAD TALKED TO SOME OF THE OTHER COMPANIES IN THE COMPUTER INDUSTRY AND HAD LEARNED THAT TWO OF THEM WOULD NOT MAKE A DETERMINATION ON WHETHER TO AGREE TO THE CODE UNTIL IT WAS FINALLY ADOPTED BY THE OECD AND IT BECAME CLEAR IN WHAT MANNER THE CODE WOULD BE PROMULGATED WITHIN THE U.S. A THIRD COMPANY INDICATED THAT IT HAD ADOPTED AN INTERNAL CODE WHICH THEY FELT WOULD BE STRICTER THAN THE OECD CODE. HE HAD ALSO TALKED TO DR. GRANFIELD AT THE WHITE HOUSE WHO IS ON THE NEGOTIATING TEAM FOR THE OECD CODE. HE FELT IT WAS GOING TO BE EXTREMELY DIFFICULT FOR THE U.S. TO PUT PRESSURE ON FOREIGN GOVERNMENTS TO ENFORCE THE CODE IN THEIR LOCAL COUNTRIES. HE ALSO MENTIONED THAT HE WAS PLEASED WITH A RECENT STATEMENT BY DEPUTY SECRETARY INGERSOLL THAT THE STATE DEPARTMENT POSITION APPARENTLY WILL BE THAT UNILATERAL ACTION TO DEAL WITH THE PROBLEM OF BRIBES AND OTHER QUESTIONABLE PAYMENTS WOULD PUT U.S. COMPANIES AT A SERIOUS DISADVANTAGE IN THE EXPORT TRADE.

PROBABLY THE BEST COURSE AT THE MOMENT IS NO CHANGE IN OUR WRITTEN POLICIES, AND THAT WE SHOULDN'T GO ONE INCH BEYOND WHAT THE LAW REQUIRES OTHERWISE WE RUN AN UNNECESSARY RISK OF HURTING OUR BUSINESS. THERE IS RISK IN ANY COURSE OF ACTION; E.G., BY ABRUPTLY ADOPTING AND RIGIDLY ENFORCING THE OECD CODE WE COULD MATERIALLY ADVERSELY AFFECT EARNINGS

AND THUS POSSIBLY BE VULNERABLE TO A STOCKHOLDER SUIT. PERHAPS ONE CHANGE IN OUR PRESENT PROCEDURE MAY BE DESIRABLE AND THAT IS USE AGENTS IN THE LD COUNTRIES. WE WILL PRESENT SOME THOUGHTS IN THAT DIRECTION A LITTLE LATER.

FINALLY, I WANT TO BE SURE I DON'T GIVE YOU THE WRONG IMPRESSION -- I DO BELIEVE A LOT OF GOOD WILL COME FROM ALL THE CURRENT ACTIVITIES -- THE MAIN PROBLEM OF COURSE IS TO GET THE BENEFITS WITHOUT SERIOUS HARM TO OUR BUSINESS OR EMPLOYEES.