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Industrial spying on the rise

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Business › Companies

Bloomberg in Seoul

Disappearance of several next-generation Samsung televisions highlights growing problem of industrial espionage in the technology world

In August, workers at Samsung Electronics in the South Korean city of Suwon swathed 60 next-generation televisions in bubble wrap and nailed them into wooden crates. Two weeks later, when the boxes were opened at a Berlin trade show, two televisions were missing.

The 55-inch prototypes - each costing US\$10,000 and weighing about 19.5kg - featured breakthrough technology known as organic light-emitting diode displays (OLED), which make televisions thinner and help project brighter and sharper images. The suspects: corporate spies.

Thefts of televisions, diagrams and circuitry are on the rise, and that is bad news for Samsung and LG Electronics - the only firms that can commercially produce OLED displays, which the US\$110 billion flat-screen television industry expects to wow consumers and revive slumping sales. South Korea's National Industrial Security Centre, part of the country's intelligence agency, last year reported 46 cases involving attempts to steal local firms' secrets overseas, up from 32 in 2007.

While estimates of industrial espionage are hard to come by, Korea says foreign theft of its corporate secrets resulted in about US\$82 billion in damages in 2008, up from US\$26 billion in 2004.

The Koreans say 60 per cent of victims are small and medium-sized businesses, and half of all economic espionage originates in China, according to a 2011 US congressional report. "Any company that has a competitive advantage or new technology will be targeted by industrial espionage," says Frank Schurgers, managing director of security agency Integris International in Berlin.

German companies lose an estimated US\$28 billion to US\$71 billion annually - and as many as 70,000 jobs - due to foreign economic espionage, regulators say.

A 2007 survey by the Japanese government found that 35 per cent of that country's businesses reported some form of technology loss. And the FBI says its pending caseload of espionage cases represents losses to the American economy of more than US\$13 billion this fiscal year.

The practice will be tough to stop.

In a survey released in June, the Associated Chambers of Commerce and Industry of India found 35 per cent of firms there engaged in some form of corporate espionage to gain advantages over rivals or keep tabs on present and former employees.

"Stealing technology basically helps cut down the time to market," says Jyotirmoy Dutta, of consultant ITC Infotech. "A lot of companies are going to do anything that makes their new product introduction faster."

As secret-stealing picks up, companies as diverse as Samsung, Apple and Toyota Motor Corp are boosting security, sometimes at immense cost. Schurgers says his firm charged a tech company about US\$325,000 to protect one product and that a comprehensive programme could cost millions.

For businesses that spend heavily on research and development, the cost is worth it. Samsung says it spent seven years and "trillions of won" on OLEDs.

Orbotech, an Israeli maker of equipment used to test screens for televisions, smartphones, and tablets, says its Korean subsidiary and six local employees have been indicted on suspicion they stole display technology from Samsung.

LG says Orbotech workers are suspected of illegally gaining access to its confidential OLED data, too. Korean police are investigating actions by Orbotech staffers, and the company says its Korean subsidiary is co-operating with authorities there.

While it would be difficult to reverse-engineer the fundamentals of OLED technology from the missing televisions, simply understanding how Samsung packed the parts inside the super-thin sets would be valuable information for thieves, says Kim Hyung-sik, an analyst at Taurus Investment & Securities in Seoul.

"They will be able to get their hands on how components are aligned to make the TVs slimmer," Kim says. "It saves competitors a lot of time."

Korean authorities are operating on the assumption that Samsung's missing televisions were stolen, not lost, says Lee Seung-yong, a senior inspector at Gyeonggi Provincial Police Agency in Suwon, where the company is headquartered.

A freight forwarder packed the televisions in wooden boxes that were nailed on five sides and then sealed with a nut and bolt on the sixth. When the boxes arrived at the airport, they weighed the same as at the forwarder's warehouse, and security cameras en route yielded no clues, according to a police report.

The 14 people involved in transporting the boxes from Samsung to a plane were questioned, the report said.

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