Economic spying case over China, chemical grows

PAUL ELIAS - Associated Press - Associated Press

The Chinese call it "Titanium white." And it does make many things white, from the inside of Oreo cookies to the paint on cars. Paper, toothpaste, plastics, cosmetics and just about any other commonplace item colored white includes titanium dioxide.

It's a $17 billion-a-year industry and no one makes the whitener better than DuPont, which has been in the titanium dioxide business for 70 years and controls 20 percent of the world market.

China can't get enough of the stuff and buys more from the West than it makes domestically. So, U.S. prosecutors say, Chinese Communist leaders decreed that duplicating — or obtaining — DuPont's manufacturing method was a national economic and scientific imperative.

As DuPont was unwilling to sell its method to China, the Chinese government stole it through a company it controlled called Pangang Group Co. Ltd., according to the diplomatically sensitive economic espionage case being laid out in San Francisco federal court.

"Pangang Group employees, in asking me to provide DuPont trade secrets to them, overtly appealed to my Chinese ethnicity and asked me to work for the good of the PRC," longtime DuPont engineer Tze Chao said in a plea agreement signed earlier this month, referring to the People's Republic of China. Chao, 77, is the first of five people charged in the deepening case to plead guilty. He worked at DuPont from 1966 to 2002.

Chao is now cooperating with investigators, who say a California couple Chao worked for are at the center of the case. Another former DuPont scientist, the Pangang company and one of its executives are also charged in an indictment unsealed recently in San Francisco.

All are accused of economic espionage, and a conviction for the company or the executive could spell hefty fines that the U.S. government can use to freeze or seize assets in the U.S. The executive could also lose the ability to travel to the U.S. and countries that have extradition agreements with the U.S. Lawyers for the Chinese company say they will seek a dismissal.

Prosecutors allege China used purloined technology to build the only factory inside China known to be producing titanium oxide the DuPont way, which uses chlorination rather than the sulfate method. DuPont's patented manufacturing method, while still dangerous, dirty and complicated, is nonetheless still cleaner and quicker than the outdated production method employed by the other Chinese factories.

Federal prosecutors say Walter Liew and his wife Christina Liew launched a small California company in the 1990s aimed at exploiting China's desperate desire to build a DuPont-like factory. The couple recruited former DuPont scientists with the single-minded goal of winning Chinese contracts.

"Some years ago China let me know that she urgently needed titanium white by chlorination technology," said a letter written by Walter Liew to Pangang officials in 2004 that boasted about a conversation years earlier with a high-ranking government official.

"After many years of follow-up research and application, my company has possession and mastery of the complete DuPont way," said the letter, which was seized by the FBI and appears in a court filing.

In 2009, the Chinese government-controlled Pangang Group Co. Ltd. awarded Liew's company a $17 million contract to build a factory that could produce 100,000 metric tons of "Titanium white" a year. The same company had earlier awarded the Liews' company millions more in similar contracts for smaller projects.

Prosecutors allege that the Chinese factory, which is now operational, was built with a detailed DuPont instruction manual stamped "confidential" that was used to build DuPont's newest plant in Taiwan.

The alleged scheme began to unravel in August 2010, according to court filings, when DuPont received an anonymous letter accusing Walter Liew and a scientist named John Liu of stealing the company's technology. At the time, Liu was working at Chevron Corp. as a high-paid engineer, but appeared to be moonlighting for the Liews' company and was considering working for them fulltime.

DuPont took the letter seriously enough to convince Chevron to launch an investigation of Liu. Chevron ultimately provided DuPont with lengthy email exchanges that contained highly technical titanium dioxide manufacturing information and suspended Lui.

DuPont filed a lawsuit early last year against the Liews and Liu, alleging they trucked in stolen DuPont information. Liu has since been dropped from the lawsuit and is not charged criminally, which defense lawyers say suggest he's working with investigators.

Walter Liew countered the lawsuit by arguing that the technology at issue is essentially publicly available and filed counterclaims against DuPont, alleging it stole his trade secrets when it convinced Chevron officials to seize Liu's laptop and email exchanges discussing the China project.

When DuPont filed its lawsuit, it also called the FBI.

On July 19, FBI agents armed with a search warrant swooped into the Liews' Orinda home about 20 miles (30 kilometers) east of San Francisco. They seized thousands

of pages of documents and confronted Christina Liew with a key to a safe-deposit box.

In Mandarin Chinese, her husband admonished her to deny any knowledge of the key and she did. The FBI didn't disclose that one of its agents spoke fluent Mandarin. Instead, they followed Christina Liew to the Oakland bank that contained the safety-deposit box in question. It contained a "trove" of incriminating documents, according to prosecutors.

The Liews were arrested and charged with lying to federal investigators and obstructing the investigation. Christina Liew was granted bail and freed shortly after her arrest. Walter Liew, however, had been denied bail after a judge agreed with prosecutors that he was a flight risk.

In opposing his request for bail, prosecutors argued that the Liews have wired millions of dollars to relatives in China and own a home in Malaysia where Walter was born, and they cited the couples' behavior during the raid. The Liews pleaded not guilty to the obstruction charges.

Last month, prosecutors unsealed a revised indictment charging the Liews with trade secret thefts.

Walter Liew shuffled into court Thursday dressed in gray jail garb and through his lawyer asked for two more weeks to enter a plea to the new charges. Walter Liew says he intends to hire a new lawyer to combat the economic espionage charges.

Christina Liew pleaded not guilty to all charges.

"The Liews did not commit economic espionage," her attorney Doren Weinberg said outside of court.

Robert J. Maegerle, who worked for DuPont from 1956 to 1991 before going to work for the Liews, also pleaded not guilty Thursday to economic espionage charges. The elderly Maegerle is accused of providing the Liews with detailed information about DuPont's Taiwan factory.

Pangang, the Chinese government-controlled company, through its U.S. lawyers has refused to enter a plea. The lawyers say they plan to seek dismissal of the charges, arguing Pangang wasn't properly "served" notice of them. Although Pangang is based in Sichuan Province, the defense says the notice was sent to a New Jersey subsidiary that is a "separate company."

The Chinese consulate in San Francisco didn't return a phone call Friday.

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