

# The World's Most Dangerous Yard Sale

*How the U.S. government sold  
hardware and blueprints  
for a nuclear bomb to  
an Idaho used-car  
salesman who wants  
to sell them overseas.  
Really*

**BY TIMOTHY NOAH**

**M**ost people's eyes glaze over when they see the term "public-private partnership." It denotes a boring-but-laudable solution to bureaucratic anomie: Give certain governmental tasks to private industry and they will be performed more efficiently. Who could object to that?

Increasing the number of public-private partnerships is a cornerstone of the Clinton administration's gospel of "reinventing government," which draws heavily on the 1992 book of the same name by David Osborne and Ted Gaebler. Government is urged to "steer," not "row," delegating the actual delivery of services to lower-rank public or private entities. Thus Al Gore's 1993 National Performance Review calls for, among other things, privatizing Defense Department data processing.

"Steer, don't row" can sometimes be good advice. As Thomas Peters and Robert Waterman demonstrated in their best-selling *In Search of Excellence*, overly centralized management in a large organization does tend to deaden creativity. In government, probably the most extreme example of the problem is the way modern presidents have taken to using sophisticated communications technology to usurp military commanders in the field.

Sometimes, though, the problem with government isn't that it rows too much, but that it rows too little. The case that will forever cause me to shiver when I hear the seemingly innocuous phrase "public-private partnership" is that of Tom Johansen, a used-car dealer in Pocatello, Idaho, who bought major components of a nuclear reprocessor from the Energy Department's contractor-run Idaho National Engineering Lab. If I had my wish, all Clinton administration officials who brainstorm about ways to "reinvent government" would be required to hear this cautionary tale about what happens when the government allows too much control over important public matters to slip from its grasp.

Tom Johansen, 41, is the proprietor of Frontier Car Corral, a battered beige corrugated-metal edifice in Pocatello, outside of which stood, when I visited in late July, a green 1973 Chevy pickup, a beige 1975 Sportscoach motor home, and a 1972

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Flexible interurban bus that Johansen had bought from a local rock band. In addition to selling used vehicles, Johansen, backed by a Salt Lake City metals company, has a brisk scrap trade in items he purchases from the Energy Department's nearby Idaho National Engineering Lab.

In June 1993, Johansen received a bid solicitation from E G & G Idaho Inc., one of three contractors that run the Idaho lab. His curiosity was piqued by the fact that the items for sale were stored at the warehouse complex across the street from his used car lot. The inventory list didn't make clear exactly what the components were, but he noted that several were listed as "VES," which he knew from previous auctions meant vessels, probably stainless steel. These, Johansen reasoned, might have some resale value to a chemical company.

Potential bidders were invited to inspect the material, and at the appointed hour Johansen and a few other local businessmen were ushered into Building 16. Several aspects of the scene immediately attracted notice. Outside was a sign that read "No Trespassing . . . by authority of section 229 of the Atomic Energy Act of 1954." Just inside the door were two armed guards. And inside the warehouse itself stood what struck Johansen as a "massive" collection of steel slabs and cylinders.

The warehouse manager, Jim Roker, told the businessmen that they were looking at parts of a scrapped plant for reprocessing nuclear fuel. According to Johansen, Roker said, "I can't believe they're selling this stuff." (Roker denies making the latter comment, but says someone else might have.) But the plant, formally known as the Fuel

Processing Restoration Project (FPR), was not going to be built—the Bush administration had canceled the project in 1992—and the Energy Department's Idaho branch had tired of paying rent on the hardware.

Designed in the early eighties during the sky's-the-limit period of defense spending, the FPR was intended to replace an older reprocessor at the Idaho lab that gobbled up spent fuel from the nuclear Navy and various government reactors



**Tom Johansen of Pocatello, Idaho: used-car salesman and would-be nuclear entrepreneur**

and spat out uranium-235, a highly enriched fuel. The uranium was then shipped to the Energy Department's lab in Oak Ridge, Tennessee, where it was refabricated into fuel for a reactor that produced plutonium and tritium for nuclear warheads. But highly enriched uranium can itself be used to make a nuclear bomb. Uranium-235 is not as potent as plutonium. That stuff (justifiably) caused much international panic this past summer when German law enforcement officials arrested various individuals attempting to smuggle out samples widely suspected to have originated from Russia's lax nuclear research facilities. But some would argue that plutonium is actually *less* dangerous than uranium-235 because the uranium,

Sandy Johansen

being less hazardous to handle and technological-ly easier to construct into a bomb, is *more* user-friendly to aspiring terrorists.

Nuclear reprocessing was once seen as a promising technology for civilian power plants, but after 1974, when India conducted a nuclear test with a bomb whose plutonium fuel was derived from a nuclear reprocessor, the U.S. government increasingly saw the spread of reprocessing as a threat to international security. Today, the U.S. is working hard to keep reprocessing technology out of the hands of North Korea and Iraq, among other countries, and the only nuclear reprocessing permitted within U.S. borders is in a tiny handful of government research facilities. The potentially dangerous glut of uranium-235 created by existing U.S. reprocessors was the Bush administration's main reason for abandoning plans to build Idaho's spanking-new FPR.

At the E G & G auction, Johansen submitted the winning bid of \$153,999.99 to purchase FPR equipment that the federal government had once paid \$10 million for. Johansen's acquisition constitutes roughly one-third—by all accounts, a highly significant third—of a nuclear reprocessor. Most of the other parts have either been shifted to other Energy Department facilities or remain at the Idaho lab. (A small, far less worrisome, assortment of electric motors and pumps was sold at the same auction to Don Thornton, the owner of Rocky Mountain Recycling, Inc. in Nampa, Idaho; Thornton paid about \$1,700 for the stuff, much of which he's already sold off to farmers or melted down for scrap.) Possession of this equipment, then, puts Johansen (or anyone he might sell it to) well on his way to being able to build a nuclear warhead.

## **Nuke-it-yourself**

How on earth could a private U.S. citizen purchase the guts of a nuclear bomb factory (at a price roughly comparable to what an ordinary, middle-class American might pay to buy a house)? Sad to say, this blunder comes as no surprise to anyone familiar with the chaotic management history of nuclear weapons facilities run by various private contractors for the Energy Department and its precursor agencies. The U.S. nuclear weapons program was begun in the rush to defeat Nazi Germany and Japan, and accelerated at the

advent of the Cold War rivalry with the U.S.S.R. and China. There's no denying that it quickly mobilized some of the best minds in the nation to provide the U.S. with weapons of deterrence. But the federal government gave far too much latitude to the contractors who managed the weapons plants: Just build the weapons, it more or less said, and don't worry about anything else. Uncle Sam steered, but he didn't row.

The result was that the weapons plants, caught up in the urgency of their national defense mission, created an environmental catastrophe. According to a recent General Accounting Office report, the weapons plants disposed more than a billion cubic feet of hazardous and radioactive waste, much of it poured right into the ground or stored in containers that have long since deteriorated. Cleaning up the more than 5,700 contaminated areas that we know about will take decades, at an estimated cost of \$300 billion.

Since the late eighties, when the contamination problem first attracted wide publicity, the Energy Department has worked valiantly to reform its contractor practices. But as the Johansen case shows, many of the old, lax practices endure. Amazingly, the Energy Department's Idaho office, in dispensing with the reprocessing equipment, did not require E G & G to take any special precautions. When the Pentagon—itself hardly a model for bureaucratic efficiency—sells military weapons as surplus, it punches holes or bends gun barrels to render the weapons inoperable. It would have been a simple matter for the Energy Department to require E G & G to take similar measures—say, to chop the FPR hardware up, or include a clause in its sales contract requiring the buyer to chop it up (the stuff, after all, was being sold as scrap). But no such requirement was laid down, and E G & G apparently didn't see fit to complicate the sale with any anti-proliferation measures of its own. "Our role at the site in this particular regard is to act as an agent for DOE," says Deborah Lorenz, E G & G's vice president of investor relations. "We take our directions from them." For its part, the Energy Department's Idaho office maintains to this day that the Johansen sale wasn't that big a deal. "If other countries wanted to get into the reprocessing business, they wouldn't have to come to Pocatello," says spokesman Brad Bugger.

A second question raised by the Johansen sale, of course, concerns Johansen himself. Why

would a seemingly patriotic, law-abiding citizen purchase such sinister machinery? Johansen is an easy man to underestimate: His formal education ended in high school, he speaks in a slow drawl, and he shuffles around his used-car lot in self-effacing blue jeans and a baseball cap. (Memo to the Hollywood production company that called Johansen about filming his story: Think about casting Paul LeMat.) But like any good businessman, Johansen keeps an eye out for the big score, and it's clear that he had something more ambitious than a scrap sale in mind when he bought the reprocessing equipment. Today, Johansen says he knew when he bought the stuff that it was considered an international security problem, but resolved to market the equipment only to U.S. allies. He says he did not know until later that a nuclear reprocessor produces bomb-grade uranium.

In July 1993, Johansen took possession of the hardware, which remained in Building 16 but was now guarded by only a single lock on the door. By the curious logic of privatization, material that required round-the-clock guards when in government hands, presumably because it was a security risk, was apparently judged perfectly safe once it was Johansen's, and the government guards were removed; Johansen didn't bother to replace them. He then set about trying to find a buyer.

The first company Johansen tried selling the reprocessing equipment to was British Nuclear Fuels, Ltd., a firm whose name was passed along to Johansen by a helpful aide at the British embassy in Washington. Johansen faxed an inventory list to the company, which wasn't interested in buying the stuff, but expressed concern about it to the British Ministry of Defense, which in turn fired off a hand-written note to the U.S. State Department. "I don't know if you know but—FRONTIER SALVAGE of Idaho is trying to sell a Nuclear Fuel Reprocessing Plant!" wrote Ray Gatrell, a nuclear-safeguard official at Whitehall. "BNFL UK isn't interested. I wondered if Saddam Hussein et al might be. I thought you or your colleagues might wish to check it out."

The note had the desired effect. The State Department contacted the Nuclear Regulatory Commission, which hastily phoned Johansen to tell him that the reprocessing equipment was not exportable. NRC officials were worried that it might fall into the wrong hands, and that the no-strings sale of the hardware didn't appear to have been,

in the words of NRC director of nonproliferation, Ronald Hauber, "properly careful." Meanwhile, the Energy Department's home office, upon learning of the sale, sent a memo from export control director John Rooney to 15 national lab field offices, including the Idaho lab, reminding them that they had "a responsibility to fulfillment of U.S. nuclear nonproliferation objectives," a statement roughly equivalent to reminding a policeman that he has a responsibility not to fire bullets randomly into a crowd.

While federal officials in Washington were fretting about how to resolve this colossal blunder before word leaked to Congress or the press, Johansen in turn was escalating the problem by ferreting out unclassified but sensitive documents that increased the value of his reprocessing components to potential foreign buyers. One interested party from Japan, who'd traveled to Pocatello to see the material, asked Johansen if he had any blueprints. In response, Johansen spent a couple of days phoning employees at the Idaho lab and asking how he could get them. Some told him they'd been destroyed. Others told him that such data would never be released to a private citizen. Figuring he had nothing to lose, Johansen faxed a request under the federal Freedom of Information Act (FOIA) to the Energy Department's Idaho field office. A few days later he received a letter from Carl R. Robertson, the office's FOIA officer, advising that the drawings were his for a mere \$280 (to cover search and copying costs). FOIA, it turns out, creates a massive loophole in the government's efforts to keep sensitive-but-unclassified reprocessing data out of the wrong hands. As far back as 1987, the GAO was complaining that the Energy Department, unlike the Defense Department, did not have a FOIA exemption "for some of its comparably sensitive unclassified information," and didn't seem much interested in getting one.

When Johansen got word from the FOIA officer, his first thought was that if he didn't move quickly the Energy Department might change its mind. So he jumped into a rig and zoomed over to the Idaho lab, where an escort gave him not only the blueprints but also a crateful of x-rays of the components. After all, they were just taking up space at the lab.

Very nice, said the Japanese client when he had a look at some of the documents. But how

did the pieces of the reprocessor fit together? Didn't Johansen have any flow sheets?

He hit the phones again, and this time Johansen stumbled across Lloyd McClure, manager of technology transfer for Westinghouse Idaho Nuclear Co., another contractor at the Idaho lab. McClure sent Johansen a manual with flow sheets and a government directory of nuclear facilities around the world, the better to hunt for potential customers.

*To hunt for potential customers?* That's right. While the Energy Department was steering, not rowing, an enterprising contractor employee was helping Johansen find overseas buyers for material that the U.S. did not want to leave the country. "I am glad the information on potential customers for the equipment that I supplied . . . has been helpful in identifying potential buyers who may have beneficial uses for the equipment," McClure wrote Johansen. "Sale for use should result in higher profits for you than just selling it as scrap."

When I phoned McClure to ask him about this piece of friendly advice, he pointed out that the documents he gave Johansen, like the documents Johansen got through his FOIA request, were unclassified. "We have a charter at the national labs to help local communities and local industry be more cost-efficient," he said. "I guess I never really thought at the time about the threat of it falling into some Third World country's hands or anything like that."

The NRC did. In February 1994, NRC chairman Ivan Selin wrote Energy Secretary Hazel O'Leary to express his concern that Johansen had not just the reprocessing equipment but now the blueprints and other technical documents as well. "We are concerned that someone may export sensitive items without authorization," he wrote. "We recommend, therefore, that the Department of Energy take prompt and direct steps to prevent any diversion to unauthorized use, including repurchasing the equipment from the salvage companies, if necessary."

That was February. O'Leary replied in July that her department had "acted to prevent harm being done in the Idaho case" by telling Johansen that he could sell his equipment and technical information within the U.S., but that selling it abroad was unlikely to be approved by the necessary federal agencies. (A bracingly candid Energy Department report on this mess

recently termed the agency's response "somewhat sluggish" and said the agency "does not have a nonproliferation policy.")

For Johansen, though, the matter was far from settled. Frustrated in his repeated attempts to persuade the U.S. to let him export his reprocessing equipment, he'd embarked on negotiations with Energy Department officials to sell the material back to the government. Every time negotiations seemed to be getting somewhere, though, he'd get passed along to another official. Eventually he became so frustrated that he brought his story to the Snake River Alliance, a local anti-nuclear group, which in turn brought Johansen's story to me at *The Wall Street Journal*.

The *Journal* published my story on Johansen on August 3, the day O'Leary was set to give a press conference awarding a new consolidated-management contract for the Idaho lab. For reasons that O'Leary says had nothing to do with the Johansen affair, Westinghouse and E G & G lost the contract to a team led by an Idaho-lab newcomer, Lockheed (this, in spite of Lockheed's recent indictment alleging that the company bribed an Egyptian official to sell three C-130 Hercules aircraft; but that's another story). At the press conference, O'Leary said that Johansen "has done nothing wrong," but that she intended "unequivocally" to get the reprocessing materials back from Johansen. When I asked whether that meant buying them or seizing them, O'Leary said she didn't know. As I write this in early September, negotiations between Johansen and the Energy Department have reached an impasse over price. Johansen, who at one point entertained an \$8.3 million offer from an Australian trading company (representing, Johansen says he's been informally told, the Indian government), is threatening to sell the stuff off by any legal means available.

On the day of the August press conference, O'Leary dispatched a government-funded security team to Building 16, where the reprocessing hardware had stood unguarded for more than a year. She also fired off an internal agency memo that said control over the admittedly unclassified reprocessing equipment and documentation was "inadequate." A new policy, she said, would be developed "within the next 90 days."

I don't know what that policy will be. But with any luck it will include not only a rudder, but also an oar. □

# Who's Calling The Shots At Fidelity?

*What worries mutual fund managers should worry you. A look inside the high-pressure culture of Middle America's most popular investment*

**BY JOSEPH NOCERA**

Once, not so very long ago, it was all so simple. Was it really only two decades ago that most Americans put their savings in the bank (where the interest was regulated by law), had checking accounts that offered no interest at all, took out a 30-year fixed mortgage when the time came to buy a house—and then paid that mortgage off!—and, if they were in the stock market at all (and most weren't), they owned a few, inherited shares of, say, General Motors? It seems more like two centuries ago, doesn't it?

American financial life is infinitely more complicated than it used to be—and riskier in every way. We now worry endlessly about an entire slice of life that we used to take for granted. Are interest rates poised to rise or drop? How's the Japanese market doing? How diversified should my portfolio be? How aggressive should I be with my retirement money? For better or worse, these are the sorts of questions that one hears all the time now.

One can trace this quantum change back to the days of roaring inflation in the late seventies—when interest rates were skyrocketing, 30-year fixed mortgages became relics of a bygone era, and people were desperate to find ways to keep pace with the cost of living. But even after inflation faded in the early 1980s, the new behaviors stayed; if anything, they became more pronounced, especially once the bull market began in August 1982. That was the moment when many people felt they had to become investors rather than simply savers.

And if there is any single financial product that exemplifies this shift, it is the mutual fund. Once an obscure investment instrument, mutual funds have become the financial vehicle of choice among middle-class Americans. Over 40 million people had put an astonishing \$2.1 trillion in mutual funds by the end of 1993—a trillion dollars of that coming in just the previous three years—and fund assets now actually exceed life insurance assets.

It's not hard to understand the appeal of mutual funds. For most of us who lack the time or the inclination to study the stock market, there is something

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