

IN THE NEWS

Economic & World News

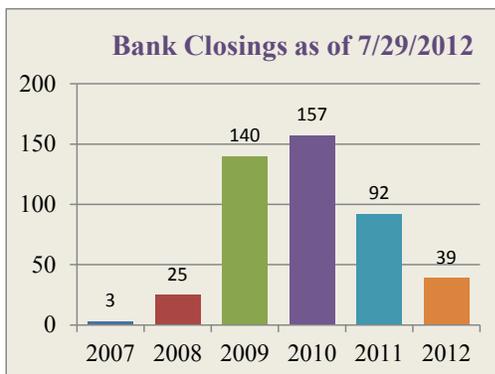
The US economy continues to be stuck in low gear. Case in point, for the third consecutive month, retail sales fell with the latest decline of 0.5 percent for June [1]. Additionally, the adjusted rate for gross domestic product was only 1.5% during the second quarter [2]. In a further sign of diminishing American wealth, Canadian households are now wealthier than their US counterparts [3]. For the week ending July 14, the number of first time unemployment claims increased to 386,000 [4]. However, for the week ending July 21, the number of first time unemployment claims fell to 353,000 [5]. In another problem area, the US poverty rate is on track to reach levels not seen since the 1960's; before the war on poverty began [6].

Regulators were again closing financial institutions. For example, on July 20, five were shuttered: 34) The Royal Palm Bank of Florida; 35) Georgia Trust Bank; 36) First Cherokee Bank in Georgia; 37) Heartland Bank in Kansas; and 38) Second Federal Savings and Loan Association of Chicago in Illinois [7]. Then for July 27, the following was closed: 39) Jasper Banking Company in Georgia [8].

Overseas, there are growing concerns in the Middle-East that Iran might stop the flow of oil into the Gulf. In preparation, Saudi Arabia and the United Arab Emirates have opened new pipelines that bypass the high risk Strait of Hormuz [9].

Allegedly, some contractors at the Japanese Fukushima reactor disaster were told to cover their dosimeters with lead so their radiation exposure would appear to be less [10]. Meanwhile, Japan's 6-month trade deficit was the largest (\$37 billion) since records were started back in 1979 [11]. To be competitive, Japan must reduce the cost of energy so we expect the resurgence of nuclear will continue.

Meanwhile, our good friend China plans to place a military garrison on disputed islands claimed by Vietnam [12]. In an effort to expand its claim, China started administering the five square mile Yongxing islands (and the 770,000 square miles of ocean) designating it the city of Sansha [13]. The newest Chinese city has only 613 residents and sits atop the largest is-



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Special points of interest:

- Computer problems shut down entire Washington Metrorail system
- 39th bank shuttered

Security

Crime continues to be a major enterprise. For example, according to United Nations estimates, cross-border crime is estimated at \$870 billion per year [1].

Meanwhile, the head of the U.S. Cyber Command is

warning that foreigners are using online attacks to steal our intellectual property [2]. What's more, General Alexander, the head of the National Security Agency will speak at the DEFCON hacker convention in Las Vegas [3].

Terrorists are using fake US credentials. For instance, the suicide bomber in Bulgaria had a fake US Michigan driver's license [4].

Cyber-attacks against the US critical infrastructure

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Security

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are on the rise [5]. However, attacks are not limited to the US. Case in point, reports indicate a computer virus may be playing an AC/CD hard rock song at nuclear facilities in Iran [6].

1. Reuters, *Cross-border criminals make \$870 billion a year: U.N.*, July 16, 2012.
2. Bruno, Michael, *Aviation Week, Pass Something*, July 16, 2009.
3. Zunbi, Zhang, *China Daily, US spy chief to go to hacking party*, July 23, 2012.
4. Kulish, Nicholas, *New York Times, Suicide Attacker With Fake U.S. ID Blamed in Bus Bomb*, July 19, 2012.
5. Sanger, David, and Schmitt, Eric, *New York Times, Rise Is Seen in Cyberattacks Targeting U.S. Infrastructure*, July 26, 2012.
6. UPI, *'AC/DC' virus hits Iranian nuclear plants*, July 26, 2012.

*I shall make electricity so
cheap that only the rich
can afford to burn
candles—Thomas Alva
Edison*

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land with an area of only 2 square kilometers [14]. Nevertheless, it lets others know that China is serious in its claims for the mineral rich South China Sea. The one sided trade agreements with China are really helping the Communist country get the money to expand its military. For instance, during the first half of the year, China's urban job creation was 6.94 million and the June unemployment rate was just 4.1 per cent [15].

1. Pylas, Pan, *AP, US retail sales disappointment weighs on markets*, July 16, 2012.
2. Epstein, Gene, *Barron's, Uncle Sam's Rotten Report Card*, July 28, 2012.
3. Handley, Meg, *US News, For the First Time, Canadians Now Richer Than Americans*, July 18, 2012.
4. Mutikani, Lucia, *Reuters, Jobless claims signal tepid labor market*, July 19, 2012.
5. Woellert, Lorraine, *Bloomberg, Jobless Claims in U.S. Decrease, Extending July Volatility*, July 26, 2012.
6. Yen, Hope, *AP, US poverty on track to rise to highest since 1960s*, July 22, 2012.
7. *AP, Bank failures in 4 states bring 2012 total to 38*, July 20, 2012.
8. Blas, Javier, *Financial Times, Pipelines bypassing Strait of Hormuz open*, July 15, 2012.
9. Tadena, Nathalie, *Wall Street Journal, Regulators Close Jasper Banking in Georgia; U.S. Bank Failures at 39 for Year*, July 27, 2012.
10. *AP, Japan probes alleged cover-up at nuclear plant*, July 22, 2012.
11. Kageyama, Yuri, *AP, Japan trade deficit swells to \$37B in first half*, July 24, 2012.
12. *Daily Telegraph, China Plans Military Garrison To Defend A Disputed Island From Vietnam*, July 23, 2012.
13. Olsen, Alexa, *AP/ABC News, China Dubs Tiny Island New City in Sea Claim Bid*, July 24, 2012.
14. *Patranobis, Sutirtho, Hindustan Times, Newest city of China, Sansha, has just 613 residents*, July 25, 2012.
15. *Wall Street Journal, China Urban Unemployment Rate at 4.1% at End June*, July 25, 2012.

Red Face Test

The red face test is the ability to tell an untrue story and still keep a poker face. Within the political landscape, this is nothing new. Consider, one of the main commitments from President Carter was to control the spread of nuclear weapons [1]. However, at 3 AM, September 22, 1979, there was a double-flash, typical of a nuclear blast, seen off the tip of Africa [2]. The event was detected by the Vela satellite and was dismissed by President Carter's investigation team as a meteorite that hit the satellite [3]. Then in 1993, South African President Frederik W. de Klerk admitted his country did have six nuclear bombs in the 20-kiloton explosive range [4]. So to avoid a political distraction, knowledge of the South African nuclear bomb was kept from the American people.

In another possible example, the FAA is fining Boeing \$13.57 million for failing to expeditiously provide guidance on inspecting fuel tank circuitry originating from the TWA 800 explosion 16 years ago [5]. To review what happened at the time a timeline is presented. On July 17, TWA 800 exploded as it left JFK International and weeks later, investigators detected traces of PETN (a high explosive used by the US military) in the wreckage [6]. Shortly thereafter, the news media reported the source of the explosive likely came from

US troops that were transported years before [7]. Then investigators detected traces of another high explosive, RDX [8]. The new explosive discounted the original explanation of troop transport. Instead, the source of the contamination changed to a bomb sniffing exercise that allegedly took place weeks prior to the incident [9]. How is the investigators looked at the history of the plane, going back years and determined troops were moved, yet missed a bomb sniffing exercise weeks before? What's more, most of the wreckage was allowed to remain in the water for weeks, thereby dissolving most of the explosive material [10]. So if a fuel air explosion really caused the crash, why didn't the FAA ground every Boeing 747 until the problem was corrected? Why would the FAA allow bomb sniffing exercises that contaminate planes thereby preventing discovering a plane was destroyed by an explosive? Perhaps a more pointed question; had the investigators concluded an act of terrorism, would we have embarked earlier on improved air travel security that might have prevented 9/11? Doe the TWA 800 explosion (blamed on a fuel air explosion in the fuel tank) pass the red face test? Finally, how have post 9/11 security controls worked out for the air travel industry?

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3. AP/Boca Raton News, *Congressman calls for hearings into unusual 11979 blast*, May 22, 1985.
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5. Pasztor, Andy, Wall Street Journal, *FAA Seeks Boeing Penalty Over Late Tank Guidance*, July 13, 2012.
6. Van Natta, Don, New York Times, *Prime Evidence Found That Device Exploded In Cabin of Flight 800*, August 23, 1996.
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8. Van Natta, Don, New York Times, *More Traces Of Explosive In Flight 800*, August 31, 2012.
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*I knew I was going to take
the wrong train, so I left
early—Yogi Berra*

SCADA Revisited

Once again, Washington DC Metrorail is in the news. This time, an unspecified software problem shut down the entire system twice [1]. The software failures are providing new details into the Metrorail system. The software failures impacted the Metro's Rail Operations Control resulting in the inability to see where trains are on a dynamic map and remotely control switches [2]. Metrorail sources were quick to point out the latest failures were different from the 2009 Red Line crash that killed nine people [3]. However, the cause of the problem is still not known and is under investigation [4].

Readers may recall, the cause of the 2009 Redline crash was blamed on a malfunctioning circuit [5]. Interestingly, the failure allegedly occurred with the fail-safe [6]. At the time the initial suggestions the operator was too inexperienced [7].

The latest software failures provide a clear picture of how the supervisory control and data acquisition (SCADA) managed system works. If we look back at the 2009 Red Line crash, why did trains disappear from the Rail Operations Control and these went unnoticed. This would seem to be a bigger problem than a circuit failure. What is curious is that a cyber-attack against the SCADA program was not covered elsewhere in the news. What's more, cyber attacks against other SCADA systems have taken place. Case in

point, at least one major power outage was attributed to an online cyber-attack [8]. Then there is a report indicating three US cities had SCADA systems compromised by cyber-attacks [9]. Moreover, experts are alerting Congress that the power grid is vulnerable to cyber-attack [10]. In particular, one report indicates rail based SCADA systems are vulnerable to cyber-attack [11]. Consider, one report indicates the US and Israel were behind the Stuxnet virus that attacked the SCADA programs operating Iran's centrifuges [12].

After some investigation, the reported cause of the outage was attributed to a hardware device failure [13]. So how many more single point failures exist and how vulnerable is the Washington Metrorail to SCADA attacks? Does the latest explanation pass the red face test?

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2. Gonzalez, John, and Plater, Roz, WJLA, *Metro: Trains operating normally after two shutdowns caused by system failures*, July 16, 2012.
3. Spivack, Miranda, Washington Post, *Metro running normally, but officials probe problems in two weekend shutdowns*, July 16, 2012.
4. Toledo Blade, *D.C. Metrorail officials probe software failure*, July 16, 2012.
5. AP/WJLA, *Metro sues*

insurance company over deadly Red Line crash, September 28, 2011.

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*Neither a wise nor a brave
man lies down on the
tracks of history to wait for
the train of the future to
run over him—Dwight D.
Eisenhower*
