

# Congressional Record

## UPDATE ON BNL INVESTIGATION (House of Representatives - January 21, 1993)

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The SPEAKER pro tempore (Mrs. **Kennelly**). Under a previous order of the House, the gentleman from Texas [Mr. **Gonzalez**] is recognized for 60 minutes.

Mr. GONZALEZ. Madam Speaker, I take the floor today to update my colleagues on the Banking Committee's investigation of Banca Nazionale del Lavoro, or the BNL as it is popularly known. Since we adjourned last October, much has transpired and a lot of things have happened that I want to bring my colleagues up to date on.

For one, the Italian Senate voted to reestablish or create a second commission to look into the BNL scandal. I have reported on numerous occasions how well I had worked with the previous and the first investigating committee of the Senate in Italy with Chairman Carta at the time and how when we were refused documents on the orders of the late departed, but not lamented Attorney Generals Barr and Thornburgh, to such entities as the Federal Reserve Board not to turn over documents to us, we were very much able to obtain those same documents from the Italian Senate Investigating Committee.

Also, top BNL executives in Rome were indicted in Venice, Italy, for their role in secretly financing the sale of over \$100 million in armaments to Iran.

In December BNL sued the United States Department of Agriculture, as I had been saying all late last year and which our Government, through the State Department and Justice Department were doing their best to help BNL recover the \$340 million from the taxpayers on defaulted Iraqi loans that were guaranteed by the United States Department of Agriculture's Commodity Credit Corporation. I ask my colleagues to look back into the **Record** if you are interested to get the particulars. Anyway, in the meanwhile in December BNL sued to recover over \$340 million in defaulted Iraqi loans that were guaranteed by the United States Department of Agriculture's Commodity Credit Corporation [CCC]. December also saw Judge Lacey, Attorney General Barr's patsy, announce that there was no need to appointment an independent counsel to look into the Justice Department's handling of the BNL scandal. At best Lacey's probe was a whitewash. Of course Judge Lacey's law firm did receive a bundle of taxpayer money for his strained and much discredited explanations.

True to form, the Bush administration stuck to the bitter end with its refusal to turn over all documents related to Iraq and the BNL scandal requested by the Banking Committee and also subpoenaed by the Banking Committee. Top officials of the White House, Justice Department, CIA, State Department, and other agencies decided against turning over hundreds of BNL-related documents requested or even subpoenaed by the Banking Committee.

Finally, in Great Britain, John Major's government felt the wrath of public discontent when government documents disclosed during the aborted Matrix-Churchill trial revealed that the highest levels of the Major and Thatcher governments secretly approved Matrix-Churchill export licenses knowing that the sophisticated machine tools were destined for Iraqi armaments factories.

Incidentally and by way of parenthesis, those revelations came after contact by Parliament Members with us and then a Member of the Parliament of the mother country placing in public a display of the documents, and mind you, in Great Britain, can you imagine what would have been done to me if we in America did not have the first amendment or if we had what Great Britain has, which is actually

censorship through their secret documents proviso, which makes it a criminal offense, but the British and the Members of the Parliament are far more attuned to their constitutional history than we are here. So this Member of Parliament caused great exultation in Great Britain last year when he placed for public record in the record of the proceedings those documents.

The occurred machine tool transactions destined for Iraqi armament factories through Great Britain despite a so-called British Government ban on such sales.

The reason for the approvals was supposedly that United Kingdom intelligence organizations, MI5 and MI6, were gathering information on Iraq's technology procurement network through several Matrix-Churchill employees. Key players in the Thatcher and Major governments also argued for approval of the licenses under the pretext that the British machine tool industry needed the Iraqi orders to stave off extinction. Whether the sales were for intelligence gathering purposes or to preserve British jobs, or possibly both, is impossible for us on this side of the Atlantic to tell. What is clear is that the Iraq-BNL scandal befuddled governments on both sides of the Atlantic, and revealed the dirty underside of policies that cannot differentiate between addition to the arms trade and genuine national interest.

There are still many unanswered questions related to the BNL scandal and the prewar Iraq policy. Events such as the British version of Iraqgate, so-called, raise many additional questions, particularly, as I have said before, to us who are interested from the banking aspect and the protection of our very vulnerable system, financial and banking system in our country. I have gone into that before. I will not now.

This is where we are headed. We are trying to get the full information so that we can shape and mold legislation that this country has desperately needed and needs now more than ever. This now amounts to almost \$1 trillion that is working through the arterial system or financial system in the United States. I would say that over 80 percent of that is involved in illegal drug money laundering operations, direct and indirect. Should we not be concerned? Should we be obstructed in that endeavor?

I cannot understand the willful and the most bitter partisan attempts to try to gag us on the Banking Committee.

Did the British Government explicitly inform the Bush administration that Matrix-Churchill had a United States affiliate operating in Cleveland, OH, as we have brought out? Did the United Kingdom Government inform the United States that Matrix-Churchill's exports to Iran were being financed by an Atlanta, GA, bank called Banca Nazionale del Lavoro [BNL]? It seems impossible that Britain would have gathered all this information about Matrix-Churchill and BNL, and not share that information with our Government. This means that President Bush must also have known--how else can we conclude otherwise--what Saddam Hussein was doing, and decided to tolerate it--the evidence of this is clear and plentiful. A myriad of questions need to be addressed before the Banking Committee ends its investigation.

Not all the facts have been laid upon the table for the public to see, evaluate, and digest. I pledge to continue the investigation until all important questions are fully investigated and satisfactory answers are obtained, and we are in a good, plain, and explicit condition to offer the legislation our national interest demands.

The Congress and citizens of this Nation deserve no less than a complete accounting of the activities of this last administration in its handling of the BNL scandal and the prewar policy toward Iraq.

## LACEY REPORT ON BNL A WHITEWASH

On October 16, 1992, Attorney General Barr appointed retired Federal Judge Fred Lacey to conduct an investigation of limited scope of matters dealing with the Justice Department's handling of the BNL scandal.

[TIME: 1220]

At the time of the appointment, the Justice Department, CIA, and other agencies were under severe pressure from several congressional committees and the press for their role in the bungled handling of the BNL prosecution and the conduct of the prewar policy toward Iraq.

Attorney General Barr, after consultation with Boyden Gray, President Bush's lawyer and eminence grise, appointed Judge Lacey as special counsel to quell the growing negative publicity associated with the BNL scandal. From the start it was apparent that Judge Lacey was nothing more than a lackey. For example, in appointing Judge Lacey, Attorney General Barr limited the scope of the inquiry to issues surrounding the Justice Department's handling of the BNL case. Mr. Barr's request to Judge Lacey and the ensuing investigation ignored several most important issues raised during the course of congressional investigations of prewar Iraq policy.

Mr. Barr's letter to Judge Lacey outlining his responsibilities totally ignored charges that the White House and the Commerce Department altered export licensing information prior to providing the information to the Congress. Judge Lacey took a cursory look at the allegations, but typical of the entire Lacey investigation, key witnesses such as former Export Administration Director Dennis Kloske were not interviewed and key documents showing White House involvement in the document alteration were not requested. Lacey concluded that the issue merited further investigation, but of course he did not go as far to suggest that an independent counsel, truly independent, investigate the charges. After all, his job was to find a way to justify not appointing an independent counsel. There are other flaws in what I call the Lacey Job. Two weeks after appointing Judge Lacey, Attorney General Barr ordered Lacey to report on his findings by December 8, 1992. In other words, Judge Lacey was given just 6 weeks to become familiar with the voluminous documents and to fully investigate all the potential avenues. Even Judge Lacey admitted he did not have time to conduct as thorough an investigation as he wanted or, rather, as a conscientious worker would have demanded. Mr. Barr's artificial deadline was most unfortunate and obviously premeditated. To top it off, an entire appendix of the Lacey report, supposedly packed with evidence showing that the Justice Department and CIA were vindicated of any wrongdoing in their handling of the BNL case, were stamped with the highest security classification in the land. They are still secret. If these documents were supposed to vindicate, why hide them? This classification meant that the public and committees in Congress were denied access to the documents, and of course, the ability to evaluate the documents for themselves. The Bush administration tried to use this same secrecy technique to keep documents about the failed prewar Iraq policy from public and congressional scrutiny.

Let me point out to my colleagues where we are in our national security state. This last administration was securitizing--that is, it was stamping 'security classification' on 7,117,017 documents in a year. That is over 19,000 a day. What point have we reached in America when a government can embrace and control that kind of power with the sole purpose in mind of keeping it secret? And from whom? The American people and by consequence, the Congress. That is 7,117,017 documents a year, over 19,000 a day.

There are more flaws in the Lacey investigation, and I will address those in a future floor statement. At present, the Justice Department is dragging its feet in turning over all BNL-related prosecution documents requested by the Banking Committee. When I get all the appropriate documents from the Justice Department, I will make a further report and evaluation of the so-called Lacey report. I hope that the new administration will prove more cooperative.

Meanwhile in another development, the Italian Senate voted in November to create a second special commission to look into the BNL scandal. Interest in forming a second Italian Senate Commission was reignited last September when I revealed on the House floor that the CIA had information showing that BNL's top management was aware of the supposedly illicit loans to Iraq.

If that is the case--and we know it is--their lawsuit to try to get over \$300 million from the taxpayers will not have any grounding. But who was the one who was getting up and trying to save these henchmen? It was our State Department, our Justice Department, all of those involved in the so-called Rostow Gang, from the National Security Council, of all places.

So that the information we brought out and that triggered this agitation in Rome that led to the formation of the second Senate investigating committee was contrary to the first Italian Senate Commission's findings which could not offer much hard proof that BNL's top executives were aware of the over \$5 billion in BNL Atlanta loans to Iraq.

The final Italian Senate report was critical of the BNL management and concluded, based on numerous convincing pieces of circumstantial evidence, that BNL's top management must have known about the roughly \$5 billion in supposedly unauthorized loans to Iraq by the Atlanta branch of BNL.

Now, let me point out to my colleagues that banks like BNL are not like our banks. They are Government owned. The Italian Government is the one that also lost about \$2 billion to BNL transactions not only to Iran and Iraq and a few others, but those banks are Government owned. This is the big difference that still has not penetrated our regulatory authorities and apparently the generally unrestrained banking oligarchy in our country.

The new Senate commission's mandate is to probe whether Italian Government bodies, possibly acting in concert with foreign governments--that means ours--acted to aid Iraq's military industrialization effort. This at least seems likely, in light of the involvement that both the British and United States Governments had in the Iraq armament business. The commission will also investigate the increasingly obvious role BNL-financed firms played in helping to arm Iraq.

Hopefully, the second Senate commission will do a thorough investigation of Italian intelligence, defense, and foreign service agencies.

The first Senate commission did not receive many documents. I recall Senator Carta first meeting with me in order to request what we had, which we gave him. Those were the hearings which had not even been reported in the American press and which began in 1990. In fact, we did not even have much of a turnout of the committee. So that was their problem.

Last December, after 3 years of intense investigation, prosecutors in Venice, Italy, filed a 523-page indictment implicating former top level BNL officers and Italian export licensing officials in an illegal scheme to secretly send arms to Iran during the latter half of the 1980's. The secret arms shipments violated an Italian Government ban on arms sales to either side during the Iran-Iraq war.

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[TIME: 1230]

The indictment charges that senior BNL executives in Rome, and BNL branch officials in Paris and Turin, provided over \$100 million in financial support for the secret shipments. The indictment also implicates several BNL employees along with Italian secret service agents and Ministry of Defense officials for their part in the helping to disguise the arms shipments. In total 59 persons have been indicted. BNL officials have pleaded innocent to the charges.

Some of the very same BNL Rome executives implicated in the Venice indictment are at the center of the scandal involving BNL Atlanta loans to Iraq. Remarkably, senior BNL executives in Rome claim that they were unaware of their Atlanta branch's \$5 billion in loans to Iraq. Despite CIA information incriminating senior BNL officials in the scandal, the United States Justice Department chose to absolve BNL executives in Rome of any wrongdoing in the scheme to help advance Iraq's massive armaments program. Instead, prosecutors in the United States chose to focus most of the blame for the \$5 billion in illicit loans to Iraq on a lone individual, Christopher Drogoul, the former BNL Atlanta branch manager. Justice Department prosecutors also pointed the finger at several Iraqi Government officials for their role in supposedly defrauding BNL.

The irony of all this is that while United States prosecutors in Atlanta were concluding that the BNL scheme involving Iraq did not implicate senior BNL executives, a totally separate investigation into arms deals involving Iran reached an entirely opposite conclusion about the same BNL executives.

When asked about Western governments policies toward Middle East arms trade, the Venice prosecutor stated:

I'm not a politician, I'm a Judge. But my main impression is that it was all greed \* \* \*. Nobody had a straight policy.

It seems highly unlikely that BNL executives in Rome were involved in \$100 million in illegal Iranian arms deals, but at the same time remained ignorant of over \$5 billion in illicit loans to Iraq. If you believe Justice Department prosecutors, that is exactly what happened.

Another interesting note from the Venice indictment involves a now defunct British firm called Allivane. The indictment identifies Allivane as one of several firms involved in secretly supplying Iran with armaments. According to the Venice indictment, Allivane supposedly supplied millions of fuses to Iran that were used to detonate artillery shells. But Allivane did not just concentrate on helping to arm Iran.

Allivane also had contracts to supply Iraq with a million artillery fuses and it was to help construct two high-technology fuse assembly lines in Iraq. In early 1992, two former Allivane directors were convicted in Britain of illegal arms shipments related to the Iraqi fuse deals.

What is interesting about Allivane is that it was set up and run by an American man named Terry Byrne. Mr. Byrne, who was never indicted for the Allivane deals with Iraq, is reportedly back in the United States. He has a very interesting background, very much like Mr. Gerald Bull, who was assassinated in Brussels. I brought out a little of his history. I will bring out more later. Mr. Bull was the developer of the giant gun that he enabled Iraq to possess.

Prior to starting Allivane, Mr. Byrne worked for a Pennsylvania-based firm called ISC and prior to that, a New Jersey firm called Raxon Corp. ISC was founded by James Guerin, who is serving time in jail after being convicted of, among other things, illegally shipping military technology to Iraq.

Raxon, a New Jersey-based firm, is currently under criminal investigation for illegal shipments of artillery fuse parts and technology to Iraq. Raxon's activities involved a contract to provide parts for an Iraqi artillery fuse project being run by the assassinated ballistics genius Gerald Bull and his Space Research Corp. Raxon is also under investigation involving Chilean arms dealer Carlos Cardoen's activities in Iraq.

The committee has attempted to contact Mr. Byrne and Raxon. For the present, Raxon refuses to talk and Mr. Byrne remains elusive. The committee has many questions for both of them and wants to know if BNL Atlanta loans figured in the fuse deals with Iraq.

## **BNL SUES THE USDA**

On December 15, 1992, BNL filed a lawsuit in the United States Court of Federal Claims in Washington, DC, seeking recovery of over \$340 million in principle on defaulted loans to Iraq that were guaranteed under the USDA's CCC program for Iraq. The lawsuit resulted after the USDA refused to make good on the BNL claims because of unanswered questions about BNL's involvement in the Iraqgate scandal.

I have sought to protect the taxpayer by repeatedly asking the USDA to withhold payments to BNL until it could be determined whether or not BNL was involved in defrauding the CCC program. If it could be proven that BNL was involved in a scheme to defraud the CCC program, that could be legal grounds for denying payment to BNL, and saving the taxpayer over \$340 million.

To my dismay the USDA never conducted a proper investigation to determine if BNL had engaged in a scheme to fraudulently obtain export credits for Iraq. Instead of assigning this type of investigation to the USDA's inspector general's office, which has jurisdiction to conduct criminal investigations, the USDA conducted a so-called administrative review of the BNL scandal.

The USDA's administrative review has been proven to be a complete whitewash. The review did not even address the issue of whether or not BNL management in Rome engaged in a scheme to defraud the CCC. In the end the USDA was not concerned about protecting the taxpayer's pocketbook. The USDA bowed to White House and State Department pressure to downplay the significance of the BNL scandal in order to keep the CCC program for Iraq alive for another year. All this to appease Saddam Hussein, the master of what the world has come to call the tactics of cheat and retreat.

The Iraqgate scandal spread to the United Kingdom when the Customs and Excise's case against the former British directors of the Iraqi front company Matrix-Churchill Ltd., who had been charged with violating United Kingdom's export control laws, collapsed after a government minister admitted that he told the machine tool executives to be economical with the facts when apply for export licenses to send machine tools to Iraq.

The most damaging aspect of the case involved the release of several hundred British Government documents detailing the United Kingdom Government's policy toward Iraq. By far the most astounding documents released during the trial revealed that the United Kingdom Government approved export licenses for Matrix Churchill because the British spy agencies, MI5 and MI6, had been utilizing the services of several high level Matrix Churchill employees to gather intelligence information on Iraq's technology procurement activities in the United Kingdom.

The documents reveal that as early as 1987 Matrix Churchill sources told United Kingdom intelligence that machine tools shipped to the Nassr and Hutteen state establishments in Iraq were used in armaments production, yet high level United Kingdom Government officials approved export licenses for Matrix Churchill well into 1990, just months before the Iraqi invasion of Kuwait. The approvals were granted in spite of United Kingdom Government guidelines on sales to Iraq and Iran that should have prohibited such exports.

The aborted trial posed a particularly sticky issue for the Major government in that the charges were brought against the former Matrix directors even though the government had reason to believe the charges were false.

As in the United States, the scandal has raised serious questions about the Major government's policy toward Iraq as well as the veracity of public statement about the prewar Iraq policy.

[TIME: 1240]

In all Members of Parliament have charged that Ministers in the Major and Thatcher governments have: Broken the nuclear nonproliferation treaty; violated their own guidelines on selling arms to Iraq; systematically misled the Parliament and the public; and have conceived the imprisonment of innocent men.

I am including for the **Record** a collection of these British intelligence documents. My fellow minority Members that were trying to make me an offender for having placed documents, of all places, in the **Congressional Record**, eat your hearts out, as well as CIA Director Gates.

These documents are marked secret. They are British intelligence documents. Some have been blurred out, but they make most entertaining reading.

I am placing them in the **Record** because they have since been public matter in Great Britain, since my colleague, fellow parliamentarian put it in the public record. But I think I ought to read a little bit here to show my colleagues what a droll sense the British have.

It says here, 'As a result, we agreed to put back this meeting until 14 December at 1800, arrived on time. And then he,' referring to this individual, 'relaxed and talked for some time. Relaxed in our chairs, drinking tea and munching through the fruit from the bowl in the hotel room. I believed this was to be one of the routine visits. Unfortunately, when I turned the conversation towards the subjects, it was clear not all was well.'

Would it not be wonderful if our documents, like the ones that the Rostow gang was so sensitive about, would be written that way, where they could say, 'Well, we met and we went down to the basement room here at the White House or the National Security and while we had coffee or whatever and some goodies, why we discussed this.' It would be great.

I think that is very, very revelatory of the droll and witty, typical British approach to things. In response to these charges Prime Minister Major appointed Lord Justice Scott to conduct a nonstatutory inquiry to get to the bottom of the charges. Members of Parliament as well as editorials in the British press feel that the Prime Minister should have appointed a statutory tribunal to investigate the charges.

This past administration, Justice Borman have been right in tune with our fellow Brits.

They charge that the nonstatutory approach chosen by Major, which under British law has far less power than a statutory appointment, is unlikely to establish the truth or to secure public acceptance of its findings.

They are more sensitive in England about public acceptance than our Governors in the United States are about the governed's acceptance.

As I said many times in special orders heretofore, I do not know if any Member has looked at them or listened to them, I pointed out for some time that we have had a transformation in our country. We are no longer like Citizen Tom Paine. We are not citizens. We are subjects, like the British Crown subjects.

Just look at the way our public is treated nowadays.

This appointment of Lord Justice Scott is akin to the U.S. Government appointing Judge Lacey to investigate the BNL scandal. At present it appears there will be no truly independent look at the Matrix-Churchill fiasco.

Events in the United Kingdom also have a profound influence on the committee's BNL investigation. BNL was a major source of funds for Iraq's secret technology procurement network. In fact, Matrix-Churchill Ltd. and its affiliates in the United Kingdom and United States were the listed beneficiaries of nearly \$100 million in BNL loans that benefited Iraq's military industrialization effort.

The Banking Committee wants to know to what extent did British intelligence pass along information on Matrix-Churchill to United States authorities. Several documents released during the aborted United Kingdom trail reveal that British intelligence was informed that Matrix-Churchill in London had a United States affiliate. Was this information forwarded to U.S. authorities? If so, when and what was done with the information?

The committee is also interested to learn if British intelligence gathered any intelligence on BNL's role in funding Matrix-Churchill's Iraq-related activities. If they gathered such information, was it passed to U.S. authorities? If yes, when and what was done with the information?

Another reason the committee is keenly interested in the United Kingdom developments is that United States officials approved an Iraq-related export license for Matrix-Churchill's United States-based affiliate in late May 1990--2 years after British intelligence was told that Matrix-Churchill exports were utilized to produce armaments in Iraq. Were United States export licensing officials made aware that Matrix-Churchill was an Iraqi front company, or was the information concealed so that United States intelligence could gather information on Matrix-Churchill's United States operations? These important questions and many more need to be answered. I will continue to pursue this aspect of the case until the truth is known.

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## **BUSH ADMINISTRATION REFUSED FULL PUBLIC DISCLOSURE**

Until Wednesday, the Bush administration continued to obstruct the Banking Committee's probe of BNL and the prewar policy toward Iraq. Just like the Iran-Contra affair, the President and his attendants stood by the disgraceful principle that the citizens of this Nation do not have the right to know the full and unvarnished truth about the foreign policy activities of highest levels of the executive branch. Like the Iran-Contra affair, the President and his entourage have used the vast powers of the Presidency to obstruct congressional investigations of various aspects of the prewar policy toward Iraq.

In total, the Bush administration refused to turn over hundreds of BNL and Iraq-related documents to the Banking Committee. The White House, State Department, Justice Department, CIA, DIA, NSA, Custom Service, Commerce Department, and USDA all refused to turn over documents requested by the committee. I will include in the **Record** a list of Banking Committee data requests that have been ignored by the Bush administration.

It is unfortunate that the legacy of President Bush and his top advisers such as Richard Thornburgh, William Barr, James Baker, Brent Scowcroft, Lawrence Eagleburger, Boyden Gray, and Robert Gates will be clouded by their inability to understand and accept a basic principle of democracy--the right of the people to know the truth about Government policy. In the case of Iraqgate, the President and his advisers chose to obstruct my inquiries rather than to cooperate. They chose to obfuscate the truth rather than to illuminate the public so that we can learn from our mistakes. The President and his top advisers chose a similar path in the Iran-Contra affair. The truth played second fiddle to saving political reputations.



I am not discouraged by the Bush administration's obstruction. I will not give up. I will request all BNL and Iraq-related documents from the new Clinton administration, including requests for documents from the White House, State Department, Justice Department, and the CIA. I perceive that President Clinton, Vice President **Gore** and their top advisers have a better understanding of the Constitution and a better grasp of the principles of democracy than did the previous administration. I trust that they will be fully cooperative. After all, it is the people that deserve the truth.

We have strayed so far from the Constitution. All of these, this secrecy and all reveals the contempt for the first words of the Preamble of our Constitution where all the source of our power is: 'We, the people of the United States, in order to form a more perfect Union,' et cetera, et cetera.

It does not say 'We, the Congress' or 'I, the President.' It says, 'We, the people.' That is all, the exclusive source of power or sovereignty. This is the issue.

In the final days of this last administration, there were more attacks on Iraq, some designed to kill off air defense systems that supposedly threaten the United States or so-called allied aircraft patrolling over Iraq and some that were designed to destroy nuclear weapons facilities. At least this is what the newspapers report.

I want my colleagues to know that every one of these targets were in one way or another created with technology that this same administration allowed and even helped Iraq to acquire. Even today, United States troops are maneuvering along the Kuwait-Iraq border. We remain entangled in the most dangerous way, the ultimate consequences of which only the Lord Almighty would be able to tell us, in the most dangerous corner of the world, because right next is the other tragedy that some of our colleagues have referred in the Balkans, in which this is related to.

[TIME: 1250]

There is no sign that we will soon escape the web created by the shallowness, shortsighted and deceitful policy Mr. Bush maintained toward Saddam Hussein, and so desperately wanted to hide. But the truth will come out.

Madam Speaker, I attach for the **Record** at this point records entitled 'British Intelligence Document.'

## **British Intelligence Document**

Contact date and time Thursday 14 December 1987 at 1800 hours.

Account of meeting: -----.

As a result, ----- we agreed to put back this meeting until 14 December at 1800. ----- arrived on time. He appeared relaxed and we talked for some time about -----.

Relaxed in our chairs, drinking tea and munching through the fruit from the bowl in the hotel room, I believed this was to be one of our routine visits. Unfortunately, when I turned the conversation towards ----- subjects, it was clear not all was well. Two days ago the DTI had telephoned around the companies doing business with Iraq to tell them that the export licences could be revoked after all. The DTI caller told TI that 'HMG did not wish to prolong the Gulf War'. ----- was very upset and turned to me for an explanation. Although he did not specifically link the information he had given me with the change in fortunes, this explanation was clearly in his mind. Over the next one-half hour, we talked about the problem. I suggested (and he agreed) there had always been an undercurrent that things might go wrong. The DTI have many sources, ----- . It is unreasonable to expect that the actual

destination would be uncovered at some time or another. I told ----- that his information would not have reached the DTI (MGFM).

----- outlined the penalties to be paid by U.K. companies if the licenses are revoked (◆60m and 1,500 jobs). He would loose personally because he had remortgaged the house to buy shares in TI at director's discount rate. If the contracts are cancelled much of this money would be lost. ----- hopes to change jobs to -----, a company which would be the sales outlet for TI as well as other U.K. companies. With cancellation, this job (at ◆100,000 pa) would be lost.

After this very tricky period, with my nose growing ever longer, ----- accepted that our meetings could not be held responsible. He told me more about TEG plans and purchases in U.S. He even offered the name and address of his new MD so that if he changes jobs we can still meet.

We agreed to meet again at 1730 on 16 February ----- . We parted good friends. I promised myself an early telegram to ----- to find out exactly what had gone on in the DTI.

20 January 1988.

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## Telegram, July 2, 1990

For the record, the following is ----- first person record of his contacts with ----- before and after the Customs' visit to his company during 19-22 June.

As I had been tipped off, first by ----- and then ----- before the visit I knew in advance and managed to speak to Peter Wiltshire in Customs, who is aware that we have a source in Matrix Churchill Ltd. (MCL). Both then and since Peter Wiltshire has been very helpful in keeping me informed on the general thrust of the investigation and detailed points about it. He has in no way resented my enquiries: he describes the case as sensitive and political not because of our interest but because of the relevant matters involved export licence applications, with the companies sending large amounts of documentation, including component drawings, to the DTI. Therefore, any prosecution would risk a large amount of potentially damaging Government documentation being produced in court.

Perhaps the most significant indication of whether my relationship with ----- will have any bearing on this case is that ----- did not ring me until Thursday, 21 June three to four days after he knew the Customs were going to make enquiries. Naturally, he was worried by the investigation and both for himself and for his staff. The cautioning of one of the members of staff and suggesting that we seek legal advice worried him further. However, he was reassured to some extent by the low-key nature of the Customs' interviews (at no time did they interview him) and he says that in the particular case involved, the `Cardoen' connection MCL have copies of the large number of component drawings that they sent to the DTI.

Speaking to both Wilshire and ----- I got the feeling that on balance they seemed to feel that prosecutions are less likely not only because any contraventions of the law might be described as technical as DTI have large amounts of information and because the companies concerned feel that they were being encouraged to expand their trade in Iraq by the Government: also nearly all of the equipment concerned will not be licencable before 1 July, and retrospective prosecutions are less likely.

When I met ----- at his office on 26 June he seemed slightly more concerned about MCL's financial problems rather than the threat of prosecution. He is angry at the way Lloyds Bank have made them seek alternative bankers and unless he gets a letter of credit for the hot dye forging plan confirmed in

Iraq the company could become insolvent. His emergency trip to Baghdad was prompted by the investigation and to make sure that ----- realises that TDG pressure for continuing contact with Cardoen and space research corporation would be dangerous. I advised him on the line to take with --- --- and told him not to exaggerate the threat of prosecution to ----- as this might lead the authorities in Baghdad to cut off contact completely and more importantly not pay the letter of credit. -----.

I will see ----- after his return from Baghdad bearing in mind that MCL undoubtedly have some skeleton in their cupboard. The question of the K1000 project has not been resolved, although Customs do not seem to be specifically interested in that. In general, it is not the supply of MCL equipment as such which has caused these problems but the activities of their project department in Iraq, mainly involving the supply including re-export of other company's equipment. ----- says that he is still hoping to buy out the machinery production part of the company as he thinks that it would be viable without any involvement with Iraq.

Source: British Intelligence Document.

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## Telegram January 19, 1989

At the Restricted Enforcement Unit (REU) meeting on Friday 23 December 1988, we discussed control of exports of machine tools to Iraq and release of our reporting on the subject -----.

DESS reported that, at a meeting a few days earlier, which was chaired by Lord Trefgarne, a decision on whether to relax export controls on machine tools for Iraq had been deferred pending our advice on how this would effect ----- and the future of Matrix-Churchill. We ----- told the REU that the security of our source was now best guaranteed if reasonable exports of machine tools by Matrix-Churchill were allowed to continue. We also drew attention to the recent expansion of activities of the procurement network into the nuclear proliferation field and the importance this placed on maintaining access, through ----- to the general activities of the network. We suggested that the criteria for denying exports of machine tools to Iraq should be the same as for other proliferating countries ----- . These are set out clearly in EG(C)O's (to which you could reasonably draw -----'s attention) and apply only to sophisticated CNC, multi-axis tools well above the specification of those presently supplied by Matrix-Churchill. Our advice accorded with the line which DTI, DESS and FCO wished to take and we expect it will now be implemented without delay.

We reminded the REU that, at a previous meeting we had sought agreement on issuing the ----- series of reports on Iraq to ----- . There had been concern expressed at the time that machine tools manufactured by the Matrix-Churchill Corporation in Cleveland Ohio could have been exported to Matrix-Churchill here for re-export to Iraq. This would have caused embarrassment to DTI if U.S. authorities found out. We reported that we had taken up this point with our source who was able to confirm that no such diversion had taken place. ----- had also confirmed that it would not embarrass him if ----- were to receive our reporting, indeed he was keen for this to happen. The REU has therefore withdrawn its objection and we will now go ahead and release the previous reporting to ----- . Our plan is to include this in one package together with the new report which is now being prepared which will contain the procurement network `organization'. \* \* \*

Source: British Intelligence Document.

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The Department for Enterprise,

*June 20, 1990.*

*Re exports to Iraq.*

**Simon Woodside, Esq.,**

*Private Secretary to the Chairman, HM Customs and Excise, New King's Beam House, 22 Upper Ground, London.*

This is to confirm our telephone conversation, earlier this afternoon, about Matrix Churchill. We noted that your officers propose to make a routine visit to the company tomorrow (Thursday) but you had given DTI Ministers the opportunity to object. You assured me that the visit would be used for fact finding only, and no action would be taken as a result without consulting Ministers. I confirmed that my Secretary of State did not want to object to the visit taking place on this basis.

I also told you that my Secretary of State would shortly be writing to the Prime Minister asking that Ministers should collectively and urgently discuss the issues concerned with this case.

I am copying this to Charles Powell (No 10) and to the Private Secretaries to the Foreign Secretary, the Chancellor and the Secretary of State for Defence.

Martin Stanley,  
*Principal Private Secretary.*

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The Department for Enterprise,

*June 21, 1990.*

*Re trade with Iraq.*

To: Prime Minister

I am concerned about the course of our relations with Iraq. On the one hand we need to minimise our involvement in the Iraqi military procurement programme. But we also need to bear in mind the implication of export controls on our exports to Iraq and on ECGD's large exposure on that market. The immediate issue is the prospect of further Customs and Excise investigations which could strengthen Iraqi accusations that we are interfering with civil trade.

Customs and Excise have received information (from the West German Customs) suggesting that Matrix Churchill (part Iraqi owned) exported machine tools to Chile which were on sold to Iraq and used for munitions manufacture, and that they and other companies exported machine tools to Iraq direct for that purpose, despite furnishing statements that the equipment was required for general industrial purposes. I understand that Customs are today making an ostensibly routine visit to that company and will report on what, if anything, they uncover. But any action following that visit is likely to worsen relations with Iraq.

Relations are of course already strained. Following our action to intercept shipments of parts of the big gun and the nuclear triggers, the Iraqi Ministry of Industry and Military Manufacture, which accounts for around 60 percent of Iraqi industrial procurement, announced that trade with the UK was under review.

The Machine Tool Trades Association and other UK exporters have made representations to DTI that the Iraqi review amounts to an embargo on new business with the UK which will have serious consequences for some of them.

I wrote to the Iraqi Minister to assure him of our wish for normal commercial relations with Iraq and that while our policy on supply of defense equipment remains in force, we have no intention of interfering with normal civil trade. Our Ambassador delivered my letter at a call on the Iraqi Minister last week. The Iraqi Minister's response was not reassuring. He insisted that the UK was interfering with civil trade and encouraging other countries to do likewise. The Minister is the President's son-in-law and a member of the inner circle of the Regime.

I can see no prospect of any improvement in the position while investigations into possible breaches of export controls continue. On the contrary, I see a considerable risk of further deterioration from which only our competitors can benefit since we have no evidence that they take as a restrictive a view as we do on trade with Iraq.

A Customs and Excise investigation involving Matrix Churchill is likely to be reported to Baghdad and to confirm the Regime's impression that we are applying an embargo going well beyond defence supplies. This could provoke further reprisals against our exports and also perhaps a general default on repayments of credit.

ECGD's exposure in Iraq is \$1 billion. A further \$250 million was offered and accepted at the Joint Commission Meeting last November. The Iraqis have since indicated that they wish to draw \$65 million of this for Al Anbar Power Station. They have not so far indicated their precise intentions for the balance. ECGD have meanwhile suspended the approval of a new contracts under existing lines of credit until the Iraqis reduce their ECGD guaranteed arrears which currently stand at \$140 million. While Iraq has hitherto treated the UK as a preferred creditor, the present high level of arrears reflects the cessation of payments during the last two months or so which was evidently linked with the current political coolness. The latest news is that the Iraqis have promised to remit \$30 million over the next few days, which may be a sign that, barring future upsets, commercial relations are gradually improving. We must hope so. Consequences of a systematic Iraqi default would clearly be extremely serious for ECGD and would have implications for the PSBR.

More generally, certain applications for a renewal of licenses for export of machine tools to Iraq are outstanding. I understand that the Foreign Office are not willing to agree to renewal of the licenses on the grounds that the goods might be used for munitions manufacture, notwithstanding that the companies concerned have valid contracts and that comparable equipment is widely available internationally. The intention to apply a unilateral embargo to such exports to Iraq (and to Libya, Syria and Iran), is arguably consistent with the Guidelines agreed in 1985, but may be difficult to justify to industry given the imminent removal of controls, agreed with COCOM partners on exports of such goods to Eastern Europe and the USSR.

I see a strong case for a more thorough review of our policy in this area which would take into account the policy and political arguments in favour of export controls, the commercial consequences for British industry and the financial risks for ECGD of continuing friction in our relations with Iraq. We need to reconsider the rationale of the Guidelines for defence sales to Iraq (and Iran) in the light of evidence of moves on each side towards peace negotiations and in the light of impending liberalisation of export controls agreed with COCOM partners, and the trading practices of our competitors. I would welcome your agreement to an urgent meeting to consider these issues.

I am sending copies of this minute to members of OD and to Sir Robin Butler.

*Department of Trade and Industry.*

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*January 1989.*

1. At the restricted enforcement unit (REU) meeting on Friday 23 December 1988, we discussed control of exports of machine tools to Iraq -----.

2. DESS reported that, at a meeting a few days earlier, which was chaired by Lord Trefgarne, a decision on whether to relax export controls on machine tools for Iraq had been deferred pending our advice on how this would effect ----- and the future of Matrix-Churchill. We ----- told the REU that the security of our source was now best guaranteed if reasonable exports of machine tools by Matrix-Churchill were allowed to continue. We also drew attention to the recent ----- expansion of activities of ----- and the importance this placed on ----- maintaining access, through ----- to the general activities of ----- . These are set out clearly in EG(C)O's (to which you could reasonably draw ----- attention) and apply only to sophisticated CNC, multi-axis tools well above the specification of those presently supplied by Matrix-Churchill. Our advice accorded with the line which DTI, DESS and FCO wished to take and we expect it will now be implemented without delay.

Source: British Intelligence.

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*January 1989.*

*To: DESS2 (Personal for A. Barrett Esq).*

*Subject: Iraq--Machine Tools for various facilities.*

[Page: H138]

1. In the reference we outlined our objections to the continued export of machine tools to two facilities in Iraq based upon intelligence received from Box 850. They are adamant that this intelligence cannot be used in isolation to support this case because they wish to protect their source.

2. The current DIS assessment of the two establishments is:

a. Hutteen State Establishment: This is subordinate to the State Organisation of Technical Industries. SOTI is in turn responsible to both the Ministry of Defence and the Ministry of Industry and Minerals. Hutteen is the main ammunition manufacturing plant in Iraq. This assessment is not totally reliant on Box 850 information.

b. Nassr Establishment for Mechanical Industries: Until now our only knowledge that this plant was involved in the manufacture of armaments came from the Box 850 source. However, a recent Form 680 has stated that they require a moulding machine to produce polyurethane internal filler parts for missiles. Whilst this is not necessarily positive proof that they are armaments manufacturers I believe that collated with the Box information there is little doubt that the establishment is involved in such activity.

3. As the Form 680 (copy attached) now gives us the collateral we have sought I think that we can now present a case against these tools being shipped to either establishment without compromising the Box 850 source. The grounds that we would expect to be used is that it represents an significant enhancement of capability contrary to the Ministerial guidelines.

4. I have copied this to Box 850 and I intend to raise this at REU on Friday 20 Jan 89.

*P.R. Jefferies.*

Source: Ministry of Defense.

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**Matrix Churchill**

*June 14, 1990.*

*Secretary of State.*

*From: M.V. Coolican, Head OT 2/3, Room 6.31 Kingsgate House.*

## **ISSUE**

What action to take in respect of a request from Customs & Excise for our agreement for them to visit Matrix Churchill other UK companies to obtain evidence that machine tool export have been used for arms manufacture in Iraq.

## **RECOMMENDATION**

That officials on the Iraq Gun Committee should be asked to prepare urgent advice for Ministers.

## **TIMING**

Immediate. Customs are planning to visit the firms in the next week or so.

## **BACKGROUND**

Customs have prima facie evidence that current machine tools exports from Matrix Churchill and other UK companies under license are being routed via Chile to Iraq for arms manufacture. Evidence was available in 1987 to the same effect but to protect sources Ministers took a decision to let the particular exports by Matrix Churchill go ahead.

Subsequent applications were made by Matrix Churchill who claimed to equipment was for general engineering use. there was no firm evidence available about end use and Ministers agreed to allow these exports. A significant factor in reaching that decision was the cessation of the Iran/Iraq war.

Customs now have absolute evidence of the fact that Matrix Churchill and some other companies not subject to the current investigations knew about the real end-use of all these machine tools and thus made false declarations to us and Customs. An investigation will clearly bring all these cases to light. Most of the machine tools in question will be removed from any export control following the recent COCOM meeting unless a decision is taken now to retain control to all or selected destinations.

## **ARGUMENT**

There are three issues to be addressed:

(1) are Ministers willing to have the 1987 and subsequent decisions exposed and made the subject of courtroom argument?

(2) are Ministers willing to face a worsening in our relations with Iraq?

(3) if the answer to (1) & (2) are affirmative should we retain controls on machine tools despite the COCOM relaxation and if so to what destinations?

Given the fact that all machine tools *can* be used for manufacture of arms of decision in principle is now needed on whether the UK should license such exports to countries subject to a UK arms embargo. (Currently Syria, Libya, Iran, Iraq, S. Africa, Burma, China and Taiwan). While a stout defence of not doing so can be mounted any such decision would contrast sharply with the very far-reaching interpretation currently placed on the embargo (eg not supplying parts or spares for aircraft which *could* be converted for in-flight refueling). Presentationally such a decision would sit uncomfortably with the concern over the super-gun.

Iraq is already very huffy about recent successful attempts to break-up their arms procurement activities and a move against Matrix-Churchill which is Iraq owned will only add to the problem. To the extent that other companies are involved the current line--that if people break our laws they must expect punishment and that we are not picking on Iraq--can be sustained. but UK trade interests in Iraq will no doubt suffer (and possibly some unfortunate people also).

The dirty washing liable to emerge from the action proposed by Customs & Excise will add to the problems posed by the gun. For DTI the timing is extraordinarily embarrassing given recent correspondence between ourselves, MoD and FCO. Needless to say we were not aware of Customs knowledge and activity when we briefed MFT on this issue. This underlines the need for our formal inter-departmental forum for exchanging this sort of information to be looked at--this is currently in hand.

## CONCLUSION

I expect you will wish to discuss this and Mr. Steadman and I are ready for this.

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## From the Independent, Dec. 6, 1992

[FROM THE INDEPENDENT, DEC. 6, 1992]

### Whitewash or Witch-Hunt?

(BY VERNON BOGDANOR)

The enquiry into Matrix Churchill will never get to the bottom of the scandal.

No one disputes the seriousness of the charges being investigated, declared Michael Heseltine of the Matrix Churchill affair in the House of Commons on November 23. It has been alleged that ministers have broken the Nuclear non-proliferation treaty, as well as their own guidelines on selling arms to Iraq, that they have systematically misled Parliament and the public, and have been prepared to connive at the imprisonment of innocent men. It is in everyone's interest, not least that of the ministers concerned, that these allegations be dealt with speedily and effectively. How should this best be done?

The right procedure would be to establish a statutory tribunal as provided for by the Tribunals of Inquiry (Evidence) Act of 1921, for matters 'of urgent public importance'. Such a tribunal would have the powers of the High Court, or in Scotland, the Court of Session, with regard to the examination of witnesses and the production of documents.

Unfortunately, however, the government has chosen to establish a non-statutory enquiry under Lord Justice Scott, similar to that set up after the Profumo affair in 1963 under Lord Denning. But an



enquiry of this type is unlikely to be able to establish the truth or to secure public acceptance of its findings. Witnesses will not be examined on oath, and those against whom allegations are made will be unable to check the evidence brought against them by cross-examination, and to rebut it. So it will be difficult for any fair-minded person to determine whether the allegations are justified. Therefore, if Lord Justice Scott does not wish to make adverse findings against those who cannot fully defend themselves, he will be accused, however unfairly, of a 'whitewash'. Being unable to exculpate the accused ministers, he will fail to allay public disquiet.

It is for this reason that the Royal Commission on Tribunals of Inquiry chaired by Lord Justice Salmon, declared in 1966 that it was 'extremely difficult, if not practically impossible' for an enquiry of the Denning type to establish the truth. For, if it 'felt justified in making an adverse finding against anyone, that person would and the public might also feel that he had a real grievance in that he had had no chance of defending himself accordingly the truth may remain hidden from the light of day.' Its conclusion was unequivocal: 'No Government in the future should ever in any circumstances whatsoever set up a Tribunal of the type adopted in the Profumo case to investigate any matter causing nation-wide public concern.'

That the worries of the Salmon Commission were not merely theoretical can be shown, not only from the Denning enquiry, but also from the Crichel Down enquiry of 1954. The latter was conducted by Sir Andrew Clark, QC, a former Conservative parliamentary candidate, said to have been the only man able to lose Barnet for the Conservatives. His report has been shown by I.F. Nicolson in *The Mystery of Crichel Down* (Clarendon Press, 1986) to be vitiated by serious mistakes both of fact and of law. Indeed, Sir Andrew succeeded, in the very first paragraph of his factual narrative, both in misdating the year in which Crichel Down was acquired by the Air Ministry, and in falsely asserting that the land was 'compulsorily acquired'. Sir Andrew, a bitter opponent of bureaucracy, attacked in his report, the integrity of civil servants who were unable to make public their side of the case.

In the absence of proper judicial procedures, officials and perhaps private citizens too may be exposed to similar vilification by the Scott enquiry. In the House of Commons on November 23, Robin Cook attacked by name an official who had worked with John Major, both at the Foreign Office and in 10 Downing Street; while Keith Hampson attacked the probity of Paul Henderson, the managing director of Matrix Churchill, even though Customs and Excise had withdrawn its prosecution against him. In neither case could those attacked defend themselves.

The Denning Report of 1963 has provided scurrilous entertainment for generations of undergraduates, yet, since the witnesses were not on oath, there is no reason to believe their evidence, especially as they had financial motives for producing stories which could later be sold to the newspapers. Lord Denning admitted the difficulties involved in establishing the truth. He had to act as 'detective, inquisitor, advocate and judge'. He had no doubt, however, that 'I have been told as much truth without an oath as if it were on oath,' a statement which those unable to accept Lord Denning's belief in his own judicial infallibility might find difficult to accept.

It was precisely because of these problems that the Salmon Commission argued in 1966 that any future nationwide crisis of confidence should be investigated by a statutory tribunal. Such a tribunal would examine witnesses, who should be legally represented, on oath. Witnesses would be informed beforehand of allegations made against them, and allowed to cross-examine those making them.

They should be granted immunity from later civil or criminal proceedings, since the tribunal's purpose would be to investigate the allegations against ministers in order, in the words of the Attorney-General, 'to examine whether ministerial responsibility should be pinned in any particular area'.

The government has said that if Lord Justice Scott finds his powers inadequate it will convert the enquiry into a statutory one as provided under the 1921 Act.

# **Matrix Churchill: Export of Lathe Equipment to Iraq**

*February 1, 1989.*

## **PROBLEM**

1. Matrix Churchill has three applications before the IDC for the export of lathe equipment to Iraq. Should we be prepared to approve these applications?

## **RECOMMENDATION**

2. I recommend that all three applications be approved. MCD and DTI officials are submitting similar recommendations to their Ministers. SEND and PUSD concur.

## **BACKGROUND AND ARGUMENT**

3. Matrix Churchill is a company which produces general purpose industrial lathe equipment, suitable for use in any branch of industry. We have had to consider various applications from the company to export equipment to Iraq since 1987. Some of these have been approved and not all the equipment the company wishes to export is subject to control. However we now have to consider the following licenses:

3M 1029/88: 1x Matrix Takisawa VZE machining centre (£52,000).

1x Churchill TFCNC Lathe (£160,000).

3G/54014/88: Kits for 2 and 3 axes machines (£644,000).

3G/53234/88: 11x FMV55 Lathes (£3,960,000).

1x FMV654 Lathe (£262,000).

2x Churchill 52 (£288,000).

(The machine tools covered by license 3G/54014/88 are only licensable by virtue of their import under an International Importing Certificate requested by the Japanese licensing authorities).

4. The IDC has had reservations about allowing the export of Matrix Churchill equipment since before the ceasefire. Export of this general purpose equipment is not prohibited under the ministerial guidelines and in 1987 export licenses for Matrix Churchill were approved. However, the security services subsequently obtained intelligence information which revealed that Matrix Churchill UK had been taken over by Iraqi shareholders. Our information suggested that the Iraqis intended to use the company to supply machinery for the new armaments and munitions factories of the Nassir and Hutteen State Establishments for Mechanical industries in Iraq, headed by Dr. Safir Al Habobi. As Mr. Cowell argued in his submission of 29 June, by allowing the export of Matrix Churchill equipment we understand that effectiveness of our own policy on defense sales. He recommended that, in practice, no licensable equipment should be cleared for export by Matrix Churchill to Iraq.

However, no outright ban could be issued as this would compromise the intelligence source for which we had no collateral. A temporary compromise was reached in practice by deferring the applications.

5. We do in fact now have a collateral for our intelligence, as an arms working party application (680D/Des 178/38) has been placed (and subsequently revoked) by Engineering Services (Urethanes Ltd, which implicates the Nassir Establishment in munitions manufacture. But it does not implicate Matrix Churchill as such. Furthermore, the Iraqis now have a considerable need to rebuild their industrial base. Establishments such as Nassir and Hutteen will have a significant role to play in this. Machine tools are an essential requirement in this process. We can no longer convincingly argue that munitions production is the top priority of the Iraqis, and in practice, we acknowledge this fact by allowing the export of similar equipment by other companies, most especially 600 Services Ltd. This makes it difficult to argue in favor of withholding Matrix Churchill equipment simply because of its potential military applications.

6. However, there has since been evidence ----- which implicates another part of Habobi's procurement network (but not Matrix Churchill itself) in Iraqi attempts to obtain equipment for the development of gas centrifuge technology for uranium enrichment. This is a serious development which confirms our long-held suspicions that Iraq, although a party to the Treaty on the Non-proliferation of nuclear weapons (NPT), has ambitions to develop a nuclear weapons capability.

7. There is good reason to be sceptical about allowing any export which might help in the achievement of Iraq's nuclear objectives. However, officials from interested departments have agreed that there is no reason to believe that Matrix Churchill lathe equipment is of specific interest to the Iraqi nuclear programme. We know of course that machine tools capable of contouring in two axes, as is the case with these machines, are essential for the production of nuclear weapons. But they also have many other legitimate industrial uses. Consequently, no international agreements are in place to prevent the export of such machines to potential proliferators. Therefore, unless we had convincing evidence which we were prepared to disclose to show that the Iraqis were developing a nuclear weapon, we should not be in a position to persuade our partners in the non-proliferation regime to apply equal restraint in the export of machine tools. Simply withholding the Matrix Churchill lathes would not therefore be an effective obstacle to the Iraqis' objectives. Neither would it absolve Britain morally from any involvement in this network, since all non-licensable Matrix Churchill equipment would remain freely available to Iraq.

8. There remains one more important factor. We have reason to believe that the refusal of these export licenses could force Matrix Churchill to close down. If this happened, we would lose our intelligence access to Habobi's procurement network. By keeping access open, we could obtain more important information, in particular on the procurement of some item which is far more incriminating than magnet rigs. Such evidence could then be used to try and stimulate the widest possible agreement on the need to counter Iraqi nuclear procurement efforts. We are already preparing the ground by informing partners of an Iraqi attempt to procure magnets which could only have been intended for centrifuge rotors. At the same time we will be providing work for a British-based company and thereby helping British industry to secure an increased stake in Iraq's reconstruction process. It is doubtful that wider political considerations will have been sacrificed in favour of short-term commercial objectives.

1. The key points are:

(i) The Matrix Churchill lathes for which licences have been sought may be destined for munitions manufacture. But in the circumstances of the ceasefire this is not a sufficient reason to withhold licences.

(ii) Matrix Churchill is now owned by Iraqis and part of its output is destined for an establishment headed by a Dr. Habobi. He is now known to be involved in trying to obtain equipment from the U.K.

for the development of gas centrifuge technology. But this does not appear to involve Matrix Churchill.

(iii) Withholding the lathes would not stop the Iraqis developing a nuclear weapon, but it could force Matrix Churchill to close down and lose us our intelligence access to Habobi's network. We have a clear interest in maintaining the source in the hope of obtaining more incriminating evidence that we can use to persuade our partners to act collectively to counter Iraqi nuclear procurement efforts.

2. I therefore agree that the application for lathes should be approved.

Source: Foreign and Commonwealth Office.

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## **Matrix Churchill: Export of Lathe Equipment to Iraq**

*February 6, 1989.*

*From: PS/Mr. Waldegrave.*

1. You may wish to show the Secretary of State the attached papers, concerning a potentially politically sensitive export to Iraq. The machinery in question has legitimate civil uses--but could also be employed in munitions manufacture, or even uranium enrichment.

2. Mr. Waldegrave's inclination (pace Mr. Gore-Booth) is to support Mr. Lillie's recommendation that the applications be approved. He has commented that 'screwdrivers are also required to make hydrogen bombs'.

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## **DTI Admits MI6 Role of Matrix Chief**

**(BY JOHN MASON)**

A top Whitehall official yesterday admitted that the managing director of a UK machine tools exporter worked for MI6, the intelligence service, to gather information on Iraq's nuclear programme.

Ministers also approved the continued export of equipment by Matrix Churchill to one of Iraq's main defence procurement agencies a year before the invasion of Kuwait in order to preserve the intelligence link.

Giving evidence at the trial of three former Matrix directors at the Old Bailey, Mr. Eric Beston, an assistant secretary at the Department of Trade and Industry, agreed that one reason ministers approved an export licence to Matrix in early 1989 was to maintain an intelligence source.

He did not know at the time that the source was Mr. Paul Henderson, then managing director, and only learnt this when Customs officials began to gather material to bring the prosecution, he said.

Mr. Beston's admission followed a revelation by Mr Henderson's attorney that his client worked for MI6 and helped gather information about Saddam Hussein's attempt to develop a nuclear bomb.

Mr Geoffrey Robertson told the court approval by ministers of the export licences of machine tools destined for military use enabled Matrix to survive as a company and Mr Henderson to continue acting for MI6. Matrix went into receivership earlier this year.

Mr. Henderson, along with Mr. Peter Allen, the company's former sales director and Mr. Trevor Abraham, the former commercial director, all deny four counts of breaching export regulations between July 1988 and August 1990.

The prosecution has alleged the three men deceived the DTI by pretending machine tools and computer software exported to Iraq were for civilian, not military use.

Some of the equipment exported by Matrix Churchill was sold to the Iraqi company Nassr, which the UK government knew played a leading role in the Iraqi defence procurement programme, Mr. Robertson told the court. The two companies were connected, with Dr. Safa Al Hobobi being the chairman of Matrix Churchill and a director of Nassr. This connection was known to the DTI, Mr. Beston agreed. According to a secret Foreign Office memo, evidence existed linking Dr. Hobobi with the Iraqi nuclear programme, the court heard.

Mr. Robertson asked if the main reason for ministers granting the licenses was so that the intelligence service could continue to have access to Dr. Hobobi's intelligence network through Matrix Churchill. 'That was one of the considerations,' Mr. Beston said.

Mr. Beston also agreed that it was known both within the DTI and by ministers that the goods to be exported would be used in Iraqi munitions factories. He also agreed that Mr. Abraham had told DTI officials that most of the machine tools exported would be used for munitions production.

Earlier, Mr. David Byars, a senior principal with the Export Credits Guarantee Department, agreed that it had known that Industries Cardoen, the Chilean intermediary in an earlier transaction, was an arms manufacturer.

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[Page: H140]

## **Three British Executives Cleared in Iraq Arms Sale Case**

**(BY WILLIAM TUOHY AND DOUGLAS FRANTZ)**

**London**--Three British business executives were cleared Monday of charges that they illegally sold arms-making equipment to Iraq, ending a trial that had raised new questions about the support of Saddam Hussein's regime by Western governments before the Persian Gulf War.

The charges were thrown out by a judge after two weeks of testimony indicated that the British government had given tacit approval to the exports from 1987 to 1990 so it could continue receiving secret intelligence on Iraq's war-making potential.

The dismissal fueled speculation in the United States over whether the Bush Administration also allowed Iraq to receive weapons technology and other benefits as part of its prewar efforts to appease Baghdad.

Several influential Senate Democrats are discussing the possible creation of a select committee to coordinate congressional investigations of the Administration's pre-war dealings with Iraq and allegations of a postwar cover-up, according to sources.

Senate Majority Leader George J. Mitchell (D-Me.) talked Monday with senior Democrats about establishing an investigative committee, the sources said. The committee would be similar to panels that investigated Watergate and the Iran-Contra scandal, consolidating inquiries by the Senate Agriculture, Intelligence and Banking, Housing and Urban Affairs committees.

Sen. David L. Boren (D-Okla.), chairman of the Intelligence Committee, and Banking Chairman Donald W. Riegle Jr. (D-Mich.) were mentioned as candidates to lead the broad inquiry.

Concerns about what the Bush Administration knew about Iraq's military buildup were heightened by testimony in the London trial of three former executives of Matrix Churchill Corp., an Iraqi-owned company in Coventry, England, that sold millions of dollars worth of sophisticated machinery to Baghdad.

Bobby Lee Cook, the lawyer for a former banker charged in a separate case in Atlanta with providing \$5 billion in secret loans to Iraq, said that Monday's dismissal indicated that both the British and U.S. governments were aware of Iraq's arms-acquisition effort and turned their heads.

'It is illustrative of the fact that England and America knew exactly what was going on with reference to the shipment of arms and technology to Iraq and that the policies of our government and the United Kingdom were operating in tandem,' said Cook.

His client, Christopher P. Drogoul, a former official of Italian-owned Banca Nazionale del Lavoro in Atlanta, withdrew his guilty plea in connection with the loans after claiming that he was allowed to make the loans because they fit with the Bush Administration's pro-Iraq policy.

The defendants in the British case--Paul Henderson, Trevor Abraham and Peter Allen--said that the British government knew the company's machinery was being used by Iraq to manufacture artillery shells and other weapons.

British intelligence agents testified that Matrix Churchill was allowed to sell machinery to Iraq to keep intelligence information flowing from two company employees who provided data on Iraq's attempts to acquire Western military technology. One agent said that he presumed the information was passed along to other Western intelligence agencies, including the CIA.

A former British sub-Cabinet minister, Alan Clark, acknowledged that the government was aware of the Matrix Churchill shipments and allowed them to continue so that it would continue to receive intelligence information.

Clark, who served at the Department of Trade and Industry, said that his job was to maximize exports despite anti-weapons restrictions, which he found 'tiresome and intrusive.'

A Matrix Churchill subsidiary in Solon, Ohio, arranged for Iraq to purchase millions of dollars worth of technology used in Iraqi weapons projects. The Ohio operation was not shut down until September, 1990, a month after Iraq's invasion of Kuwait and well after U.S. and British intelligence reports about the role of Matrix Churchill in Iraq's arms network.

After the dismissal of the case in London by Judge Brian Smedley, the Labor Party opposition called on Michael Heseltine, the head of Britain's Department of Trade and Industry, to make a full disclosure of the department's 'Complicity' in arms deals with Iraq.

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## **From the New York Times, Oct. 17, 1992**

[FROM THE NEW YORK TIMES, OCT. 17, 1992]

### **Britain Traded Export Permits for Iraqi Arms Data**

(BY DEAN BAQUET)

**London, October 26:** As part of an intelligence-gathering effort, the British Government helped Iraq build up its military forces in the years before the invasion of Kuwait in 1990 by allowing the illegal sale of arms-manufacturing equipment to Baghdad, according to evidence presented in a little-noticed trial here. The case involves a British-based company that sold millions of dollars of machine tools to Iraq that were used to make arms.

According to British Government documents, two executives of the company provided British intelligence with frequent reports on the company's activities and Iraq's efforts to obtain weapons technology. To maintain the intelligence connection, the Government permitted improper sales to be made, the documents show.

The previously undisclosed British role is the clearest indication yet of Western government involvement in at least indirectly supporting the development of Iraq's arsenal. The disclosure also suggests that London was better informed about President Saddam Hussein's efforts to acquire military technology and equipment than it has ever acknowledged.

What, if anything, the Bush Administration knew about these activities is not known. But British and American intelligence agencies have worked together closely over the years, routinely exchanging information. In a case like this, former United States intelligence officials said, London would probably have shared anything it learned about Iraq's acquisition of weapons and military technology, but would not necessarily have acknowledged that it was encouraging such sales in an effort to gather information.

Peter Earnest, a spokesman for the Central Intelligence Agency, said that as a rule, the agency `never discusses relationships with other intelligence services.'

Even the possibility that the C.I.A. knew of the British role is likely to fuel Democratic charges that the Administration, in an effort to improve relations with Iraq, condoned the improper sale of American and other military technology to Baghdad. Customs agents and Federal investigators have complained that the Administration seemed unenthusiastic about inquiries about United States companies that did business with Iraq.

The British Foreign Office said any comment would have to come from the Department of Trade and Industry, which approved the sales to Iraq. Sian Lewis, a spokeswoman for that agency, said, `There's no way we would comment on a trial while it is in court.'

## **THE U.S. CONNECTION**

The British role involved the Matrix Churchill Corporation, a machine-tool manufacturer with offices in Coventry, England, and Solon, Ohio. From 1987 to 1990, Matrix Churchill, which was owned by Iraq, served as the main channel for the acquisition of military technology.

Matrix Churchill made magnets, lathes and other parts used to make rifles and other weapons. Matrix Churchill's American subsidiary also brokered deals between Iraqi and United States manufacturers.

During this same period, at least two high-ranking company executives reported regularly to British intelligence agencies on Iraq's efforts to obtain conventional weapons and to develop nuclear and chemical weapons, according to Government documents in the trial of three former company executives.

These documents show that London approved exports of arms-manufacturing equipment by Matrix Churchill, even though it knew the company lied when it sought export licenses saying Iraq would use the equipment only for civilian purposes.

## **THE GOVERNMENT'S CHARGES**

Three Matrix Churchill executives are standing trial on charges they illegally exported arms-manufacturing equipment to Iraq. The Government records show that one executive, Paul Henderson, a former managing director, was among those supplying information to British intelligence.

Some Democrats in Congress have complained that while the company's operation in the United States was shut down during the Persian Gulf war, none of its employees in the United States have ever been accused of a crime, despite a two-year investigation by the Customs Service. And law-enforcement officials in Ohio and elsewhere have complained that some United States agencies have been slow to cooperate with investigations of Matrix Churchill's operations.

Mr. Henderson's defense--that the Government knew everything he was doing--has given him the opportunity to obtain and make use of a remarkable number of classified documents, including notes of his interviews with British intelligence and internal memos describing the debate within the Government over how to handle Matrix Churchill's applications for export licenses.

It is not clear why he has been charged, given his cooperation with the intelligence authorities, since the Government does not dispute his role as informant. But prosecutors have indicated that he may not have told the Government about all of his dealings with Iraq.

## **THE CORPORATE HISTORY**

In 1987, Matrix Churchill was bought by the TMG Engineering Company of London, which was owned by Iraq. Sometime that year, Matrix Churchill's export sales' manager, Mark Gutteridge, began supplying British intelligence with detailed reports about the company's growing business with Iraq. Mr. Gutteridge has not been charged with a crime.

Geoffrey Robertson, Mr. Henderson's lawyer, has described Mr. Gutteridge as 'an agent of intelligence and security, run by one of their officers.' But it is not clear whether Mr. Gutteridge, who is expected to testify, was a paid agent planted by intelligence, or a businessman who decided to cooperate with his Government.

Sometime after 1987, Mr. Henderson also began cooperating with intelligence agents, the records read into evidence show, though his motivations are not clear.

Mr. Henderson says he gave intelligence agencies the blueprint for an Iraqi arms plant, and Mr. Gutteridge described the details of Iraq's purchase of the company, which was not public information. Mr. Gutteridge was asked if it was possible to turn Matrix Churchill's president, Safa Haji al-Habobi, an Iraqi engineer, into an informant, according to Mr. Robertson. It is not known whether this effort was made.

## **THE INTERNAL DEBATE**

On at least two occasions in 1988 and 1989, the company's request to ship parts to Iraq started a debate within the Government.

Eric Wayne Beston, an official of the Department of Trade and Industry, said in court that he had seen intelligence reports during this time alleging that Matrix Churchill was an integral part of President



Hussein's arms development. Witnesses say this information convinced some within the Government that Matrix Churchill's licenses should be closely scrutinized.

But others argued successfully that stopping Matrix Churchill would mean losing a window on the Iraqi arms network.

On Feb. 1, 1989, Stephen Lilly, then head of the Middle East Department of the Foreign Office, wrote a memo responding to internal skepticism over Matrix Churchill's application to ship magnet rings that could be used to make weapons.

Mr. Lilly wrote: 'We have reason to believe that the refusal of these export licenses could force Matrix Churchill to close down. If this happened, we would lose our intelligence access to Habobi's procurement network. By keeping access open, we could obtain more important information, in particular on the procurement of some item which is far more incriminating than magnet rings.'

In a December 1988 document, written in response to another application for export licenses, another Government official wrote that stopping the licenses would 'compromise the source' who has supplied crucial information about the procurement network, including Iraq's efforts to acquire chemical and nuclear weapons. These applications were also for equipment that was to be used to make weapons.

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## **From the Washington Post, Oct. 28, 1992**

[FROM THE WASHINGTON POST, OCT. 28, 1992]

### **Old Bailey Takes Up Iraqi Arms Network**

(BY EUGENE ROBINSON AND R. JEFFREY SMITH)

**London**, October 27: The U.S. government had evidence that an Iraqi-owned machine tool firm in England was involved in illicit exports to Iraq long before U.S. and British authorities took any action against it, according to U.S. documents.

The company, Matrix Churchill, has been at the center of a trial here at which British officials have acknowledged delaying any action against the firm to avoid cutting off a flow of intelligence from two company officials to the British secret service.

The Coventry-based company, which was bought by an Iraqi-controlled holding company in 1987, was one of the main vehicles for Iraq's massive military buildup that culminated in the invasion of Kuwait in August 1990.

Three former officials of Matrix Churchill are on trial in London's Old Bailey criminal courthouse on charges of violating Britain's export laws. Company officials contend that the government knew that the equipment sent to Iraq was being used in weapons manufacture, and that British intelligence was receiving information on the arms buildup in return.

'They knew because I told them,' defendant Paul Henderson, former managing director of Matrix Churchill, said today after court had adjourned.

The case raises questions about the extent to which Western intelligence services knew about, and perhaps abetted through inaction, Iraq's program to build up its arsenal following the end of the Iran-

Iraq war--possibly because of their desire to keep an eye on the Iraqi activities at the expense of actually halting the leakage of Western technology.

U.S. officials said he was referring to a CIA report that outlined Matrix Churchill's role in Iraq's Al Arabi procurement network under the control of Safa Habobi, the company's president and a director of the Nassr State Enterprise weapons complex in Iraq.

Additional evidence of U.S. suspicions about Matrix Churchill's activities can be found in Justice Department documents. According to the documents and U.S. officials, the U.S. Customs Service had evidence in late 1989 suggesting Matrix Churchill was connected to an Iraqi effort to buy U.S. electronic equipment that could be used to trigger nuclear explosives.

Customs officials, who conducted a joint investigation with the British, said they never proved any direct connection between the company and Iraq's attempted purchase of the nuclear triggers. Henderson, former Matrix Churchill commercial director Trevor Abraham and former sales director Peter Allen have pleaded not guilty to charges of violating export regulations by pretending that the machine tools and other items they sent to Iraq were for civilian, not military, use.

The defense has been granted extensive access to classified documents, some of which appear to bolster their case that the British government was more concerned with maintaining its intelligence sources within the company than enforcing the letter of Britain's export laws.

The British government has declined to comment on the case while it is pending in court. Henderson and another Matrix Churchill official who has not been charged, Mark Gutteridge, have been named in court as the two sources who were passing information on Iraq's arms program to the intelligence service MI6.

British and U.S. intelligence agencies share information extensively, and defense attorneys say they will demonstrate that U.S. intelligence was aware of Matrix Churchill's dealings as well. Evidence of extensive U.S. familiarity with Matrix Churchill's operations on behalf of Iraq in the late 1980s can be found in classified U.S. intelligence documents about the covert Iraqi procurement network, some of which came to light in the U.S. congressional probe of Washington's ties to Iraq before the war.

U.S. intelligence reports `as far back as June 1989 reveal that Matrix Churchill Corp. was part of Iraq's military technology procurement network, yet the Bush administration allowed it to operate despite knowing that the network was responsible for . . . Iraq's covert nuclear, biological, and chemical weapons programs,' said U.S. Rep. Henry B. Gonzalez (D-Tex.), who has been investigating what U.S. intelligence and industry--which had to approve export licenses--testified Monday and today that one reason the government approved a license for Matrix Churchill in early 1989 was to ensure continued access to Iraqi installations for an intelligence source within the company.

That concern was spelled out in a February 1989 memo, written by an official in the Middle East department of the Foreign Office, that defense attorney Geoffrey Robertson read in court. The final decision on that license application was made weeks later following a high-level discussion involving ministers from the Foreign Office and the departments responsible for trade and defense procurement, according to Beston and documents read in court.

Beston acknowledged under cross-examination today that he considered this a case that required a `political decision' at the ministerial level. Asked whether continued access for the intelligence sources within Matrix Churchill was a factor in deciding to approve the license, Beston replied, `That was one of the considerations.'

A U.S. Justice Department document said it was understood that the British 'have obtained the cooperation of Paul Henderson and other officers and employees.'

The government maintains that it had no firm proof that the Matrix Churchill equipment was being used to make arms. But Beston has acknowledged that he and others argued to continue granting export permission even after receiving intelligence reports indicting that the machine tools were destined for installations that were being used, at least in part, as weapons factories.

Despite the intelligence reports, Beston testified, he believed it was 'credible' that Iraq was merely seeking to build up its civilian industrial base following nearly a decade of war with neighboring Iran.

His department's view, Beston said, was that even if it were documented that some of the equipment were being used for military purposes, this was 'a matter of less concern' because the war had ended.

Matrix Churchill, headquartered in England's industrial heartland, was a well-established manufacturer of lathes, magnets and other heavy equipment before it was bought by Iraqi-owned TMG Engineering Co. in 1987. Both firms were shut down by the British Government after the Iraqi invasion of Kuwait in 1990.

The jury in the case has also heard testimony concerning a 1988 Matrix Churchill sale to Industries Cardoen, a Chilean arms manufacturer believed to have acted as a conduit for Iraq's military buildup.

An official in the department that issued credit guarantees for export transactions said his agency agreed to assist the Cardoen deal despite suspicions that the equipment might eventually be put to military use.

The defense contends that the government was anxious to continue the flow of information from Henderson and Gutteridge because of concerns that Iraq was working hard to develop a nuclear weapons capability.

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SOURCE: [http://www.fas.org/irp/congress/1993\\_cr/h930121-bnl.htm](http://www.fas.org/irp/congress/1993_cr/h930121-bnl.htm)