It is expected that Sir Richard Scott’s report on the sale of arms to Iraq will be published in the near future. This paper is a reminder of the background to the establishment of the Scott Inquiry and provides an overview of the issues the inquiry has been investigating. It is hoped to produce a paper on inquiries and inquiry procedures in the context of the Scott Inquiry and an updated version of Library Research Paper 94/42, *Public Interest Immunity*.

Fiona M. Watson
International Affairs and Defence Section

House of Commons Library
Library Research Papers are compiled for the benefit of Members of Parliament and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.
Contents

Introduction 5

I The collapse of the Matrix Churchill case 5

II Guidelines governing the sale of defence-related equipment to Iraq 6

III The setting up of the Scott Inquiry 9

Appendix

Scott Inquiry and Related Issues: Sources in the House of Commons Library 13
Introduction

Following the collapse of the Matrix Churchill trial in November 1992, the Prime Minister ordered an independent judicial inquiry to be headed by Lord Justice Scott, a Court of Appeal Judge. The aim of the Scott Inquiry was to investigate two of the main issues that had arisen from the Matrix Churchill trial: firstly, to investigate the allegation that Government ministers had sidestepped their own guidelines concerning the export of defence-related and dual-use equipment to Iraq in the five years leading to Iraq's invasion of Kuwait in August 1990; and secondly, to examine the legitimacy of ministers' use of public interest immunity certificates to withhold documents on grounds of national security. Shortly before the beginning of the inquiry, Lord Justice Scott made it clear that although Matrix Churchill provided the starting point, his investigations would not be limited to that company alone.

The Scott Inquiry began its public hearings of Government ministers, former ministers and senior civil servants on 4 May 1993 and concluded on 12 May 1994. Sir Richard Scott's final report has taken much longer to be published than was initially anticipated. It was announced on 1 September 1994 that the publication of the report would be delayed until early 1995, due to the need to gather and assess additional evidence. In October 1995, it was conceded that the report would not be published until early 1996, due to a delay in receiving detailed responses from ministers and Government departments to draft extracts dispatched in 1995. The Scott Report is now expected to be published some time in February 1996.

I The collapse of the Matrix Churchill case

The case concerned three former executives of the Coventry-based machine tools company, Matrix Churchill. Paul Henderson, Trevor Abraham and Peter Allen were accused of breaching export regulations on the sale of arms to Iraq by illegally exporting arms-making equipment to Iraq between July 1988 and August 1990 and deceiving Customs and Excise officials by claiming that the machine tools had peaceful purposes, when they were, in fact, designed to make shell fuses.

The Matrix Churchill executives were acquitted on 9 November 1992 after the prosecution case collapsed, following evidence from Alan Clark (Minister for Trade, DTI, 1986-1989). In a statement to the House of Commons on 10 November 1992, the Attorney-General, Sir Nicholas Lyell, said that the Counsel for the Prosecution was "... satisfied that during the course of cross-examination, Mr Clark had given evidence that was inconsistent with a written statement that he had made in 1991 and with what he had said in an interview with an officer

---

1 Lord Justice Scott became Sir Richard Scott on becoming Vice Chancellor in 1994.
of Customs and Excise in September 1992."\(^2\) The prosecution and the Commissioner of Customs and Excise subsequently conceded that there was insufficient evidence to sustain the charges brought against the three former Matrix Churchill executives. Newspaper reports of the case stated that Alan Clark had deliberately encouraged the Matrix Churchill executives to conceal what they knew were the military end-use of the machine tools and, instead, emphasize their civilian use. In his testimony in court, Mr Clark also said that the guidelines announced by Sir Geoffrey Howe in October 1985 were "elastic... tiresome and intrusive... The wording was a matter for interpretation and argument."\(^3\)

Following the collapse of the Matrix Churchill case, Paul Henderson, who had been working for MI6\(^4\), accused the government of duplicity in secretly promoting defence-related exports to Iraq in the run-up to Iraq's invasion of Kuwait. Shortly before the trial began in September 1992, Michael Heseltine, President of the Board of Trade, Kenneth Clarke, Home Secretary, Malcolm Rifkind, Secretary of State for Defence and Tristan Garel-Jones, Minister of State at the Foreign and Commonwealth Office, signed public interest immunity certificates (PIIs) in respect of certain government papers and their possible use in the trial. The judge hearing the case decided that the documents should be made available to the defence. They appeared to show that there had been a policy change in 1988, relaxing the guidelines on sales of defence-related equipment to Iraq and, indeed, that this 'relaxed interpretation' was still in force within weeks of Iraq's invasion of Kuwait.

II Guidelines governing the sale of defence-related equipment to Iraq

During the Iran-Iraq war (1980-1988) it was British government policy not to sell potentially lethal weapons or material to either Iran or Iraq. In a written answer on 29 October 1985, the then Secretary of State for Foreign and Commonwealth Affairs, Sir Geoffrey Howe, set out the following guidelines:

"The United Kingdom has been strictly impartial in the conflict between Iran and Iraq and has refused to allow the supply of lethal defence equipment to either side. In order to reinforce our policy of doing everything possible to see this tragic conflict brought to the earliest possible end, we decided in December 1984 to apply thereafter the following set of guidelines to all deliveries of defence equipment to Iran and Iraq:

(i) we should maintain our consistent refusal to supply any lethal equipment to either side;"

\(^2\) HC Deb, 10 November 1992, c.743
\(^3\) The Guardian, 5 November 1992
\(^4\) Sunday Times, 15 November 1992
(ii) subject to that overriding consideration, we should attempt to fulfil existing contracts and obligations;

(iii) we should not, in future, approve orders for any defence equipment which, in our view, would significantly enhance the capability of either side to prolong or exacerbate the conflict;

(iv) in line with this policy, we should continue to scrutinise rigorously all applications for export licences for the supply of defence equipment to Iran and Iraq."

The Government had already asserted its neutrality in the conflict and its policy of not supplying lethal equipment to either side before the announcement of the Howe guidelines. On 11 July 1984, for example, Mr Luce told the House of Commons:

"As for the war,...we remain neutral and do not sell lethal arms; we sell only non-lethal arms to both sides. That remains our policy. Our view is that the best contribution that we can make to restraining the situation between Iran and Iraq is not to sell lethal arms."

There were also several further written answers after October 1985 which referred back to the Howe guidelines. On one occasion on 18 March 1987, for example, Mr Renton as the Minister of State at the Foreign and Commonwealth Office said that he had explained the position 'many times'.

On the meaning of 'lethal' equipment, the Trade and Industry Select Committee was told by FCO witnesses:

"There is not a precise definition which is used by all governments and accepted as such. We defined 'lethal' equipment...as equipment designed and likely to kill. It is a matter that requires judgement case-by-case."

Conversely, there appears to be no precise official definition of 'non-lethal' military equipment. In July 1984 Mr. Richard Luce, Minister of State at the Foreign and Commonwealth Office, told the House of Commons:

---

5 HC Deb, 29 October 1985, c.405W
6 HC Deb, 11 July 1984, c.1046
7 HC Deb, 18 March 1987, c.923
"I accept that there are enormous difficulties in interpreting what is non-lethal equipment and what is lethal. It has to be assessed whether the sale of particular equipment is likely in any way to exacerbate the war between Iran and Iraq."  

In response to a later parliamentary question, asking for a definition of the categories of non-lethal defence equipment which may be exported from the UK to Iraq and Iran, Mr David Mellor, Minister of State at the Foreign and Commonwealth Office, said, "Such exports are not categorised...We prohibit the sale of any defence-related equipment that could significantly enhance the capability of either side to prolong or exacerbate the conflict."  

The matter of exports to Iraq had also been obscured by the practice of successive governments not to make public information on export licences for military equipment, including non-lethal military equipment, or the individual companies involved, for reasons of commercial confidentiality.

On 31 January 1991 the Prime Minister told the House of Commons:

"There is a considerable degree of sensitivity about the supply of arms and equipment .... for some considerable time we have not supplied arms to Iraq for precisely that reason. We will take great care in future to ensure that we are careful about that matter."

Nine months before the collapse of the Matrix Churchill case, however, Mr. John Goulden, Assistant Under-Secretary of State at the FCO, responsible for supervising defence, arms control and non-proliferation matters, had told the Trade and Industry Select Committee in their enquiry into the Iraq supergun affair:

"The guidelines set out by Sir Geoffrey Howe in 1985 applied until December 1988 when the third guideline was amended to read as follows:

'Not to approve orders in future for any defence equipment which in our view would be of direct and significant assistance to either country in the conduct of offensive operations in breach of the cease-fire.'"
III The setting up of the Scott Inquiry

Stating that the Matrix Churchill case raised important questions about the operation of export licensing policy in relation to Iraq, the Attorney-General, Sir Nicholas Lyell, told the House of Commons that the Government would ensure that a full and independent inquiry be undertaken that would encompass the operations of all relevant departments and agencies. On 10 November 1992, John Major ordered an independent judicial inquiry into the affair, which was to be headed by Lord Justice Scott, a Court of Appeal Judge. The terms of reference of the Scott Inquiry were laid out by the Prime Minister in a written answer on 16 November 1992 as follows:

"Having examined the facts in relation to the export from the United Kingdom of defence equipment and dual use goods to Iraq between December 1984 and August 1990 and the decisions reached on the export licence applications for such goods and the basis for them, to report on whether the relevant Departments, Agencies, and responsible Ministers operated in accordance with the policies of Her Majesty's Government; to examine and report on decisions taken by the prosecuting authority and by those signing public interest immunity certificates in R v Henderson and any other similar cases that he considers relevant to the issues of the inquiry; and to make recommendations". ¹³

The Prime Minister went on to maintain that:

"The terms of reference have not been restricted to Matrix Churchill. They include the supergun and other defence and dual-use sales.

The terms of reference relate not just to arms questions but to decisions taken on the prosecution of companies and on public interest immunity.

All Ministers who are called will give evidence.

All civil servants who are called will be instructed to co-operate.

All papers that the inquiry calls for will be made available.

Lord Justice Scott will be entirely free to decide on the publication of his report and of the evidence he takes.

If Lord Justice Scott finds that his powers are in any way insufficient, he can invite the Government to alter the basis of his inquiry and the Government would agree to do so.

The inquiry will report to my right hon. Friend the President of the Board of Trade." ¹⁴

¹³ HC Deb, 16 November 1992, c.76W
¹⁴ ibid.
From the beginning of 1993, the Scott Inquiry began examining about 70,000 pages of government documents and pieces of written evidence. Although Matrix Churchill provided the starting point of the inquiry, Sir Richard made it clear that his investigations are not limited to that company, but that they extend to a range of officials, companies and banks involved not only in direct trade with Iraq but also through third countries such as Jordan and Saudi Arabia.15

Sir Richard began his public hearings on 4 May 1993. He made it clear that he expected testimonies to be given in public, unless there was an "overriding reason of national security" why they should not.16 Sir Richard also confirmed that, being a non-statutory inquiry, evidence would not be taken under oath, that he did not intend to seek powers to subpoena witnesses and that cross-examination would be restricted to himself and his counsel, Presley Baxendale QC. One of the issues under consideration is whether ministers sidestepped the government's own guidelines on defence-related and dual-use equipment to Iraq in the run-up to Iraq's invasion of Kuwait. Another issue under consideration is the legitimacy of ministers' use of public interest immunity certificates to restrict access to information about certain government activities. The first to give evidence in public included Sir Richard Luce, former Minister of State at the Foreign and Commonwealth Office and other former officials at the Ministry of Defence and the Export Credits Guarantee Department (ECGD), who were in office when the guidelines were first announced to Parliament by Sir Geoffrey Howe in October 1985.

The bulk of the hearings came to an end in March 1994 and the final hearing took place on 12 May 1994. Evidence was taken from about 170 witnesses over the course of 86 days and Sir Richard summoned back senior MI6 officers to give further evidence in private over apparent inconsistencies in their reports and over their relationship with Paul Henderson. In January 1995, the inquiry's secretary, Christopher Muttukumaru, announced that Sir Richard hoped to publish his final conclusions around Easter time or shortly afterwards, at the beginning of May.17 Another article in the Financial Times of 18 February maintained, however, that Whitehall departments had been told privately to expect publication in June. It is now expected that the report will appear in February 1996.

It has been reported that the first part deals with the legislation covering export controls in the United Kingdom. This legislation is based on the 1939 Emergency Powers Act, which was rushed through Parliament at the beginning of the Second World War and which Lord Justice

---

15 Sir Richard Scott has apparently identified the extent to which ministers and officials approved of the exports of arms to countries such as Jordan and Saudi Arabia after ignoring information that these countries were being used as diversionary routes to Iraq (Financial Times, 17 January 1995).
16 The Guardian, 1 April 1993
17 The Guardian, 9 January 1995
Scott has apparently called "totalitarian in concept and in effect".\textsuperscript{18} Senior Whitehall officials have, however, apparently indicated that they are determined to keep the powers invested in this act to use export controls as an instrument of foreign policy.\textsuperscript{19}

The second part of the report is expected to deal with one of the central themes of the inquiry, namely the allegation that ministers and government departments failed to act on intelligence reports warning that Matrix Churchill machine tools were being used by Iraq to make weapons and that by doing so, they broke their own guidelines. Towards the end of January 1995, Sir Richard informed Whitehall that he intended to send extracts of his draft report to those ministers he intended to criticise. Those thought to be in the main line of fire include William Waldegrave (Minister of State at the Foreign and Commonwealth Office from 1988-1990) and the Attorney-General, Sir Nicholas Lyell, as the minister most directly responsible for the overall conduct of the Matrix Churchill case.\textsuperscript{20} A section of the Scott report concerning Mr Waldegrave's conduct was leaked to the BBC. It has also emerged that Peter Lilley, Secretary of State for Trade and Industry from 1990-1992, may be a target for criticism in Lord Justice Scott's report. Mr Lilley is reportedly accused of not examining closely enough the impact of export legislation by his department in 1990 (the Import and Export Control Act 1990), which enabled the DTI to exercise wide powers without having to submit to parliamentary scrutiny. HM Customs and Excise has also been sent extracts of Sir Richard's draft report relating to the role played by its officials in the Matrix Churchill case.

The Members' Library has daily transcripts of evidence to the Scott Inquiry. The following may be of particular interest:

<table>
<thead>
<tr>
<th>Day</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>William Waldegrave</td>
<td>26,27</td>
</tr>
<tr>
<td></td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>22,23 September 1993</td>
</tr>
<tr>
<td></td>
<td>12 October 1993</td>
</tr>
<tr>
<td>The Rt Hon The Baroness Thatcher</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>8 December 1993</td>
</tr>
<tr>
<td>The Hon Alan Clark</td>
<td>49,50,51</td>
</tr>
<tr>
<td></td>
<td>13,14,15 December 1993</td>
</tr>
<tr>
<td>The Rt Hon The Lord Howe of Aberavon</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>12 January 1994</td>
</tr>
<tr>
<td>The. Rt Hon John Major</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td>17 January 1994</td>
</tr>
</tbody>
</table>

\textsuperscript{18} \textit{ibid.}

\textsuperscript{19} \textit{ibid.}

\textsuperscript{20} Being the one who advised ministers to sign public interest immunity certificates.
<table>
<thead>
<tr>
<th>Day</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>79,80</td>
<td>24,25 March 1994</td>
</tr>
<tr>
<td>67</td>
<td>23 February 1994</td>
</tr>
<tr>
<td>69</td>
<td>28 February 1994</td>
</tr>
</tbody>
</table>

Research Paper 96/16

The Rt Hon Sir Nicholas Lyell

The Rt Hon Peter Lilley

The Rt Hon Michael Heseltine
Appendix

Scott Inquiry and Related Issues: Sources in the House of Commons Library

(Compiled by Janet Hall)

Transcripts

DEP 45 (These are uncorrected evidence).

Books and pamphlets

Ministerial responsibility (Compiled by Oonagh Gay)


Jeffrey Jowell and Dawn Oliver (eds), *The changing constitution*, 3rd ed. 1994. (Chapter 5, "Ministerial responsibility" by Colin Turpin has an interesting analysis of the current state of this convention and a list of recent examples. Chapter 6 by Gavin Drewry covers the issue of Next Steps agencies and accountability).


William Plowden, *Ministers and Mandarins*, Institute for Public Policy Research. 1994. (Most of the material is about the relationships between Ministers and Civil servants)

Research Paper 96/16


Arms Trade and Scott Inquiry


Gerald James, In the public interest: a devastating account of the Thatcher government's involvement in the covert arms trade - by the man who turned Astra Fireworks into a £100m arms manufacturer, 1995.

John Sweeney, Trading with the enemy: how Britain armed Iraq, 1993.


SIPRI Year Books contain detailed lists of known UK arms sales to all countries.
Periodical articles


Jolyon Jenkins, "No duty to cover up", *New Statesman and Society*, 20 November 1992, p.5.


"Truth might out", *Spectator*, 1 May 1993, p.5.


Alan Doig, "When a Minister has to go", *Parliamentary Brief*, October 1993, pp.3-64.


Research Paper 96/16

Patrick Fitzgerald, "Now, to sum up ...", New Statesman and Society, 1 April 1994, p.23.


Parliamentary material

House of Commons and House of Lords Debates


Private Members motion on relations with the Arab world. HC Deb, 27 November 1992, c.1097-158, (Incl. about 1 column on Matrix Churchill).

Debate on a motion for the adjournment on Matrix Churchill employers and the Scott Inquiry. HC Deb, 14 April 1994, c.526-34.

Statement on defence manufacturer BMARC and export of naval guns to Iran via Singapore. HC Deb, 13 June 1995, c.595-606.

Parliamentary Papers

Trade and Industry Select Committee


Trade and Industry Select Committee

Exports to Iraq. Minutes of evidence:

HC 86-i 1991/92, 26 November 1991
HC 86-ii 1991/92, 3 December 1991
HC 86-iii 1991/92, 4 December 1991
HC 86-v 1991/92, 21 January 1992
HC 86-vi 1991/92, 22 January 1992
HC 86-vii 1991/92, 24 January 1992
HC 86-viii 1991/92, 28 January 1992
HC 86.ix 1991/92, 29 January 1992
HC 86-x 1991/92, 5 February 1992
HC 86-xi 1991/92, 12 February 1992
HC 86-xii 1991/92, 19 February 1992
HC 86-xiii 1991/92, 20 February 1992
HC 86-xiv 1991/92, 26 February 1992
HC 86-xv 1991/92, 27 February 1992

Trade and Industry Select Committee


Trade and Industry Select Committee

Export licensing and BMARC. Minutes of evidence:
Research Paper 96/16

HC 87-i 1995/96, 6 December 1995 (VOTE)
HC 87-ii 1995/96, 13 December 1995 (VOTE)

Deposited Papers, Unprinted Papers


Letter from the Prime Minister, John Major to Tam Dalyell MP, on Matrix Churchill. Prime Minister. 30 November 1992. DEP 8607

Inquiry into exports of defence equipment and dual use goods to Iraq : proposed procedure for hearings before Lord Justice Scott. DTI. 1992. DEP 10160

Extracts from Supreme Court Practice 1993 and Archbold Criminal Pleading Evidence and Practice 1993 concerning the duty of a Minister to sign a public interest immunity certificate. Attorney General. 27 January 1994. DEP 10250

Scott Inquiry : note on submission from the Association of First Division Civil Servants. Cabinet Office. 15 March 1994. DEP 10508; Research HA 354.41004,P

Astra Holdings/BMARC papers : Ministry of Defence Police press statement. MOD. 1995. DEP/3 1876

Library Research Papers

Defence

Government and Parliament

International Affairs

Trade and Industry