



Intelligence and Security Committee

Annual Report 1996

Chairman:

The Rt Hon Tom King CH MP

Intelligence Services Act 1994

Chapter 13

Presented to Parliament by the Prime Minister
by Command of Her Majesty
FEBRUARY 1997





10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

The Rt. Hon. Tom King, CH MP,
Chairman, Intelligence and Security Committee.

14 February 1997


Thank you for your Committee's Annual Report which I read with interest. I found it to be a helpful and positive contribution to Agency oversight. Following the consultation with your Committee, I have arranged to have the edited text printed and will lay it before both Houses in the near future.

I was encouraged to hear your views on the Ames case, which as you know has been worrying for the United Kingdom, and your observation that, on the evidence received so far, it seems that UK interests were not seriously damaged. Such cases underline the attention which we need to give to the security of our own operations. I look forward therefore to hearing your views on our own security measures in due course.

I welcome your comments on the expenditure profiles of the Agencies, and your continuing endorsement of the current arrangements for intelligence work against Irish Republican Terrorism in Great Britain.

I was pleased to hear that you believe progress has been made on remedying the deficiencies identified in the Scott Report and I agree with the Committee that there is a need for continued vigilance to ensure that intelligence is disseminated in a timely and accurate manner.

It is a valuable task that the Committee fulfils and I express the Government's gratitude to you and your colleagues. I look forward to receiving further reports on your work in the future.

A handwritten signature in black ink, appearing to read 'John Major', written in a cursive style.

JOHN MAJOR

From the Chairman: the Rt. Hon. Tom King, C.H., M.P.

INTELLIGENCE AND SECURITY COMMITTEE

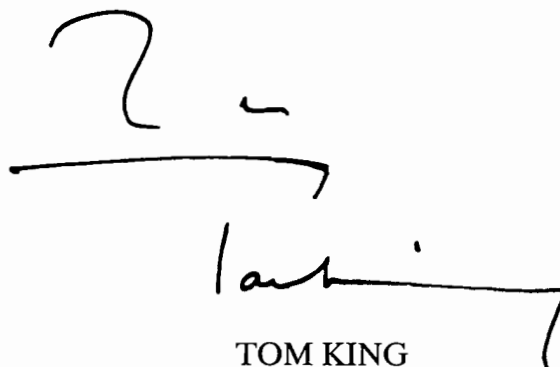
70 Whitehall
London SW1A 2AS

18 December 1996

The Rt. Hon. John Major, M.P.
Prime Minister
10 Downing Street
London SW1A 2AA

Dear Prime Minister,

I enclose the second Annual Report of the Intelligence and Security Committee on the discharge of our functions under the Intelligence Services Act 1994. Subject to any consultation with the Committee as provided for in section 10(7) of the Act, we hope that it will be possible for you to lay our Report before each House of Parliament at an early date.


TOM KING



INTELLIGENCE AND SECURITY COMMITTEE

Annual Report 1996

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Glossary

ASIO	Australian Security Intelligence Organisation
ASIS	Australian Secret Intelligence Service
BfV	Bundesamt für Verfassungsschutz (German internal security service)
BND	Bundesnachrichtendienst (German foreign intelligence service)
CIA	Central Intelligence Agency (US)
DGSE	Direction Generale de la Securite Exterieur (French foreign intelligence service)
DDI	Directorate of Defence Intelligence (New Zealand)
DIO	Defence Intelligence Organisation (Australia)
DSD	Defence Signals Directorate (Australia)
DST	Direction de la Surveillance du Territoire (French internal security service)
DTI	Department of Trade and Industry
DUS(P)	Deputy Under Secretary of State (Policy), MOD
EAB	External Assessments Bureau (New Zealand)
FCO	Foreign and Commonwealth Office
GCHQ	Government Communications Headquarters
GCSB	Government Communications Security Bureau (New Zealand)
IT	Information Technology
JIC	Joint Intelligence Committee
MOD	Ministry of Defence
NCIS	National Criminal Intelligence Service
NZSIS	New Zealand Security Intelligence Service
ONA	Office of National Assessments (Australia)
PES	Public Expenditure Survey
RG	Renseignements Generaux (French internal police/security service)
SGDN	Secretariat de la Defense Nationale (French co-ordinating body on national defence and security matters)
SIS	Secret Intelligence Service
SIV	Single Intelligence Vote

INTELLIGENCE AND SECURITY COMMITTEE

Annual Report 1996

The Rt. Hon. Tom King, CH, MP (Chairman)

The Rt. Hon. Lord Blaker, KCMG

Mr Barry Jones, MP

The Rt. Hon. Alan Beith, MP

Mr Michael Mates, MP

The Rt. Hon. Dr John Gilbert, MP

Mr Allan Rogers, MP

The Rt. Hon. Sir Archibald Hamilton, MP

Sir Giles Shaw, MP

Introduction

1. The Intelligence and Security Committee is established under the Intelligence Services Act 1994 to examine the expenditure, administration and policy of the United Kingdom's three Intelligence and Security Agencies: the Secret Intelligence Service (SIS), Government Communications Headquarters (GCHQ) and the Security Service. Committee members are notified under the Official Secrets Act 1989 and operate within the 'ring of secrecy'. We report directly to you on our work, and through you to Parliament.

2. This is our second Annual Report on the discharge of our functions, but we also made reports to you in the Spring on ***, and in the late Autumn on the Agencies' work 'in the interests of the economic well-being of the UK'.

3. During the course of the year, we met on 42 occasions, and took evidence from 41 separate witnesses. We have continued to meet formally while Parliament is sitting at least once every week — more frequently on occasion — and to work principally from our offices in the Cabinet Office. A full list of witnesses is at Appendix 1 to this Report; these included:

- the Heads of SIS, GCHQ and the Security Service, and a number of their staff;
- senior officials responsible for the central intelligence machinery in Whitehall (the Cabinet Secretary, and the UK's Intelligence Co-ordinator);
- officials from the Ministry of Defence (MOD), the Foreign and Commonwealth Office (FCO), the Department of Trade and Industry (DTI) and the Cabinet Office — both as 'customers' for the Agencies' product and for the other reasons outlined below.

4. Our inquiries over the course of the year have by their nature led us to seek witnesses from within the system. On occasion, however, we have also sought outsiders' views, which have been of value in helping to challenge accepted opinions, and where appropriate we shall look to broaden this approach in our inquiries over the next year.

5. In addition to formal evidence-taking sessions, we have pursued our programme of visits by 'sub-groups' of the main Committee to the three Agencies and relevant out-stations. The sub-groups have conducted a further nine such visits this year, and have focused to a greater extent on the critical area of the policies that guide the Agencies' operational work. We have continued to be impressed by the high quality, dedication and commitment of staff we have met, and by some excellent briefings we have received.

6. We made clear in our reports to you last year that generally we would concentrate on major issues rather than be drawn into every individual intelligence or security item of current excitement¹. Over the past year, we have, nevertheless, considered a number of other matters which are relevant to our remit. Two of these involved serious allegations. The first was that the facilities at Menwith Hill in Yorkshire were being used to circumvent British law. Secondly, there were allegations that the Security Service had been involved in surveillance of a recent meeting in the Palace of Westminster between MPs and members of Sinn Fein/IRA. **In both cases, we received from the Agencies categorical assurances, which we accepted, that the stories were without foundation. With respect to Menwith Hill, GCHQ told us that the Station, which we have visited, is not exempt in any way from UK law and that the substantial GCHQ presence there, of UK personnel present at all levels, ensures that British staff are fully aware of activities at the site and that none of these is contrary to UK law or British interests. In the case of the allegation about the Security Service, it was without foundation.**

Programme of work

Background

7. During the course of the year, we continued to work on our main inquiry into:

- *“how the Agencies have adapted in general to the new situations post-Cold War and, in particular, how tasks and the priorities attached to them have altered, and whether the resources now provided are appropriate to those tasks and used in a cost-effective way.”*

1. Cm 2873, May 1995, paragraph 9; Cm 3198, March 1996, paragraph 40.

8. At the same time, we pursued a number of other issues identified in our last Annual Report². These included:

- the scale and nature of the damage caused to British interests by the American traitor Aldrich Ames, and the application of the personnel and operational lessons learnt from this case across the Agencies;
- significant differences in the practical application across the Agencies of centrally issued guidelines on personnel security and vetting processes;
- the dissemination and uses made of the Agencies’ product by Government customers, in particular the briefing of intelligence and security information and procedures to Ministers and senior officials and the suitability of the present Ministerial structures for dealing with these matters;
- in respect of serious organised crime, the continuing and detailed debate on the Security Service’s role and integration with those already working in this field. The tasking of, and work done by, SIS and GCHQ in this respect;
- the extent to which there is a need for more focused and detailed tasking of the Agencies in the area of economic well-being;
- ***

- various questions on intelligence matters, in particular on burden-sharing and the protection afforded to intelligence product, with friendly countries in the wider international intelligence community.

Continuing Security Concerns

“There is only one thing worse than finding a spy in your organisation, and that is not finding a spy in your organisation”

– John Deutch, US Director of Central Intelligence, November 1996.

9. In our last Annual Report, we expressed serious concerns as to the exact nature and extent of the damage done to UK interests by Aldrich Ames, and drew attention to a whole series of personnel and operational security issues that had been thrown into sharp relief by the case³. Our stated concern that necessary lessons on the security aspects of the case should be learnt with the minimum of delay has since been reinforced by the arrest in the US this autumn of a further CIA officer, Harold Nicholson, on charges of espionage for the Russians.

2. Cm 3198, March 1996, paragraph 40.

3. Cm 3198, March 1996, paragraphs 32–33.

10. The damage that Ames did to US intelligence operations, and his direct responsibility for the deaths of CIA agents, is not in doubt. **On the evidence we have been given this year, it seems, however, that UK interests were not seriously damaged.** We understand that CIA have now provided our Agencies with a detailed read-out of the damage that Ames might have been in a position to do to our assets and agents, compiled by conducting a computer trawl through *** files which comprised operations and cultivations to which Ames might have had access. ***⁴. We have also been told that a thorough study by SIS and the Defence Intelligence Staff in the MOD has produced no grounds to believe that any SIS reports, to British or American customers, were likely to have had any significantly misleading effect and that, equally, there is no indication that British customers, at whatever level, were misled by US reporting⁵.

11. We criticised last year the lack of urgency with which these matters were being pursued on either side of the Atlantic⁶. **We now acknowledge that a considerable amount of information has since been made available to our Agencies. However, the damage assessment process is not a finite one, and CIA have warned our Agencies that, as they uncover more counter-intelligence information and debrief further defectors from the Russian intelligence services, new cases of potential, possible or definite compromise by Ames are likely to emerge in the coming months and years⁷. It is vital, therefore, particularly in the light of recent events in the US⁸, that the UK is kept fully informed of continuing work in this field.**

The Agencies' Internal Security Policies and Procedures

12. **We have always attached great importance to the internal security policies for the UK Agencies, and the recent American experiences are a most powerful reminder of the high priority that must be given to the operation of a range of effective security procedures.** We have focused our early inquiries in particular on personnel security and the vetting process, including:

- the relative importance, in personnel security, of an effective vetting regime; the vetting process itself, and other possible measures, such as the use of the polygraph;
- security advice provided by the Security Service and the Cabinet Office to other Government departments;
- the degree of co-ordination between the three Agencies on these issues, and the role played by the central machinery in the Cabinet Office;

4. Evidence from SIS, January, May and November 1996. Evidence from the Chief of SIS, November 1996.

5. Evidence from SIS, May 1996. Evidence from the Chief of SIS, November 1996.

6. Cm 3198, March 1996, paragraph 33.

7. Evidence from SIS, November 1996.

8. See paragraph 9.

- overall, whether, in the various protective measures they have adopted, the Agencies have struck a correct balance between an absolute necessity to protect their information and operations, and the recognised right to reasonable personal privacy.

13. We are absolutely persuaded of the importance of good security, and we will continue to give high priority to investigating and challenging the Agencies on their security procedures. We are particularly conscious of the fact that we are under continuing threat from the activities of the Russian intelligence services and others, as confirmed by the US experience. This threat exists in a climate when personal, financial or career problems can easily develop into security problems if not recognised and addressed at an early stage. Each of the Agencies gave us evidence of cases over the last few years where financial problems or chronic indebtedness had been the main reason behind the refusal or withdrawal of vetting clearance from contractors and, in some cases, serving members of staff⁹. Signs that individuals are greatly overspending their income, without any visible external means, should be of similar concern. The particular relevance of this is that money, rather than ideology, is the principal motivation of an increasing number of agents.

14. These problems, of course, will not necessarily be apparent at the time of entry into a Service, hence the continuing importance of effective application of security procedures, such as frequent and, at times, random vetting reviews, combined with the ready availability of advice and assistance from line managers and the counsellors that are now employed by all three Agencies.

15. We have also given some consideration to the Agencies' policies on the measures that might be taken in dealing with threats by disaffected staff to reveal sensitive national security information.

It is vital that the Agencies have in place contingency plans for the possibility of a worst-case scenario, *. It is also important for Ministers to be aware of the range of options that might be considered. We have not yet had a chance to establish how well equipped each Agency is in this respect.**

16. It is critically important to be sure that our defences are fully effective against all these threats. On the evidence we have taken, we believe that there are a number of areas where our defences are not as strong as they should be,

9. Evidence from SIS, November 1996. Evidence from the Chief of SIS, November 1996. Evidence from GCHQ, November 1996. Evidence from the Director of GCHQ, December 1996. Evidence from the Security Service, November 1996. Evidence from the Director-General of the Security Service, November 1996.

and we shall be looking at these in depth over the coming months. These include, for example, the investigation of individuals' finances as part of the vetting process, and the frequency and nature of the vetting reviews and of physical searches of staff entering and leaving Agency buildings. We shall be submitting detailed recommendations to you in due course.

The Agencies' Current Priorities and Future Plans

17. With our efforts focused on detailed inquiries into particular aspects of the Agencies' work, we also decided to invite each of the Agency Heads to make a presentation to the Committee on their performance over the past year, their current priorities, future plans and finance. Our intention was to ensure that we were kept fully informed by the Agencies on the full range of management and financial issues, and developments in the policies that guide operations, which fall properly within our statutory remit. The briefings duly took place in the autumn; **such future presentations should be a regular part of the Committee's annual work programme.**

18. We described last year the significant shifts of the Agencies' effort that followed the ending of the Cold War and the change in the balance of customers' intelligence requirements away from 'traditional' East-West concerns towards a more varied range of threats to, and opportunities for, British interests at home and abroad. During the course of the annual presentations, we were updated by each of the Agency Heads on their current and planned allocations of resources. **For SIS and GCHQ, these are not markedly changed from those described to us in May last year. In relation to work on Russia, for example, SIS will continue to devote about ***, and GCHQ about ***, of total operational effort. There are also some small scale increases planned for work on 'functional' topics such as counter-proliferation, terrorism and serious organised crime, and some re-allocations between geographical targets in line with changing customer requirements.**

***10

19. For the Security Service, the most obvious change has been a considerable increase in the resources devoted to work against Irish and domestic terrorism, from *** in 1995/96 to an estimated *** in 1996/97. There has been a corresponding decrease in the resources devoted to *** other threats ***¹¹. We examine below, in more detail, Security Service work in a number of areas, including against Irish terrorism¹².

10. Evidence from SIS, November 1996. Evidence from the Chief of SIS, November 1996.

Evidence from GCHQ, October 1996. Evidence from the Director of GCHQ, October 1996.

11. Evidence from the Security Service, October 1996. Evidence from the Director-General of the Security Service, November and December 1996.

12. See paragraphs 28-30.

Expenditure

20. We have been particularly concerned to ensure that each of the Agencies has access to adequate resources for the various tasks they are asked to undertake, and that those resources are being used in a cost-effective way. We therefore took a more specific look this year at the detail of the Agencies' individual budgets and expenditure patterns. In this, we were aided by senior staff from the National Audit Office, and we are grateful to the Chairman of the House of Commons Public Accounts Committee and the Comptroller and Auditor-General for their support.

21. The outturn total for 1994/95, the expected outturn for 1995/96, and the budgets for 1996/97–1999/2000, are shown in the table below. The figures for 1997/98–1999/2000 refer to the recent PES settlement, and were provided to us just prior to submission of this Report. **We have not yet had a chance to question the Agency Heads on these directly. In the course of the annual presentations¹³, however, we were fully briefed on the Agencies' future plans, and we have since been assured that the settlement has not caused any of them substantively to revise those plans¹⁴.**

	<i>All figures £m</i>			
	<i>SIS</i>	<i>GCHQ</i>	<i>Security Service</i>	<i>SIV Total^{15,16,17}</i>
1994/95	***	***	***	855
1995/96	***	***	***	782
1996/97	***	***	***	744
1997/98	***	***	***	701
1998/99	***	***	***	709
1999/2000	***	***	***	761

22. The above figures exclude the costs of the pension schemes run by SIS and the Security Service, but include 'exceptional' costs such as those in the earlier years associated with the moves of SIS and the Security Service into new headquarters buildings at Vauxhall Cross and Thames House respectively.

***^{18,19,20}

13. See paragraphs 17–19.

14. Evidence from the Cabinet Office, December 1996.

15. ***

16. GCHQ totals include the costs of CESG.

17. ***

18. See paragraphs 25–27.

19. ***

20. Report to the Prime Minister by the Intelligence and Security Committee: ***

23. In addition to overall expenditure patterns, a number of particular points attracted our attention:

- the funding arrangements for

- the increasing operational costs, in some areas, of running agents.

***^{21,22}

- the critical shortage of IT experts and project engineers at GCHQ, which is dependent for its future on the work of such staff. **The problem has been getting worse as industry increases its recruiting and high quality people are attracted away by substantial salary increases. GCHQ has recently embarked, therefore, on a programme of recruitment to attract around 40–50 of the highest calibre new graduates, and a similar number of those in mid-career — this from a very small national pool of such highly qualified individuals. In order to succeed in this recruitment drive, GCHQ, which has been paying *** below the market rate, has concluded that it will need to be able to offer *** more than the previous pay maxima. These costs will have to be met from within existing budgets²³;**
- for all three of the Agencies, **continuing manpower reductions and reassignments²⁴, and the management challenges that these present.** GCHQ, for example, has reduced from *** staff in 1992 to *** now, with plans for *** by 1999; SIS has reduced from *** in 1990 to *** now, with plans for *** by 1999; and the Security Service is reducing from *** staff in 1994 to *** by 1999.

24. **We have considered the expenditure figures and taken evidence on them. We have no alterations to recommend, at this stage, to the present expenditure profiles.**

21. *Evidence from the Chief of SIS, November 1996. Evidence from SIS, November 1996.*

22. *Evidence from the Security Service, November 1996. Evidence from the Director-General of the Security Service, November 1996*

23. *Evidence from GCHQ, November 1996. Evidence from the Director of GCHQ, October 1996.*

24. *Evidence from the Chief of SIS, November 1996. Evidence from the Director of GCHQ, October 1996. Evidence from GCHQ, November 1996. Evidence from the Director-General of the Security Service, November 1996.*

* * * ²⁵

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***²⁷

Irish Terrorism

28. In May last year, the Director-General of the Security Service told us that monitoring Irish terrorist groups and their supporters in support of the Government's conduct of the peace process was the Service's biggest single commitment of resources. Whilst the cease-fires held, there was ample evidence of continuing terrorist activity and planning, short of actual attacks. The capability to resort to the military option remained very much intact, and there was a strong likelihood that any resumption of IRA violence would be marked by high profile attacks on the mainland²⁸.

29. Following just such an attack at the start of this year, we took further detailed evidence from the Director-General on the Service's work in this area, and were briefed on the background to its involvement, the policies guiding its operations and its own assessment of intelligence successes and failures. We were told that the lengthy cessation of violence had allowed for some re-deployment of valuable resources onto other terrorist targets. **We were assured, however, that this had not adversely affected continuing work against the Irish terrorist threat²⁹.** The Service was not able to predict the precise moment or target for the resumption of violence. **Complete success, however, can never be guaranteed in this area, and overall we are satisfied that the Service continues to devote an appropriate level of resources to the task; to enjoy some significant successes based on painstaking intelligence**

25. *Report to the Prime Minister by the Intelligence and Security Committee:* ***

26. ***

27. ***

28. *Evidence from the Director-General of the Security Service, May 1995.*

29. *Evidence from the Director-General of the Security Service, February 1996.*

work, and to provide what was described to us, by senior police officers, as outstanding co-operation with, and support for, the police. We were particularly encouraged by these comments on an operational relationship about which there have been reports of tensions and anxieties.

30. With the resumption of terrorist attacks, the arrangements under which the Security Service has the lead responsibility for intelligence work against Republican terrorism on the British mainland have been tested. On the evidence we have been given, the current arrangements are working well, in very difficult circumstances, and we stand by our previous judgement that they should be maintained.

Economic Well-Being

31. In the Autumn, we made a special report to you on the Agencies' work 'in the interests of the economic well-being of the UK', and on some of the uses to which such intelligence is put³⁰. We took evidence from the Heads of the Agencies, their staff and officials from relevant Government departments³¹. From the evidence we were given, it is clear that, in accord with their respective statutory remits and in response to JIC requirements, SIS and GCHQ produce economic intelligence which is valued by Government customers. The Security Service works both to counter the real and continuing threat to UK economic interests, and to provide protective security advice and assistance to Government and direct to industry.

32.

33.

34. We reviewed the subject with both the intelligence producers and consumers, and came to the overall conclusion that intelligence work in support of economic well-being is an important, valuable and, on the evidence we have taken, properly conducted area of the Agencies' activities.

³⁰ Report to the Prime Minister by the Intelligence and Security Committee, November 1996.

³¹ Evidence from the Chief of SIS, June 1996. Evidence from the Director of GCHQ, May 1996. Evidence from the Director-General of the Security Service, July 1996. Evidence from the MOD, May 1996. Evidence from the DTI, June 1996. Evidence from the FCO, May 1996.

Serious Organised Crime

35. Last year, we reviewed the decision to bring the Security Service into work against serious organised crime³². We noted that the other two Agencies were already working in this area, in support of UK and Dependent Territories' law enforcement organisations, as indeed was the Security Service in respect of crime that had significance for national security or which might threaten the economic well-being of the State. We concluded that the Service could bring a distinct package of skills to the new work, but that there were certain key aspects — relating to the tasking, command, integration and accountability of the Service — that had not yet fully been resolved, and needed to be addressed in the context of legislation to amend the Service's statutory remit.

36. In this regard, the Security Service Act 1996, passed earlier this year by Parliament, makes clear that the Service will act in support of the activities of police forces and other law enforcement organisations in the prevention and detection of serious crime. Under the Act, the Director-General of the Service must ensure that there are arrangements, agreed, in effect, with the Director-General of the National Criminal Intelligence Service (NCIS), for co-ordinating the activities of the Service with those of police forces and other law enforcement organisations³³. Further, we note that legislation currently before Parliament — the Police Bill — introduces a statutory system of authorisation by senior police officers for certain acts of interference with property parallel to, but different from, that referred to in our last Annual Report. That same legislation also puts NCIS, and arrangements for a new national squad to take on serious organised crime, on a statutory footing. **We will continue to follow these developments with particular interest.**

37. A copy of the new arrangements for operational co-ordination between the Security Service and the law enforcement organisations is at Appendix 2 to this Report. **These will need some time to take full effect as the Security Service Act only came into force in mid-October, and we have not yet taken detailed evidence on the subject. We have, nevertheless, been told by the Director-General of the Service that the law enforcement organisations are already being provided with the support envisaged in the Act, and that discussions on a number of cases are well advanced. Service resources available for this work are, however, likely to remain relatively small (currently *** staff) in the light of other continuing commitments to work against terrorism, espionage, proliferation and subversion³⁴.**

32. Cm 3065, December 1995. Cm 3198, March 1996.

33. See paragraph 37, and Appendix 2.

34. Evidence from the Security Service, October 1996. Evidence from the Director-General of the Security Service, December 1996.

Other matters

Dissemination and Uses of Intelligence: the Scott Report

38. In the *Report of the Inquiry into the Export of Defence Equipment and Dual-Use Goods to Iraq and Related Prosecutions* (Return to an Address, 15 February 1996) the Vice-Chancellor the Rt. Hon. Sir Richard Scott stated that “the review ... [had] disclosed a failure on a number of occasions for proper use to be made of available intelligence”. We therefore decided, earlier this year, to examine further policies and practices on the handling, dissemination and use of intelligence, in order to ascertain the response across Government to *the Report’s* recommendations in this area. We took oral evidence from the Heads of the Agencies and their staff, the UK Intelligence Co-ordinator, and officials from the Department of Trade and Industry (DTI)³⁵. We were also provided with detailed written submissions from the Cabinet Office summarising the Government’s response, that of the Agencies and their major departmental customers, to Sir Richard Scott’s observations³⁶. As summarised in Chapter 7 of Section K of *the Report*, these included that:

- there were a number of areas where intelligence reports did not get to all the appropriate readers;
- each departmental customer should regularly review its declared intelligence requirements and question whether it was receiving all relevant reports;
- systems should be devised so as to enable access to relevant historical intelligence information to avoid relying on memory and to ensure the adequacy of ‘hand-over’ briefings; staff should be suitably cleared to read relevant intelligence material;
- it should not be possible for submissions to Ministers to attribute to an intelligence Agency views or opinions which that Agency did not hold and might subsequently repudiate.

39. We were also provided with a further unpublished recommendation made to the Government,

***³⁷

35. Evidence from the Chief of SIS, May 1996. Evidence from the Director of GCHQ, April 1996. Evidence from the Director-General of the Security Service, May 1996. Evidence from the Intelligence Co-ordinator, July 1996. Evidence from the DTI, July 1996.

36. Evidence from the Cabinet Office, March and May 1996.

37. Evidence from the Cabinet Office, February 1996.

The Government's Response to the Report

40. The Agencies and their Whitehall customers alike told us that they accepted the shortcomings identified by *the Report*, and outlined in evidence the steps that they had taken to rectify deficiencies highlighted by Sir Richard Scott, including those in respect of his unpublished recommendation. We were given evidence also of several major developments since the period under review by the Inquiry that had particular relevance to Sir Richard Scott's findings, not least those in the field of Information Technology (IT). Each of the Agencies emphasised to us the increasing use of new IT to improve 'in-house' production of intelligence reports, and the timeliness and accuracy of their distribution. There are also now limited electronic connections between the Agencies, the MOD and the DTI, and these are set to increase and cover other departments. The MOD and the FCO, the larger intelligence customers, are developing and will run their own parts of this system, the 'UK Intelligence Messaging Network'. Others are expected to make use, from towards the end of this year, of terminals which will allow them to receive, store and retrieve intelligence using a secure data-base.

41. Of a number of reviews of intelligence and security business conducted over the past few years, two are of particular note: the 1993 Cabinet Office-led *Review of Protective Security*, and Sir Michael Quinlan's 1994 *Review of Intelligence Requirements and Resources*. The first of these led to a rationalisation of security procedures across Government, and, for example, made it easier to disseminate intelligence more widely and removed anomalies relating to staff security clearances. The second, the Quinlan Review, brought about a number of changes to the national requirements-setting processes — including the introduction of more face-to-face meetings between intelligence 'providers' and their customers — and introduced formally an annual performance-monitoring exercise in which customers review the Agencies' successes and failures in meeting previously agreed requirements.

42. Agencies and customers alike, however, also stressed to us the continuing importance of other feedback and dialogue at all levels that takes place from day-to-day throughout the year. For GCHQ, for example, the particular problem of geographical separation from their principal customers has been addressed in part by the establishment of a senior level customer relations post in London, and by an expansion in the numbers of liaison officers to work with customer departments and encourage direct working-level links between desk officers in Whitehall and their counterparts in Cheltenham.

Dissemination of Intelligence

43. The primary responsibility for intelligence distribution remains with the originating Agency. Strengthened dialogue, however, encourages customers for their part to check the distribution of individual reports and recommend wider

circulation where appropriate. SIS and GCHQ also produce summaries of intelligence covering likely areas of interest to selected customers in an attempt to ensure that particularly pertinent reports are not overlooked³⁸.

44. With respect to the briefing of Ministers, Sir Richard Scott made a number of recommendations on procedures that might be followed to ensure that Agency views or opinions incorporated in departmental submissions to Ministers would not be misrepresented. Departmental practices in this respect vary considerably. We have, however, been told, for example, that instructions are to be circulated within the FCO that submissions should always be cleared with the Agencies through the designated FCO channels prior to submission, and that copies of finalised documents quoting Agency views should be sent through those same channels, thus enabling any mistakes to be identified quickly³⁹.

Findings

45. Getting intelligence to those Government customers who need to see it, in a timely and secure fashion, will present a continuing challenge for the Agencies, and there can be no guaranteed solutions to some of the problems identified by Sir Richard Scott in this respect. We note above a number of actions already taken by Government. We have also discussed the one unpublished recommendation made to Government, and have been assured by witnesses that acceptable procedures are now in place.

46. Better links between producer and consumer, at all levels, are being introduced and these should be vigorously pursued, as should improvements to electronic and other distribution systems. Departments with clear intelligence interests must participate fully in the central requirements-setting processes. The Agencies should be proactive with customers to ensure that intelligence needs, as well as practical constraints on collection, are fully understood, and that the significance of the intelligence provided in response to those needs is clear. This is particularly important in respect of departments who may have relatively limited numbers of staff with the expertise to handle intelligence assessments. At the most senior levels, there remains a particular responsibility on the Heads of the Agencies and senior departmental officials to keep Ministers fully and promptly briefed on relevant intelligence and security issues.

Oversight in Other Countries

47. Following our visits to the US and Canada last year, this year we visited Australia and New Zealand, this country's other principal intelligence allies. We also visited Germany and France, with whom we have a close intelligence relationship. The purpose of these visits was to discuss the UK Agencies' liaisons and working relationships with the intelligence and security services in those

38. Evidence from the Cabinet Office, May 1996.

39. Evidence from the Cabinet Office, May 1996.

countries, and to learn something of the structures of the intelligence communities and differing systems of oversight that have evolved to oversee the activities of those communities. In each country we visited, there are significant differences from the methods and powers of oversight here. Our findings are set out below, and a list of those we met is at Appendix 3 to this Report.

48. In addition to Ministerial, and officials', responsibilities for the intelligence and security services, Australia has a long-established Parliamentary Joint Committee to oversee ASIO, the internal security service. The Committee is tasked by the Attorney-General, however, and has no power formally to initiate investigations of its own. Legislation is to be brought forward to place ASIS, the foreign intelligence service, on a statutory footing, and to provide for oversight of that service. The Australian government is currently considering whether to have a separate Parliamentary committee, or to combine the two services under the single committee.

49. In New Zealand, Parliament passed legislation in the Summer setting up a new system of oversight. A committee of five Parliamentarians, with the Prime Minister as its Chairman and including the Leader of the Opposition, will oversee NZSIS, the combined security and intelligence service, and GCSB, the signals organisation. **This is an approach which is completely different from that of the UK, as it would appear to combine the executive and the legislature in an intelligence oversight body.** There will also be, as there is already in Australia, an Inspector-General of Intelligence and Security, whose role will be similar to that of the Commissioner and Tribunal here, that is to investigate complaints about the activities of the services, and to ensure that they act legally and with propriety.

50. **The German and French systems represent, in many ways, opposite ends of the oversight spectrum. In Germany, history has had a lasting impact on the roles of the services and on the development of complex systems of oversight. It was clear to us that experience of the Gestapo and, more recently, the East German secret police, the Stasi, had led to determination to avoid the development of over powerful intelligence and security bodies, and to a distrust of intelligence activities.** There are two principal Parliamentary oversight bodies: the Parliamentary Control Commission, and an Intelligence Budgetary Sub-Committee. There is a further Parliamentary committee to oversee the law on the interception of mail and communications. The former committee meets approximately monthly in closed session and tends to communicate members' views on particular issues direct to the relevant Minister, rather than focusing recommendations in reports to Parliament. The budgetary sub-committee has a more formal role to examine and approve the services' budgets once a year, and to make recommendations to the full budgetary committee of Parliament. In

addition, each of the regional security services has its own separate oversight body. In federal government, one Minister has overall responsibility to the Federal Chancellor for the co-ordination of the intelligence and security effort, though the security service is, for example, formally under the management of the Interior Ministry.

51. **France, by comparison, does not have a parliamentary intelligence oversight committee, although there are informal contacts. Government Ministers have responsibilities for the various intelligence services, and there are several co-ordinating bodies on intelligence and security.**

52. We were also pleased to receive officials and Parliamentarians interested in the field of oversight from a number of other countries, including South Africa, Poland, the Czech Republic and Slovakia. The former two have recently set up Parliamentary oversight committees along Canadian and US lines respectively (as described in our last Annual Report⁴⁰), and we discussed with them our respective procedures and the development of relations with the services being overseen. The Czechs and, to a lesser extent, the Slovaks were keen to discuss developing government and Parliamentary oversight structures for their newly avowed and restructured intelligence and security services.

Conclusions and Recommendations

53. On the basis of the evidence we have taken this year, we conclude that:

- A. There is clear evidence, not least from recent instances in the United States, of the continuing security threat from the Russians and others. It is, therefore, critically important to be sure that the Agencies' personnel and operational security measures are fully effective. We are concerned as to whether our defences are as strong as they should be. We will be looking at these in depth over the coming months, and will submit detailed recommendations to you. (Paragraphs 12–16)
- B. We have been assured by the Heads of the Agencies that Aldrich Ames was not able to do serious damage to UK interests. However, we note that the damage assessment process is not a finite one. The CIA, we are told, has warned our Agencies that new cases of potential, possible or definite compromise by Ames are likely to emerge in the future. (Paragraphs 9–11)

⁴⁰ Cm 3198, March 1996.

C. The Agencies' overall allocations of resources are not markedly changed from those described to us last year. SIS continues to devote about ***, and GCHQ about ***, of total operational effort to work on Russia. Small scale increases are planned for work on 'functional' topics, as are some re-allocations between geographical targets in line with changing customer requirements. (Paragraph 18)

D. ***

(Paragraph 18)

E. With regard to Security Service work against Irish terrorism (paragraphs 19 & 28–30):

i. the cease-fires in Northern Ireland allowed for some re-deployment of valuable Security Service resources onto other terrorist targets. We were assured that this did not adversely affect continuing work against the Irish terrorist threat. Following the resumption of terrorist attacks early in the Year, the Service has significantly increased resources devoted to this area of work;

ii. the arrangements under which the Security Service has the lead responsibility for intelligence work against Republican terrorism on the British mainland have again been tested. Whilst the nature of terrorism, as events this year have shown, is such that complete success cannot be guaranteed, the Service has had some significant successes. The current arrangements are working well, in very difficult circumstances, and we stand by our previous judgement that they should be maintained.

F. We considered the Agencies' expenditure figures and took evidence on them. We have no alterations to recommend, at this stage, to the present expenditure profiles. (Paragraphs 21–24)

G. ***

(Paragraphs 25–27)

- H. Intelligence work in support of economic well-being is an important, valuable and, on the evidence we have taken, properly conducted area of the Agencies' activities.

(Paragraphs 31–34)

- I. New arrangements, under the Security Service Act 1996, for the Security Service to work in support of the law enforcement organisations against serious organised crime will need some time to take full effect. We have, nevertheless, been told that the Service is already providing the support envisaged in the Act, and that discussions on a number of cases are well advanced. (Paragraphs 35–37)
- J. With regard to the recommendations of this year's Scott Report into the *Export of Defence Equipment and Dual-Use Goods to Iraq and Related Prosecutions* (paragraphs 38–46):
 - i. getting intelligence to those Government customers who need to see it, in a timely and secure fashion, will present a continuing challenge for the Agencies;
 - ii. we note a number of actions already taken by Government to rectify deficiencies identified by Sir Richard Scott;
 - iii. better links between intelligence producers and consumers are being introduced and should be vigorously pursued, as should improvements to electronic and other distribution systems. Departments with clear intelligence interests must participate fully in the central requirements-setting processes. The Agencies should be proactive with customers to ensure that intelligence needs, as well as practical constraints on collection, are fully understood, and that the significance of the intelligence provided in response to those needs is clear;
 - iv. at the most senior levels, there remains a particular responsibility on the Heads of the Agencies and senior departmental officials to keep Ministers fully and promptly briefed on relevant intelligence and security issues.

Future programme of work

54. For the remainder of this Parliament, we shall look particularly at:

- the Agencies' internal security policies and procedures, specifically the ways in which our current security defences can be further strengthened;
- ***

- in respect of serious organised crime, arrangements for co-ordination between the Security Service and the law enforcement organisations, and the extent to which new statutory arrangements for NCIS and a national crime squad enable all three Agencies to pursue their supporting roles effectively.

Signed TOM KING
Chairman, on behalf of the
Intelligence and Security Committee

18 December 1996

THOSE WHO HAVE GIVEN ORAL EVIDENCE

OFFICIALS

CABINET OFFICE

Sir Robin Butler, Mr John Alpass and senior officials.

MINISTRY OF DEFENCE

Lt. Gen Sir John Foley and senior officials.

FOREIGN AND COMMONWEALTH OFFICE

Senior officials.

GCHQ

Sir John Adye, Mr David Omand and senior officials.

SECURITY SERVICE

Mr Stephen Lander, Dame Stella Rimington and senior officials.

SIS

Sir David Spedding and senior officials.

TRADE AND INDUSTRY

Senior officials.

OTHERS

Names of some individuals have been omitted for security reasons.

APPENDIX 2

ARRANGEMENTS FOR CO-ORDINATING THE ACTIVITIES OF THE SECURITY SERVICE WITH THOSE OF POLICE FORCES AND OTHER LAW ENFORCEMENT AGENCIES

The purpose of this document is to set out the arrangements for co-ordinating the activities of the Security Service in pursuance of its function to act in support of the activities of police forces and other law enforcement agencies in the prevention and detection of serious crime, as required by Section 1(2) of the Security Service Act 1996.

These arrangements apply only to the Service's work on the prevention and detection of serious crime and not to the Service's other responsibilities under the Security Service Act 1989. They are agreed between the Director General of the Security Service and the Director General of the National Criminal Intelligence Service (NCIS).

Part 1: Underlying Principles

1.1 Security Service work against serious crime will be undertaken in accordance with the following principles:

- a. Primacy of responsibility for combating serious crime lies and remains with the Police Service and other law enforcement agencies;
- b. the Security Service will be tasked by or through NCIS and relevant co-ordinating groups and will act in support of NCIS, Chief Officers of Police, Regional Crime Squads and other law enforcement agencies. The Scottish Criminal Intelligence Office will act in consultation with NCIS as a focal point for Scottish Forces and the Scottish Crime Squad in tasking the Security Service in respect of Scottish cases;
- c. the Security Service's contribution will be co-ordinated through NCIS and existing structures;
- d. the Security Service will not operate independently;
- e. the Security Service will conduct its operations drawing on its full range of skills, capabilities and expertise as it judges appropriate; and
- f. the costs of the Security Service's contribution will be borne by the Security Service.

1.2 The Security Service will ensure that NCIS is aware of any aspects of its work in other fields which relate to NCIS's serious crime interests.

1.3 The Security Service will co-ordinate with NCIS any action arising out of joint project work which involves operational co-operation with other organisations, including overseas. Security Service co-operation with foreign agencies on serious crime matters will not undermine or cut across existing relationships conducted by UK law enforcement and intelligence agencies.

1.4 The Director General is responsible for the operations of the Security Service and will retain, at all times, control of and responsibility for Security Service staff and other assets involved in supporting a law enforcement agency. Operational control will include all operational security matters and all the requirements imposed by or under the Interception of Communications Act 1985, the Security Service Act 1989 and the Intelligence Services Act 1994.

1.5 The Security Service, in its support work of any law enforcement agency on serious crime, will reach agreement with the agency concerned about requirements for evidence.

Part 2: Guidelines on Co-ordination

A. Operational Co-ordination: Police Service and NCIS

2.1 Three forms of tasking are envisaged:

- a. NCIS tasking the Security Service to develop intelligence on a particular area of serious crime or a nominated criminal.
- b. tasking to the Security Service from a co-ordinating body to contribute to existing projects.
- c. tasking proposals from Chief Officers of Police and Regional Crime squads submitted through NCIS to the Security Service. NCIS will provide for the Security Service an assessment of such proposals.

2.2 Tasking of the Security Service will be through its serious crime section. The exchange of intelligence between the Security Service and NCIS will, in normal circumstances, only be through that Section and the Special Liaison Unit at NCIS. The Security Service will normally disseminate intelligence in a report format.

2.3 The authority to seek support from the Security Service within the Police Service and NCIS will be vested in an officer of ACPO rank. A lead officer will be nominated for each investigation, who will be the principal point of contact and have responsibility.

2.4 The support to be provided by the Security Service will be discussed and agreed with the lead police officer, and where necessary the relevant Chief Officer of Police.

2.5 All warrants for interception or for interference with property sought by the Security Service in support of the police against serious crime must have the support of the relevant Chief Officer of Police, DG/NCIS or their representatives, and that support must be recorded in the application from the Service to the Secretary of State.

2.6 Where the Security Service has been tasked by the Police Service or NCIS, it will report to the lead police officer all intelligence relevant to the serious crime investigation.

B. Operational Co-ordination: Other Law Enforcement Agencies

2.7 To allow the Director General of NCIS to exercise a co-ordinating role, the Security Service will expect non-Police Service law enforcement agencies who task the Security Service direct to keep NCIS informed of the tasking. Where the Security Service is acting in support of an agency other than NCIS, briefing of NCIS will be the responsibility of the law enforcement agency initiating the tasking.

2.8 The Security Service will be responsible for briefing NCIS if it is providing support for a foreign security or intelligence service on a serious crime target.

2.9 All intelligence reports relating to serious crime produced by the Security Service and sent to other law enforcement agencies will be copied to NCIS.

2.10 All procedures concerning the Security Service's work on serious crime agreed with other law enforcement agencies will take account of NCIS's co-ordinating role.

Part 3: Review

3.1 The two Directors General will review these arrangements one year after the commencement of the Security Service Act 1996 in order to assess their effectiveness.

2 October 1996

**THOSE MET DURING THE COMMITTEE'S WORKING
TRIP TO AUSTRALIA AND NEW ZEALAND
16–25 JUNE 1996**

AUSTRALIA

MINISTERS

The Hon. Tim Fischer, MP, Deputy Prime Minister

The Hon. Alexander Downer, MP, Minister for Foreign Affairs

INTELLIGENCE AND SECURITY AGENCIES

ASIO — Mr David Sadleir (Director-General) and senior staff

ASIS — Mr Rex Stevenson (Director-General) and senior staff

DIO — Dr Doug Kean (Acting Director)

DSD — Mr Martin Brady (Director) and senior staff

ONA — Mr David Reese (Acting Director-General) and other
senior staff

INSPECTOR-GENERAL OF INTELLIGENCE AND SECURITY

Mr Ron McLeod and senior staff

JOINT PARLIAMENTARY COMMITTEE ON ASIO

Senator David MacGibbon (Chairman), other members and staffers

PARLIAMENTARIANS

The Hon. Michael Beahan, President of the Senate

The Hon. Kim Beazley, MP, Leader of the Opposition

The Hon. Bob Halverson, MP, Speaker of the House of Representatives

OTHERS

Mr Max Moore-Wilton, Secretary, Department of the Prime Minister and Cabinet,
and other members of the *Secretaries' Committee on National Security*

Mr Anthony Ayers, AC, Secretary, Department of Defence

Mr Stephen Skehill, Secretary, Attorney-General's Department

Vice Admiral Robert Walls, Acting Chief Australian Defence Force

Mr Jim Allen, Acting Commissioner, Australian Federal Police

Mr Greg Mellick, Acting Chairman, National Crime Authority

NEW ZEALAND

MINISTERS

The Rt. Hon. Jim Bolger, MP, Prime Minister

INTELLIGENCE AND SECURITY AGENCIES

DDI — Gp. Capt. Bill Barnes (Director) and senior staff

EAB — Mr John McKinnon (Director) and senior staff

GCSB — Mr Ray Parker (Director) and senior staff

NZSIS — Lt. Gen (Rtd) Don McIver (Director) and senior staff

PARLIAMENTARIANS

The Rt. Hon. Helen Clark, MP, Leader of the Opposition

The Hon. Dr. Peter Tapsell, MP, Speaker of the House

OTHERS

Mr Simon Murdoch, Chairman, and other members of the *Officials' Committee for Domestic and External Security Co-ordination*

Mr Richard MacDonald, Commissioner of Police

THOSE MET DURING THE COMMITTEE'S WORKING TRIP TO GERMANY AND FRANCE 4-8 MARCH 1996

GERMANY

MINISTERS

State Secretary Bernd Schmidbauer, Head of Kanzleramt

State Secretary Prof. Dr Kurt Schelter, Innenministerium

INTELLIGENCE AND SECURITY AGENCIES

BfV — Dr Hansjorg Geiger (President) and senior staff

BND — Mr Konrad Porzner (President) and senior staff

PARLIAMENTARY CONTROL COMMISSION

Acting Chairman and members

INTELLIGENCE BUDGETARY SUB-COMMITTEE

Dr Erich Reidl (Chairman) and other members

FRANCE

MINISTERS

Interior Minister Jean Debre and senior officials including representatives of DGSE, DST, Military Intelligence, RG, SGDN, Military Security and the Police.

18 December 1996

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