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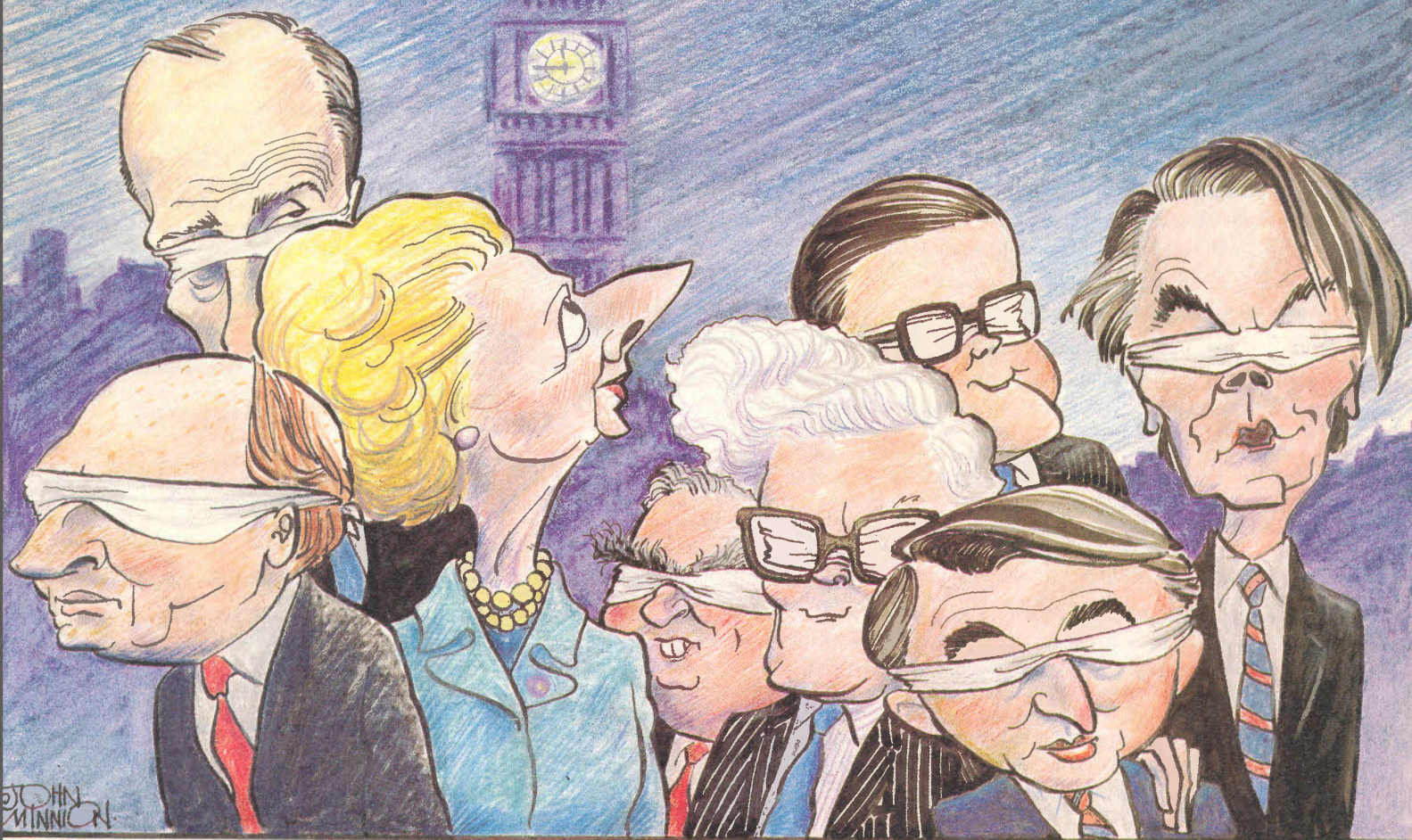
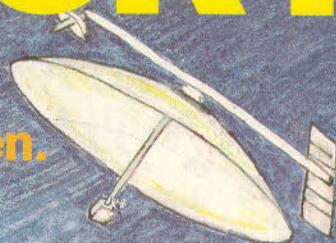
# STATESMAN

THE CITY HAS  
SERIOUSLY  
DAMAGED ITS  
HEALTH

Kellner on the politics of city scandals ●  
Arming for survival ● Ars longa, Buchan brevis ●  
Labour must be fashionable ● Irving Penn ● Tarkovsky

## SPY IN THE SKY

Britain is soon to launch a £500m spy satellite.  
Parliament has not been told. It should have been.





# The parliamentary bypass operation

*This is the story of a scandal. The government has failed to account to Parliament for expenditure of half a billion pounds on a secret 'spy' satellite, due to be positioned over the Soviet Union. In doing so, it has flagrantly breached a solemn promise to inform Parliament, through its public Accounts Committee, of all major defence expenditure. This was to be the subject of the first programme in a forthcoming BBC2 series Secret Society, written and presented by New Statesman writer DUNCAN CAMPBELL. Last Thursday, BBC director general Alasdair Milne banned the programme. Here, for the first time, Campbell is able to tell the story of official deceit. (Additional research by Jolyon Jenkins and Patrick Forbes)*

PROJECT ZIRCON is the secret codename for Britain's first ever spy satellite. Zircon, originally planned to be launched in 1988, will be a 'signals intelligence' (Sigint) satellite — an electronic listening post in space, able to eavesdrop on Soviet, European and Middle Eastern communications and beam them back to GCHQ, the government monitoring centre at Cheltenham.

Its real utility remains doubtful: but there is no doubt as to the status it is deemed to confer on the government. One former defence chief told me that its launch is a matter of 'macho politics' — of keeping up with the Americans.

The satellite's existence and huge cost has, till now, remained completely secret from Parliament — despite a solemn undertaking in 1982 that, after both Labour and Conservative governments had deceived MPs about £1 billion secretly spent on modernising Polaris nuclear warheads — the Chevaline programme — the Commons' Public Accounts Committee would always receive advance information about expenditure on major defence projects.

Four senior defence officials and one former member of GCHQ last year gave me off-the-record details of the satellite plan. It has been one of Whitehall's most closely guarded secrets for the past five years. But the need to make extra defence cuts to accommodate it has meant that rather more civil servants know about Zircon than intelligence chiefs would have preferred.

Normally, intelligence projects like Zircon would be paid for by the intelligence budget, now nearly £1 billion a year. About half of this goes to GCHQ, much of it 'laundered' by being misleadingly presented to Parliament as expenditure on such diverse but innocuous items as 'RAF electronics' or 'Army barracks services'. But with Zircon costing an entire year's budget for the whole of GCHQ, it was decided in 1983 that it had to be funded directly inside the real defence budget. As a result, Defence Secretary Michael Heseltine had to agree the project at a time when normal defence expenditure was already being cut to meet the costs of the Trident programme. The project was also approved by the top level

Permanent Secretaries' Committee on the Intelligence Services (PSIS), and would have then been passed to the Prime Minister.

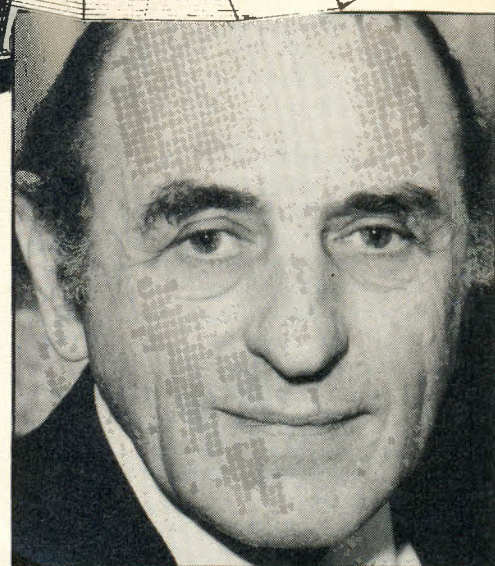
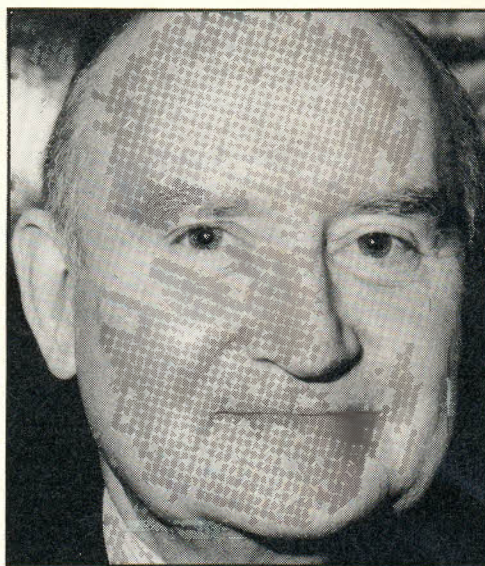
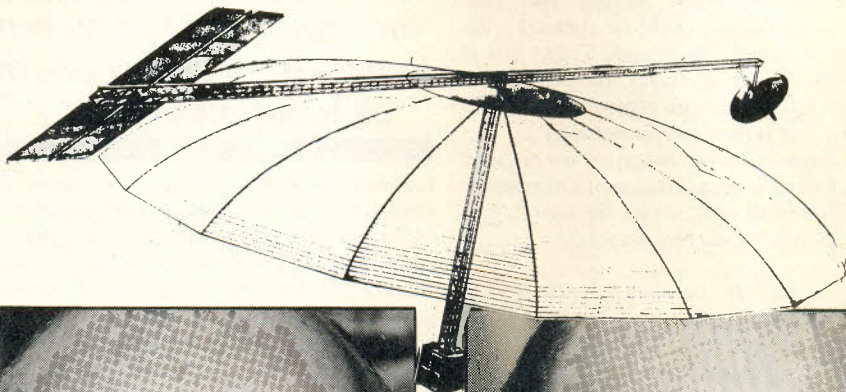
The agreement with Parliament undermined by the continuing secrecy of Zircon is known as the Major Projects Statement, an annual and confidential list of defence projects sent to the Parliamentary Public Accounts Committee (PAC). Only six months ago, the PAC — chaired

by Labour MP Robert Sheldon — reported to Parliament that they wished to 'reaffirm the importance' they attached to the statement 'as a means of keeping Parliament reliably informed about the costs and progress of major Defence projects'.

At the time the agreement was made in 1982, Sheldon's predecessor as chair of the PAC, Lord Barnett, wrote that 'full accountability to Parliament in future is imperative'. Yet within a year, the government was breaking that agreement by secretly developing Zircon.

Lord Barnett, ironically, is now the Deputy Chairman of the BBC. The man who made the agreement with Barnett was Sir Frank Cooper — then the Ministry of Defence Permanent Secretary, but now a late convert to campaigning for Freedom of Information and better government accountability.

Robert Sheldon and his Committee should have been informed about the project as soon as approval was given. But last October, Sheldon told me during an interview that he'd never heard of Zircon. It wasn't included in the Defence Ministry's Major Project Statement to his



Top, artist's impression of a Sigint satellite; no photographs have ever been released. Left: Sir Frank Cooper, former Permanent Under-Secretary of the Defence Ministry. Right: Robert Sheldon, who chairs the Public Accounts Committee. In the banned programme, they speak of a 'clear', 'firm', and 'honourable' agreement between Parliament and the Ministry





# SBAC NEWS

The new satellite, to be launched in 1988, will be positioned as part of the growing 'constellation' of United Kingdom military communications satellites.

## NEWS RELEASE

The new satellite is due to be launched in 1988 and be positioned 53°E as part of the growing 'constellation' of United Kingdom military communications satellites.



Before and after; the Ministry of Defence hastily ordered one of the Zircon contractors to amend a press release which mistakenly gave away the secret position of the new satellite. Above, the 'cover-up'; below, what it originally said

committee. He added that if, on investigation, he found that Zircon had been deliberately concealed from him it would be 'a most serious matter . . . a matter to which I would give very serious consideration indeed, in view of the assurances that we've been given in the past'.

According to another former MoD official concerned with defence budgeting, the Zircon project had indeed caused defence civil servants considerable anxiety because of the promises to the PAC. It was therefore proposed that a senior ministry official have 'a word in the ear' of the Comptroller and Auditor General, Sir Gordon Downey, who is supposed to investigate government departments on behalf of the PAC. Sir Gordon, it was proposed, should be told that the security considerations surrounding Zircon were so exceptional that details of the project should be suppressed. This week Sir Gordon admitted he had been informed when the project began. But he didn't tell Robert Sheldon until after Sheldon had first learned of the project during the BBC interview.

Neither Mr Sheldon nor his predecessor Lord Barnett are in any doubt that the agreement between the Defence Ministry and the Public Accounts Committee has no exceptions or loopholes of any kind. This particularly applies to arguments about national security or 'sensitive' projects, since this was the very argument used the last time to justify misleading Parliament about Chevaline, the Polaris modernisation programme.

According to Sir Frank Cooper, GCHQ first asked for a satellite in the early 1970s. But the government of the day turned them down. It took a decade before approval was, finally, given — in the summer of 1983. According to two independent Defence Ministry sources, the Zircon project will cost about £400-£500 million. One said that it would cost 'about five per cent of the cost of the Trident programme'.

Sir Frank told me in a filmed interview that the new GCHQ satellite was a matter of 'macho politics'. Britain's international standing, he explained, was essentially based on trying to stand

beside the Americans and maintain a special relationship on intelligence and nuclear policy. The intelligence link, now dominated by signals intelligence ('sigint'), was critical — and to keep up with the Americans in this area, Britain's sigint organisation, GCHQ Cheltenham, badly wanted its own spy satellite.

The satellite would, he said, 'give us a standing in our relations particularly with the United States and . . . our European allies.' It would 'give us a national capability . . . so we knew what was

going on in an independent way.'

Sir Ronald Mason, who was Defence Chief Scientific Adviser from 1977 to 1983, also told me that he regarded sigint satellites as vital. But, at present, Britain effectively depended entirely on the United States for strategic intelligence. 'The dependence is total,' he explained.

I asked Sir Ronald what difference the Zircon satellite would make to the situation for Britain and NATO. His mouth fell open for several seconds. Then he replied carefully: 'I can't talk to you about that, I'm afraid'. He was sorry, but everything about Zircon was classified. He was 'flabbergasted' that the name had been mentioned:

I just can't talk about it. I didn't know that was out . . . you surprised me.

### The BBC's 'national security' ban

The BBC announced last week that five of six *Secret Society* programmes, written and presented by Duncan Campbell, will be transmitted on BBC-2 from late March onwards. But the first programme in the series, about the Zircon satellite project and the breach of parliamentary accountability involved, is not to be shown. The Corporation officially stated that:

The series was referred to the Director-General as Editor-in-Chief and five programmes will be transmitted. The sixth will not. The Director-General was advised that its transmission would be against national security.

The BBC would not say who had given advice to the Director-General about the Zircon programme. The series was originally due to be transmitted in November 1986, but was delayed so that it could be cleared by BBC Assistant Director-General Alan Protheroe. Protheroe cleared all six programmes for transmission in December 1986, and the series was rescheduled for transmission earlier this month. Then transmission was again suddenly suspended, until last week.

*Secret Society* was produced by Brian Barr of BBC TV Scotland, and directed by Dennis Cosgrove.

### The listening dish

Sigint Satellites don't take pictures, unlike the first generation of spy satellites. Instead they intercept radio and other signals — signals that aren't supposed to be picked up from space. The targets include telephone calls sent by radio, communications from military, police and government vehicles, and computer links. The most modern US sigint satellites, similar to Zircon, hover in a fixed position over the equator, 24,000 miles above the earth. Until the early 1970s, it was believed impossible to use satellites so far up to pick up weak signals from inside difficult areas, like the Soviet Union. But in 1973, the CIA proved that this could be done, with an 'electronic vacuum cleaner in space', codenamed RHYOLITE.

The special feature of such satellites is a gigantic umbrella-like dish, as wide as a hundred feet across. Initially stowed on board the satellite like a delicate compressed metal lace, the giant dish unfolds in orbit, pointing down at the target area on earth. From such 'geostationary' orbits, each listening satellite can select targets across about a quarter of the earth's surface, sifting out valuable signals from the dross that surrounds them. The latest sigint satellites can pick up signals from



walkie-talkie radios on Soviet streets, or even secretly planted bugs.

Many American sigint satellites are already controlled, and their intercepts analysed, in Britain. The US National Security Agency's listening station at Menwith Hill in Yorkshire, appears to control several generations of US listening satellites. In 1975, Menwith Hill became the ground link station for a new series of satellites called JUMPSEAT, which hover over the northern and polar regions of the USSR. New satellite tracking domes were added in the early 1980s, apparently for a new series of satellites called CHALET, which are positioned over the Indian Ocean — from which they can best look down on much Soviet territory. The information picked up is sent back on a narrow radio beam to the ground.

The latest generation of US intelligence satellites are called MAGNUM. MAGNUM was launched, supposedly in great secrecy, aboard the space shuttle in January 1985. But clumsy attempts by the US administration to intimidate newspapers provoked public attention. A month before the satellite was launched, US Air Force General Richard Abel called a press conference and threatened that any newspaper which 'speculated' on the nature of the shuttle's secret payload would be 'investigated' for 'national security'.

The threats had the predictable effect — the press took an immediate interest. The next day the *Washington Post*, using experts and published sources, announced that the US was launching its latest and biggest-ever electronic spy satellite. A gigantic new control centre, codenamed STEEPLEBUSH, was built at Menwith Hill shortly before MAGNUM was launched, and may now receive information from the new satellite.

Britain's Zircon satellite is based on US technology, used in satellites like CHALET and MAGNUM. One former senior defence official, who has access to technical details of every secret defence project, told me last year that Zircon was, in his view:

A superb system — it has got a superb capability. But even the name was highly classified . . . more highly classified than the Trident programme.

Contracts from Zircon have been placed with British Aerospace (BAe) and GEC-Marconi. But most of the knowhow is coming on 'technology transfer' from an American corporation, TRW.

The Americans have found that costs for intelligence satellites are always high and usually overrun. Britain's difficulties with such high technology projects are already controversial, in the wake of the loss of £1 billion on GEC's Nimrod radar aircraft.

The same companies are now working on Zircon, but — unlike Nimrod — without parliamentary knowledge. The former senior defence official acknowledged this anxiety: 'I just hope that BAe and Marconi can get it right'. Asked about the propriety of deceiving Parliament about expenditure on the project, he said:

It's one thing getting the MoD to [stick to an agreement to disclose costs] — quite another with GCHQ.

## The unworkable cover

GCHQ's directors have, from the beginning,

faced a major problem with Zircon — hiding tons of sophisticated electronics that, to operate at all, has to be launched into space and left in orbit — where everyone can see it. So, from 1982 onwards, according to MoD sources, it was clear to GCHQ and defence planners that there would have to be a specially devised cover story for public and international consumption. But the cover story plan has already fallen apart.

When any object is launched into space, its existence must be announced under the terms of a United Nations treaty. So you can't pretend it doesn't exist. But you *can* lie or dissemble about its functions, in order to disguise its real job as something innocuous. This is easy for the Americans to do — their spy satellites have been routinely announced as 'communications' or 'data relay' satellites, or just launched without comment. The first American photographic intelligence satellites were launched amid a panoply of distracting publicity about biomedical experiments on monkeys in orbit.

But Britain has a problem: there are *no* British military satellites now operating. It does, however, plan to launch a new series of defence satellites, called Skynet 4. Until the delay caused by the space shuttle disaster, two Skynet 4 communications satellites were supposed to be launched by the space shuttle last year.

If Britain launches a satellite and doesn't say what its function is, that's the same as saying that it's an intelligence satellite. So any cover story, to be effective, would have to involve Skynet.

SKYNET, the British military satellite communications system, began in 1969. The first two Skynet systems are no longer in operation. Skynet 3 was cancelled before it began. Skynet 4 — a system of two satellites over the Atlantic Ocean communicating with NATO countries, ships in the Atlantic, the United States, and the Falklands — was announced in July 1981. In 1983, the government decided to launch Skynet using the US space shuttle, in order to get the public relations boost of two British astronauts taken aboard free of charge.

But the Skynet 4 system consisted of only two satellites, each of which would be launched with one British astronaut on board. Disguising Zircon as a Skynet satellite would mean quietly inserting a third satellite into the programme. That's what happened next.

In April 1985, RAF Squadron Leader Nigel Wood was selected to be the first Briton in space. A Defence Ministry release stated that 'It is planned to launch two satellites . . . the first in June 1986, the second in December 1986'. Then four days after the RAF magazine, *RAF News* celebrated this success, a third 'Skynet 4' satellite was suddenly announced — not by the Defence Ministry, but by British Aerospace.

Their press release, oddly worded, did not actually say that the newly announced 'satellite in the Skynet series' was actually a Skynet communications satellite, identical to the previous pair. It would just be:

Part of the growing 'constellation' of United Kingdom military communications satellites.

It was particularly striking that the Defence Ministry failed to take advantage of the third satellite — if it really was a Skynet satellite — to

select a third British astronaut — thus taking one from each of the three armed services.

An even odder feature of the announcement was the intended position of the new satellite. This was announced by mistake. British Aerospace's release explained that 'The new satellite is due to be launched in 1988 and be positioned 53°E'. But *53 degrees east is the longitude of the central Soviet Union, not Britain, the other European NATO member countries or the United States*. The Defence Ministry told journalists that British Aerospace should not have published that information: 'If the press release had been properly approved they wouldn't have had that fact in it'. Then they tried, literally, to cover up the mistake.

The release was followed up two weeks later by an industry press release from the Society of British Aerospace Companies. The wording was almost identical with that from British Aerospace — but not quite. Correction fluid had been applied to remove the reference to the 53°E position, and new words were typed on top: tell-tale extra space in the retyped words showed that the release had been altered at the last moment (see diagram).

The hasty cover-up appears to have been necessitated by the premature release of a difficult-to-explain fact — the positioning of the new satellite over the Soviet Union and Indian Ocean, not the NATO area. With no forces further east than the Gulf, there is no need for a British communications satellite there. According to former MoD official Clive Ponting — whose last job was head of the division planning operations outside the NATO area — there was 'absolutely no requirement' for a communications satellite in that area. If ships occasionally went further west, existing American communications satellites would provide the links required.

At first, the Defence Ministry told journalists that the satellite would save money on telephone calls to Hong Kong. But Britain is withdrawing from Hong Kong in the mid 1990s, and existing civil communications satellites already provide numerous links. BBC officials were later told that the satellite would cover Australasia. But the new satellite is too far west to reach all but the tip of Australia.

Another suspicious pointer concerns the ground station for the real Skynet system. Last year, the Plessey company installed a new tracking and control centre for Skynet at RAF Oakingham in Hampshire. But the new centre is equipped to communicate only with two Skynet satellites — suggesting that the third satellite may indeed be controlled from elsewhere, and have a quite different function. Plessey were unwilling to explain the absence of equipment for a third satellite and told us: 'We're hardly allowed to say anything on this.'

Finally, pressed to give a satisfactory explanation of the purpose of a third satellite, MoD press officers said that: 'The military mission for which it has been ordered is secret.'

The result is that there is no plausible story as to the purpose of the planned satellite over the Indian Ocean, if it is to be a communications satellite. But the position mistakenly announced by British Aerospace is an ideal position for a listening satellite like Zircon.



But this cover story couldn't work anyway. Using radar and optical scanners, and simple physics, it is quite possible for one side to work out what the other's satellites are doing. The first giveaway, according to Dr John Pike, Director of Space Policy at the Federation of American Scientists, is that radar signals reflected from a sigint satellite mark it out immediately, because of its huge listening dish. On an enemy radar screen 'it's the difference between a car and a medium-sized building'. 'That difference is readily detectable,' says Pike.

Dr Jeff Richelson of the American University in Washington, a prominent writer on space intelligence, pointed out that the very fact that a satellite like Zircon is listening and not communicating gives it away from the very beginning. If Zircon was a communications satellite connecting to places like Hong Kong and Australia, the Russians would be able to hear the signals sent to Hong Kong. If they heard nothing, the Russians would know that the satellite was listening to them.

Soviet experts have never concealed their awareness of the presence and activities of western sigint satellites. The most prominent demonstration of this kind followed the shooting down of the KAL Korean airliner flight 007 in September 1983. The Soviet Defence Ministry then published maps showing the tracks and timing of American 'ferret' electronic monitoring satellites.

Much more specific information has reached the Soviet Union from recent spy cases in Britain and the United States. The former GCHQ analyst Geoffrey Prime, convicted of spying five years ago, held clearances to see the most secret US satellite intelligence information, and gave it away. In the 1970s, two spies in California sold the Russians details of the first RHYOLITE satellite, and its successors.

So in practice, there is no secrecy about the nature of such a satellite. When spy satellites like Zircon are launched, any hostile intelligence agency that wants to, will know in a matter of hours what Zircon really is. Sir Frank Cooper told me last year that:

Everybody knows where everybody's satellite is . . . Lists are published in Defence journals of who's launched what, where, what its orbit is . . . I think you can probably do this using school children in Milton Keynes these days.

## THE SECRET DOCTRINE

There is a tradition of an Ancient Wisdom relevant, however, to any age and people. It tells of the eternal verities of existence, of Universal processes and laws which are of the nature of Nature herself — of whom we are all part.

This must be of interest to real thinkers . . .

For information write to:  
**The Blavatsky Trust (B)**  
P.O. Box 16, London W3 6HS

Sir Frank was thinking of a celebrated group of British schoolchildren and their teachers at Kettering Grammar School. For more than 20 years they've tracked and analysed the functions of every Soviet satellite launched, using only basic radio equipment. It is reliably assumed that the KGB can bring more sophisticated methods into use to analyse Western intelligence satellites.

## A perfectly clear agreement . . .

The day when Zircon is to be launched is now uncertain, because of the space shuttle disaster a year ago. The first 'Skynet' launch on the shuttle has now been put back to 1990, at the earliest. Two Skynet satellites will also be launched on the European 'Ariane' rocket. But which satellite will be which? The Ministry of Defence now seems to be playing a sort of shell game with Skynet. Defence Minister Norman Lamont has recently suggested that there are 'long-term plans' for five Skynet satellites, not just three.

But the delay does not affect the importance of the agreement with Parliament that the government has now broken. This is a matter of considerable importance to the House, the Public Accounts Committee, and its chair, Robert Sheldon. Last year I asked him if the Ministry of Defence were permitted to leave anything at all off the list. He told me:

No. We make sure that everything is on that list. I, through repeated assertions, make sure that that is so . . . I've made sure that there is no question that that is not going to happen again.

But Zircon was 'not one of the major projects at this moment'.

The Zircon affair is thus almost a direct rerun of the Chevaline row, which so angered Lord Barnett and the Public Accounts Committee. The Committee told Parliament in a March 1982 report that:

Our criticism is that the costs were not disclosed, and that there was no requirement that they should be disclosed . . .

The agreement required the Defence Ministry and Treasury to inform the PAC about projects costing a threshold of £150 million — now £250 million. Security problems did not affect the need to tell Parliament:

Clearly the public disclosure of information on a project such as Chevaline may present significant security problems. But provision should be made to supply this Committee and the Defence Committee from an early stage with broad information on the nature, costs, and progress of such a programme or project; and as soon as it is well established, Parliament must be fully informed . . .

Sir Frank Cooper told me last year that GCHQ's ultimate sponsorship of such a project could not be grounds for flouting the agreement he made with Lord Barnett: 'As far as the Ministry of Defence is concerned I think there was a perfectly clear agreement', he said. Sir Frank made his agreement with the Public Accounts Committee in 1982. He left office the same year. The very next year the agreement was broken and half a billion pounds is now to be siphoned out of the Defence budget with Parliament left in the dark. □

# Guinness

*As Guinness's fast-rising speculative bubble bursts with a Big Bang,*

**CHRISTOPHER HIRD** looks at why such dealings do such damage to the British — and international — economy

ABOUT TWO years ago a colleague and I went to see Sir Ian Fraser, then the head of the leading merchant bank Lazards, to talk to him about Big Bang — the self-important name the City gave to the abolition of the restrictive practices and price fixing which had characterised the London stock market for generations. Fraser was an almost lone voice of caution in the euphoria which preceded Big Bang. Lazards had decided not to be part of any of the new financial conglomerates which — with the encouragement of the Bank of England — were being established at the time.

Why, I asked, were Lazards so sceptical? Fraser, who once chaired the Takeover Panel, said he knew just how difficult it was to regulate the literally thousands of transactions which took place every day in the City — transactions which depended on the brief telephone call, the unspoken agreement and the silent exchange of glances. 'In a few years time,' he said, 'there will be a major scandal in the City and journalists like you will come and say "Why did you allow this to happen?"'

Fraser — who saw a good business opportunity for Lazards in standing aside from all this — cannot have expected the scandal so soon. But he was right in his hunch about the outcome: when Guinness sacked its merchant bank Morgan Grenfell earlier this month, Lazards was appointed in its place.

So far, at least, there is no evidence of anything that has happened in the Guinness affair being the direct result of any specific changes introduced by Big Bang. But it is very much the result of the intense competition which, internationally, provoked and which, domestically, has been part of Big Bang. The affair has produced powerful support for the view of one seasoned stockbroker who once said: 'When you have more players, you have more competition; when you have more

**When you have more players you have more competition; when you have more competition you have less profit; and when you have less profit, people are inclined to cheat**