



Foreign Affairs Committee

Oral evidence: The FCDO's role in blocking foreign asset stripping in the UK, HC 296

Tuesday 1 December 2020

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Members present: Tom Tugendhat (Chair); Chris Bryant; Andrew Rosindell; Bob Seely; Royston Smith; Henry Smith.

Questions 261-298

Witnesses

I: Dr Christopher Mackmurdo, Former Head of National Security Research, Foreign and Commonwealth Office and Founder at Legatus, and Sophia Gaston, Director at British Foreign Policy Group.

II: Russ Shaw, Founder at Global Tech Advocates and Tech London Advocates, and Hazel Moore, Chair and Co-Founder at FirstCapital.



Examination of witnesses

Witnesses: Dr Christopher Mackmurdo and Sophia Gaston.

Q261 **Chair:** Welcome to this afternoon's session of the Foreign Affairs Committee. Can I ask our two witnesses to introduce themselves briefly?

Dr Mackmurdo: Good afternoon. My name is Chris Mackmurdo. I am the director at Legatus and a former head of national security research at the Foreign Office.

Sophia Gaston: My name is Sophia Gaston, and I am the director of the British Foreign Policy Group and also a research fellow at the LSE.

Q262 **Chair:** I thank both of you very much for joining us this afternoon. Quite a lot of the questions we are going to ask will overlap in the usual way, and if you feel that the other person has already answered—or at least answered to your satisfaction—please don't feel the need to jump in on top.

I am going to start off with a pretty quick question: should the Government produce a definition of national security for the purpose of the Bill?

Dr Mackmurdo: I think there should be a definition of risk presented by foreign investment, but that definition needs to be made within a broader context of national security. What I mean by that is that the Foreign Office has a very central role in defining those strategic assessments, and I don't think it should be the other way around, so I think that foreign investment should be seen within a much wider context, where complex issues like intentions and capabilities of actors are understood.

We understand the risks presented by actors in the world—the national security risks, the intentions and capabilities of certain actors at a strategic level—and there is quite a big set of machinery at work to produce those strategic general assessments. Particular transactions need to be understood within that broader strategic context, and any risk from a particular transaction needs to be informed by a general understanding of national security risk.

Sophia Gaston: I think that the Bill should consider national security in an expansive, creative and forensic manner, but it should be doing it both from the outside in and the inside out. It should encompass a definition of national interest that reflects the full spectrum of the forces upholding our society, our culture and our values, and take seriously the diversity of touchpoints and points of entry across a wide range of sectors.

I also think that we should use the passage of the Bill as an opportunity to think about national security as fundamentally linked to the strength of our democracy, and vice versa. We need to appreciate that weaknesses in our democracy are being closely watched and considered by our strategic rivals. The Bill must therefore encompass not only infrastructure critical to



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practical functioning on a national level, but the infrastructure of our democracy, too, because it is obvious from the experiences of our allies, including Australia, that interference in the democratic system is seen as a critical route towards economic advantage and political coercion, and that all three of these pillars are working together in quite a cohesive way.

I also think that any kind of definition should also try to speak to some of the suite of values that we are trying to promote via the Global Britain project. That means the values that we should be living at home—i.e. not turning a blind eye to corruption—but also thinking about values that we wished to uphold in the global community. That means considering whether things like not wanting to approve investments from companies involved in exploitative labour practices are in scope.

I think that we need to make sure that the Bill is also incredibly flexible and responsive and that any definitions of national security and national interest are flexible and responsive as we evolve as a nation and as the threats and risks around us evolve, because it is plain to all of us that it is always better to have the safeguards in place from the get-go, rather than to try to reapply them retrospectively.

Finally—this extends well beyond the Bill to addressing the broader questions of Government capabilities on national security—I would consider a forensic understanding of our allies' and our strategic rivals' domestic context. The longer-term social, demographic and economic trends shaping their political choices are a crucial source of our own national resilience and an area that we should be really embedding within our diplomatic capabilities.

Q263 Chair: Thank you very much. You have both given slightly wider responses than would traditionally be the case for national security. Can I ask you to look at it the other way around and say what the downside is to that? What is the downside—not just politically in terms of foreign policy, but also industrially—in terms of attracting investment and co-operating with others: in not having a specific tied-down definition of national security, but widening it, as you said Ms Gaston, to things such as national interest? Perhaps you would like to start, Ms Gaston?

Sophia Gaston: Obviously, we are trying to strike the right balance here between caution and openness, and we do not want to fall on the wrong side of the equation. Creating a distinction between economic and national security or between economic opportunity and national security seems to be part of the problem here. There is something to be said about thinking about security concerns in the round, rather than distinguishing between the domain of the concerns, because our strategic rivals are making no such distinctions. If we continue to present economic security and national security as falling into competition or somehow being a kind of tension point, we will reduce our choices.

If you think about what we try to achieve with economic growth in terms of what the Government are trying to do, it is actually not dissimilar from what our national security goals should be. They should be working hand



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in hand. There should be no gain to our collective national resilience through pursuing economic opportunities that, in turn, leave us vulnerable to other security weaknesses.

If we just touch on China for a moment, there is absolutely no question that the CCP's fundamental objective is to maintain internal security. There is a social contract of delivering economic growth and prosperity, so when China is thinking about its geopolitical objectives, it is always coming from the starting point of how they contribute to that contract. China's entanglement with the west—here I am not even referring to the more nefarious aspects of that entanglement—is entirely inseparable from its domestic priorities. So again, there is that nexus of domestic security, economic security, geopolitical objective. I think it would make sense for us, in considering the intentions of our strategic rivals in terms of financial investment, to always remember how that fits within their own geopolitical ambitions, and we might wish to do the same.

Dr Mackmurdo: My view is very similar to Sophia's; I view this as more of a vulnerability than a threat per se. What I mean by that is that foreign investment is a mechanism through which actors with hostile intent towards the UK could build a capability that could potentially harm us, but it is not a threat per se, because there will obviously be foreign investment transactions that do not pose national security concerns.

I think it is a difficult balance to strike. There are clearly economic drivers of national security risks. When national security risks are calculated, those economic drivers are taken into account, but not all foreign investment transactions—not all economic concerns—present foreign security risks, so you need to strike that balance.

For me, as I said, it is a vulnerability, because it does provide a mechanism for actors with hostile intent to build a capability to advance their geopolitical and wider interests, but it is not a threat because what we need to do is assess the intent and capability of those actors and make sure that we plug the vulnerability as best we can, to make sure those actors do not acquire that capability to do harm to the UK. When we assess particular transactions—the trigger events contained in the Bill—it is really important to assess those different issues within different contexts.

When you are assessing national security risk, the situations are slightly different, because there is a tendency for it to be a zero-sum situation where your competitors' advantage necessarily means your disadvantage. Collaboration is much harder to achieve within that context. Within the economic sphere, you can achieve your economic objectives through collaboration, so potentially your competitors' advantage doesn't necessarily mean your disadvantage.

The other thing is the rules-based system. A lot of economic behaviour—a lot of the transactions that we are used to, given how the world works—is within a rules-based context. We can understand that, and we can make judgments about the risks presented by particular transactions on that



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basis. When we do that, we can judge the vulnerability—the risk appetite and the risk tolerance—and then we can okay or not okay a particular transaction.

The national security context is much less rules-based, so you are dealing with a situation where your competitor or adversary does not subscribe or adhere to any particular rules. It will not let the rules get in the way of achieving its objectives. So when you are assessing a particular foreign investment transaction, for instance, it is really important to assess the intent of the actor behind the transaction, to see whether they are going to subscribe and adhere to particular rules.

There are lots of things we can do, which the Bill can kind of speak to, to provide an arrangement where foreign investments can be made based on rules-based systems, and then to treat other transactions where we do not have that confidence to be slightly more risky.

Chair: Can I invite others in? Bob, you wanted come in. Then Chris.

Q264 **Bob Seely:** Thank you. I have a couple of questions. I do think we need a definition of national security, and one that incorporates a national interest element, which is versatile but reasonably tight. I want to delve a little bit deeper with a couple of questions.

Sophia, are you making the definition of national security almost too broad, so it can be overinterpreted, which almost undermines it because it is simply too wide?

Secondly, Dr Mackmurdo, I thought you were implying in your first question that you wanted two definitions—a definition of risk and a national security definition. What you have just said somewhat implies that you would want a character test built into a definition of national interest, when it comes to takeovers and economic involvement in this country, because you want to be able to understand and try to estimate the processes or the thoughts and reasons behind actors getting involved in this country. Is that correct?

I ask both our interlocutors those two questions.

Sophia Gaston: With regard to breadth, there are two ways in which this is important. First, this is not just about this Bill—it is about how this Bill fits into the broader infrastructure of how we are evolving our national security apparatus and thinking.

I made the point earlier that our rivals are not thinking about economic investment objectives completely devoid from their other geostrategic objectives. Obviously, as I was saying, in Australia we have seen a way where that kind of triumvirate of different access points all work together. We just need to make sure that whatever safeguards we are putting in place are also absolutely fundamentally connected to safeguards that also encompass those other areas as well.

Q265 **Bob Seely:** Sophia, if I could just interrupt there—I know that the Australians have a FIRB, which has a character test, which is about tax



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evasion and your work, investing in Australia. It is quite broad. Would you like the same sort of character test and maybe a human rights test as well to sit in a definition, to help us make judgments about security and investment?

Sophia Gaston: It is something that we should definitely look at. The other important distinction is that the Australians have referred to this as national interest first, as national security, and feel quite confident in doing that, which allows for a more expansive definition.

There is another point where breadth is really important in how we approach this. I mentioned the inside-out and outside-in. When we are thinking about this definition of national security, if that is going to form the framework of the definitional capacity for the enforcement of the Bill, we should not just be thinking about the areas of our own national resilience that we want to secure; we should be getting into the minds of our strategic rivals and thinking about what their objectives would be in trying to make these kinds of investments.

When they are seeking to buy legitimacy, what does that legitimacy actually afford? We shouldn't just be thinking about our own needs in designing this. We should be thinking about what their intentions are and safeguarding against those.

Q266 **Bob Seely:** Dr Mackmurdo, you said you wanted a definition of risk—I may have misunderstood that point slightly—and then you were talking about a definition of national security. Have I misunderstood that?

Dr Mackmurdo: I think they are tied up very closely together. For me, there is a straightforward definition of national security: a threat plus a vulnerability. You define the risk by assessing the threats out there, and that is made up of the intentions and capabilities of actors out in the world. They could state-based actors or non-state actors and then there is your vulnerability to them.

To my point at the beginning of the discussion, I think the tactical decisions about particular transactions made by the Investment Security Unit, for instance, need to flow down from a general national security assessment of risk and responses. There can be some triaging and threat analysis, but the assessment of national security risk needs to be done at a higher level. These trigger events that I read about could trigger a bunch of assessment work outside of BEIS—

Q267 **Bob Seely:** Do you think we have the capability to do that? Because effectively that sort of strategic work is done by the Foreign Office, but BEIS is going to be in charge of making the decisions over security and investment. As we know, Government is not always as joined up as it could be, so is one Department going to be saying one thing while another Department is going to be nodding something through because it does not really have the concept of national security established in its institutional structures?



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Dr Mackmurdo: At the routine level, these notifications will be coming in and there will be one or two trigger events, possibly, per week, so it is going to be very busy work. However, there is a task at that tactical level, as notifications are coming in, to identify threats. You have all these thresholds that might be passed, but they are defined, and they trigger an awareness that there is potentially a problem.

I think the strategic assessment that needs to be made about national security needs to involve the likes of the Foreign Office. The Foreign Office has a very important role to play in managing responses to foreign investment—the national security risks presented by foreign investment—as it does with any other national security issue with an international dimension.

The arrangement I have in mind is like the JTAC on the counter-terrorism scene, which kind of works well—it did when I was in Whitehall. You would have staff seconded from various bits of Whitehall to do the threats analysis. This is just about, “What is the intent? What is the capability? What opportunity do they have to possibly cause problems for us?” To actually assess the national security risk, however, you need to incorporate thinking about vulnerability, risk tolerance, and the wider geopolitical implications of the decision and the wider foreign policy objectives, because these are complex international—

Q268 **Bob Seely:** And that rather implies that the current structure proposed in the Bill is not one that you think is right, because it is too limited, it is not strategic enough, and it is focused on a very narrow definition of national security sitting within one Government Department that does not necessarily always deal with national security.

Dr Mackmurdo: I think it is fundamental that the UK national security strategy has to be a hybrid strategy. It has to be a long-term strategy. It has to look at the full spectrum of threats, and these threats go way beyond the intelligence and military parameters that we are used to.

It is clear that states with hostile intent towards the UK do have these hybrid national advantage strategies. They are using all sorts of capabilities to fulfil and realise their intent to achieve strategic advantage. This is not just competitive advantage, but strategic dominance. They are in it for the long game, and they are better at it than we are for all sorts of reasons.

My point is that the national security strategy needs to incorporate threats like foreign investment, because it is essentially a fundamental tool of adversaries to get a capability that could potentially harm us. Within that framework, you inform people at the more tactical level—for instance, the Investment Security Unit—who have read into that assessment and understand the risks. They have a good understanding of and good insight into the broad intentions of particular actors who may be behind particular transactions that they are coming across. They need to be equipped to do that triage and the threat analysis, but when it comes to the assessment—“Does this present a national security risk?”—that decision needs to be



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taken within the context of a strategic assessment, probably led by the Cabinet Office involving the Foreign Office. That might be limited to very high-impact cases because—you are right—the workload is going to be high.

That might be limited to very high-impact cases because—you are right—the workload is going to be high. The Foreign Office needs to have the facility to intervene, shape and guide this decision if there is a national security concern around it. It should not be the tail wagging the dog. This needs to happen, because otherwise we will struggle to have a strategic, co-ordinated and well-thought-out response to this problem.

Q269 **Bob Seely:** Before I hand you back to the Chairman, Dr Mackmurdo, do you think we have been naive up to now about some of the issues that you have raised?

Dr Mackmurdo: I don't think we have been naive. We have always been aware of them. It is just that our system and our structures are not well equipped to think and act in these terms. Sophia mentioned China. They have advantages, politically and otherwise, and are able to do these sorts of long-term, hybrid strategies.

Q270 **Bob Seely:** So why are we not equipped? Are we not integrated enough? Does the Government not think collectively enough? Are we not getting enough guidance? Why are we ill equipped?

Dr Mackmurdo: I think we are ill equipped because of the tenures of decision makers and the tendency to react to trauma and reduce threat. There is also a tendency to express risk in a rather abstract way. You see that with the national risk assessment. I hope it does not veer down the path where you are looking at impact and probability. You are saying that this might be a problem in the future, but there are more pressing concerns.

I think what we have got to do is good forecasting and produce risk assessments that look to the future but are threat and vulnerability based. You are talking about what is happening now and the capability of an actor with hostile intent that the UK is vulnerable to now and—because of factors driving the shape of the international system, and the environment driven by tech—this is how it is going to look in the future. We can anticipate those risks, but they are defined by the threat and our vulnerability to it.

Q271 **Chris Bryant:** Thank you very much for being with us today. Can I ask on the back of that about tier 1 golden visas for investors? You only have to prove that you have £2 million that you are thinking of investing, not that you are actually investing it. Does that system need reform?

Sophia Gaston: I think we are seeing a widespread push for reform around golden visas. In the EU, those conversations are very live, and they have been very live in Australia for some time.

I think there is a fundamental question here that goes to the heart of the concept of a more expansive definition of national security. For me, one of



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the biggest problems with golden visas is what they do to erode the concept of citizenship, which is absolutely fundamental to the construction of the nation state, and the trust between citizens and their Governments. We can see a direct relationship between a kind of effort to buy legitimacy and economic coercion towards a kind of social legitimacy, which I think is dangerous for our democracies.

Q272 Chris Bryant: It is actually very difficult to work out at the moment whether they are fully in operation or not. They were suspended at one point by the Government, then reinstated a month later, and then suspended again. Now we are not quite sure where they are at. Dr Mackmurdo, have you got a view on tier 1 golden visas?

Dr Mackmurdo: I do not have enough information to comment.

Q273 Chris Bryant: Okay. One of the UK's vulnerabilities is disinformation—let's say, for instance, in relation to vaccines, which is a sensitive issue at the moment. The Russian state might want to destabilise the acceptability of vaccines in European and Western countries. It might want to question them and sow doubt. I presume that any organisation that might be involved in perpetuating that kind of misinformation is the kind of organisation that we would be worrying about. Obviously, in the main, that means the media in the UK. We have tended not to exclude foreign ownership of UK media and we have not even imposed a fit and proper person test, except on broadcasters. Do you think it is now time we did that?

Sophia Gaston: I personally think that the media should be considered part of our democratic infrastructure and that this goes well beyond the question of investment. If you are looking at the development of a UK-China engagement strategy, for example, you need to look at media as part of the ecosystem of democracy, so I absolutely think that should be in scope.

This speaks to the complexities around these questions of applying values within our criteria around investment protocols. Obviously, we do not want to, as I say, fall down on the wrong side of the equation. We do not want to be just creating unnecessary bottlenecks. We do not want to be overly scrupulous. We need to find a way whereby people who come from nations that we consider strategic rivals and who have genuinely tried to develop independent businesses still have the avenues to be involved in our economic activity.

Equally, on the values question, we are obviously seeing a lot of attention on the labour practices of various companies that have been based in the UK and this is the sort of area that we could be looking at in terms of that values dimension of the investment equation. Do we really want to be approving investments that are ultimately facilitated by forced labour camps and so on? Also, I think we should be thinking about things like what is the value of the information and the access on a social level that these companies could be accessing? If, for example, a Chinese company invests in an R&D firm in the UK, could that potentially give them access



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to health data, personal data or social information that could constitute quite an integral national security interest from their perspective, because it is giving them information about long-term demographic trends and things that will cause potential political weaknesses in western nations in the future? I think we need to be quite expansive and creative in the way in which we think about this.

The other point that I would make about unexpected areas that we should be considering is this. If you think about climate change, there is a parallel that can be drawn a little bit with the pandemic that we have been experiencing. We have just gone through this extraordinary year where there was a resource scarcity problem, where all nations effectively needed to access pretty similar things, and we were all experiencing something at the same time. Climate change, in many ways, will be a similar experience and so we should be thinking about this: national security and this Bill should not always be about us being reactive to threats. I think this is a point that Chris made earlier. Too often, we are just making policy on the hoof and reacting to things that come our way.

We should be thinking really proactively and constructively about how we can flip the framing of national security to building national resilience—and, on the climate change point, we have actually already succeeded to some degree in making that case. There are other nations—many of our allies consider climate change to be a burden to respond to and protect against. We in the UK have, thankfully, got to a point where the political debate, to some degree, is settled, which allows us to think proactively about climate change as an opportunity to create new economic avenues for ourselves and avenues to prosperity. I think that there is some degree to which this Bill could be positioned in that kind of frame, so that it is not just a Bill that puts up a kind of fire shield, firewall, to the outside, but a Bill that provides the grist to the mill for us to think about how we make ourselves more resilient and more prosperous internally in the future.

Q274 Royston Smith: Of course, we are very interested in the FCDO and their involvement in this Bill and what happens beyond that. I know that Dr Mackmurdo is very experienced in the Whitehall machine and understanding all of that, but can we hone it down a bit and talk about what support the FCDO can give for the identification of potentially hostile actors or interpreting the intentions or broader strategic aims behind their investments? What should the FCDO be doing in that space?

Dr Mackmurdo: I will have a stab at that. There are four things. The expertise of the staff is absolutely critical—thematic expertise about particular issues, including technology, but also country expertise, so really understanding foreign countries, especially those with what we assess to be hostile intent. There are obviously the alliances, the diplomatic work. Sophia has mentioned values a lot. It will be values, not technology, that underpin and preserve the relationships that the UK needs to thrive in the future. It will be values that allow the collaboration and freedom that we want in this sphere. Building those relationships of trust, building on existing alliances and making new friends will be critical.



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The third one is the Foreign Office working with Whitehall, other Departments and the intelligence agencies and the Cabinet Office. When it comes to understanding the intent of actors, it means having a full role in JIO—Joint Intelligence Organisation—product and a full role in the national security assessment work so that they can bring all that expertise to bear.

Finally, it is the network. They have a great international network of embassies and contacts at all sorts of levels in societies around the world. That needs to be used to generate the insight we need about what is happening in other countries around the world, friendly or not so friendly, and also there is the expertise found in industry and academia.

To answer your question directly, I think the Foreign Office has a very important role in bringing together everyone in Whitehall, people from outside, people from around the world and international partners to hold structured sessions where you can interrogate particular problems using rigorous, structured, analytical methods. This happens in Whitehall, but we need to do better and use these techniques to inform these sorts of decisions. I am talking about good red teaming and good forecasting that could inform our understanding of the intent of actors, but also how the future will play out. We do have these resources; it is just a case of mobilising them.

Sophia Gaston: As I have said, I think we need to use this as an opportunity. I do not just mean this Bill, but all the accelerated focus that we have on national security, particularly the heated debate around China, which is very timely and important. I am glad that we are having it, but we should be thinking about the infrastructure of Government in the round to respond to this. Chris has made the point, too. These issues extend beyond Departments in ways that we just have not been used to having to work. If you are going to have scrutiny and enforcement of the Bill, wrestling fundamentally with BEIS, you also of course need FCDO and the intelligence agencies and so on, but there are questions about how you hook up to the safeguarding that we need to put in place in higher education, for example.

I think there is an argument for the Cabinet Office to play a much stronger role in this. They are really the only place that could fundamentally shadow effectively the full spectrum of organisations. You are even talking about culture and the arts. There are so many different touchpoints here. Although the Bill itself will not cover all of them, it needs to be connected into that broader agenda. For me, I think the establishment of a dedicated resilience unit in the Cabinet Office that could shadow all of these initiatives—make sure they are tied up, make sure there is balance in the round and that we are not being contradictory or inconsistent in our applications—and potentially even the establishment of a new ministerial post to oversee that is how seriously we should take this.

Q275 **Royston Smith:** Let's assume there was a new ministerial post in the Cabinet Office, the Foreign Office or a mixture of all of Whitehall. How could the Government identify investments that do not initially appear relevant to national security but may be part of a hostile actor's long-



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term strategy? I do not want to use as an example something that would be serious for national security, but Bob Seely uses the example of PPE, which is a good one, isn't it, because we were not resilient enough when the pandemic came? We are talking about national security in the same way. What should the Government be doing to identify those investments early?

Dr Mackmurdo: There are things you can do on the threat side of the risk and on the vulnerability side of the risk. When it comes to the threat, we need to carry on doing good assessment work on the intentions and capabilities of foreign actors. That is not really anything to do with foreign investment per se; it is about the actor. So one of the metrics that will be important when triaging those transactions will be: who is behind the transaction? It might not be obvious, so due diligence will need to be done to get to the bottom of who is behind the acquirer in those cases.

The other side of it is vulnerability. The UK needs to do the forecasting work that I talked about—the risk assessment work based on threats and vulnerabilities—to come up with key areas of technology and capability that the UK needs to survive and thrive in the future. So, on the one hand, you would have a list of actors and behaviours which you need to look out for and, on the other hand, you have key capabilities in the form of technologies or what have you that the UK needs to protect. When those two collide, and you have a dodgy actor looking to acquire one of the UK's key capabilities, you have got a pretty clear case of a transaction that needs strategic assessment in terms of national security. Obviously that needs to be refined and built out, but there are ways to do that.

Sophia Gaston: We need to think about how these investments could afford control, access and/or influence. Those are the principles we are looking at. I totally agree that all of this needs to begin with us working out exactly what is central to our resilience now and in the future. We have to be really expansive and interrogative about what that concept of resilience means. We have really dropped the ball on things like agricultural security. China was buying up huge swathes of land in Australia and in France, even.

We need to be thinking about the needs of citizens and the nation state in the round. That goes to very basic needs such as access to water, energy, food and so on, but it is also more conceptual: we need research independence, a free and independent press and a sustainable and functioning democracy. This is one area where we really need to be expansive in our thinking, because we need to have oversight.

The critical next step is to future-proof. This is the really difficult part, but there is a huge space for competitive advantage to develop in that space between us anticipating and actually needing these points of resilience. That is why I mentioned climate change, which is a perfect example of something we know is coming down this track. What will that actually mean for us? What critical infrastructure will we need in place not just to survive but to thrive in an age of climate change? Do we need desalination plants?



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We need to be thinking about that and about data, technology, AI and all these things that have somehow fallen out of the scope of our conception. If we do not get on the front foot, we will keep realising too late. We cannot afford to have a reactive national security policy.

Q276 Royston Smith: All this is going to take a particular skillset and resources. Do we have that, or do we need more of it?

Dr Mackmurdo: We could always do with more of it, but we do have it. As I said earlier, I think there is a model in JTAC that we could look at as some sort of framework for this. In my opinion, it is really important that the Investment Security Unit is staffed by people from various backgrounds with various sets of expertise, so that it is well placed to do the analysis that needs to be done before they potentially fold in other people to do the risk assessment work. But we do have the capabilities to do that.

It is not just about risk assessment. As Sophia was saying, there is a hugely positive element to this. It is not just about understanding the enemy and plugging our vulnerabilities; it is about being very confident and clear in our articulation of our strategy. We need to have a very clear strategic aim, and we need to have a very clear understanding of the capabilities we need to develop to achieve it. That timeframe needs to be quite extended, to match the behaviours of states that do not necessarily like us and states that we need to work with to achieve things in our common interest. We have the capability to do that, but there needs to be more of a concerted effort to be focused in our mission to develop that kind of full spectrum strategy, which requires a hybrid type of response—covering all the sorts of threats that we just spoke about, and mobilising people inside Government, outside Government and internationally to generate the insight we need to make those judgment calls.

Q277 Chair: Thank you very much, both of you. There is a final area I wish to come on to: the stricter investment regulations. We have touched on this a little bit, but is there anything that you think should be in a Bill like this that makes it crystal clear, both to foreign investors and to UK companies, what fundamentally matters? You have touched on national security in a broad sense, and you have touched on national interest as well. Is there some way of making it clear in a few words or sentences what exactly could tie us down, so that investors and sellers are clear?

Dr Mackmurdo: In a few words, it is an absolute commitment to collaboration, inward investment, innovation and co-operation. Again, as we have talked about before, it is really about crafting a values-based framework within which all this can happen. It is really about doubling down on the UK's commitment to make this work.

I think you have talked about the Five Eyes community in sessions before. That is worth doing. We should maintain that international co-operation and information sharing, so that we can identify risks and navigate them effectively without throwing the baby out with the bathwater. The UK cannot operate as a sovereign island on this issue, just as it cannot do so



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on any real issue with national security implications. It needs partnerships, and it needs to build capacity within other countries to advance its own interests. It would be an absolute, unambiguous articulation of that commitment to welcoming investment and working internationally, which I hope UK companies will respond well to. Meanwhile, we should be developing a very clear and rigorous framework that can detect, assess and respond to transactions and other behaviours that present national security concerns. I think it is doable.

Q278 Chair: May I ask Ms Gaston something very briefly before we close this session? Would you have a green list of pre-approved countries or investors?

Sophia Gaston: I think we have to accept that there is quite a heterogenous approach at the moment, even among some of our allies, towards this, so we would have to be careful that there were not any potential back doors that we would be leaving open through doing that. We have to accept that that process of the west coming together around this and around a common set of values, interests and principles will take some time. We are getting there more quickly than we have over the past decade, but I still think it will be some years yet before even the EU, the US, the UK, Australia and Five Eyes can all be in lockstep on this. There has to be some kind of provision in the Bill to separate individuals from companies that are acting on behalf of states; when we apply that values equation, there may be individuals who, because of their own actions and their own characters, are not the sorts of people we want to be accepting investment from, but that is distinct from actual organisations that may themselves be linked to the promotion and advancement of states' own interests. We need to straddle both.

The fundamental point here is that we are an open society and an open economy, and that is part of our values agenda too. We are for the promotion of free and open investment and trade globally, and we must be careful to ensure that we fall on the right side of this. The message should be, "We cannot defend and sustain our openness without making sure that we have the appropriate safeguards in place." That is how I would frame the fundamental purposes of this Bill.

Chair: May I thank you both very much? That has been enormously useful to us, and I hope not too onerous for you. We are very grateful for your time. We are going to go on to the second panel now, and you are very welcome to stay and listen, although you probably have better things to do. Thank you very much indeed.

Examination of Witnesses

Witnesses: Russ Shaw and Hazel Moore.

Q279 Chair: May I thank you both for joining us, Mr Shaw and Ms Moore? I am extremely grateful. May I ask you to do the same as we did with the last



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lot, which is to give a one-line introduction of yourselves—for the newspaper description, if you like? For no other reason than that you are on the left, Mr Shaw, would you like to go first?

Russ Shaw: Good afternoon; my name is Russ Shaw and I am the founder of Tech London Advocates and Global Tech Advocates.

Hazel Moore: I am Hazel Moore, the chair and co-founder of FirstCapital. It is worth saying that I was previously a governing board member of Innovate UK, and I am currently a non-executive director of British Patient Capital, although I stress that I am here in a personal capacity.

Q280 **Chair:** Thank you very much indeed. You are aware of this question on the National Security and Investment Bill, and I know that you have both considered much of it in the past, but can I ask Mr Shaw to start—again, for no better reason than that you are on the left—with what factors should inform the Government’s determination of which technologies are strategically important to the United Kingdom?

Russ Shaw: I listened in on the previous session, and I think it is important to articulate a definition of national security so that those sectors that are of strategic importance for national security purposes can be outlined and articulated. I would certainly concur with a broader definition of what national security stands for. To me, it is the security of a nation’s citizens, its economy and its infrastructure.

Maybe, having listened to the previous session a little bit as well, there might be ways to articulate it and say, “Look, this is about security in relation to food, in relation to the environment, in relation to cyber-threats,” so that you have a clear articulation of what encompasses national security. Then, from that, those 17 sectors that were listed in the Bill would become very clear. You might also look at that definition and say, “Maybe there are a few other sectors that we should consider, which are not part of the 17 but might fall under the point about environmental security or food security, and which we might want to elaborate on.”

Chair: Ms Moore, did you have anything to add?

Hazel Moore: I have some things to add. I also listened in to the previous panel. My view is that there should indeed be a definition of national security in the Bill, to give clarity and comfort to participants in the market about what they should expect. My view is that that definition should in fact be relatively narrow, to encompass the potential for harm to the UK from the perspective of defence or critical infrastructure or to its citizens. Clearly, from the perspective of citizens, that encompasses things such as food and climate change, as well as technology and personal data. I think we need to be looking at what might cause harm from a foreigner adversary.

In terms of what sectors are of national security interest, the Committee may be familiar with the National Security Strategic Investment Fund, which is a joint programme between the British Business Bank and the



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Government. It invests in both venture capital funds and directly into advanced technology firms of national security interest.

The point I want to make is that NSSIF specifies 12 technology areas of national security that it considers to be strategic from a technology perspective. They are not the same as the 17 sectors that are out for consultation for the purposes of this Bill and there is also a key difference, which is that the definitions are stated on one page and specify the types of applications and uses that the Government are seeking to capture, rather than the 71-page document of technologies that is presently out for consultation for this Bill.

I have some real concerns about the definition of the 17 technologies and sectors that are proposed. In my view, the definitions are remarkably wide. The link to national security feels tenuous—I can give some examples. Nano-technology is specified; in reality, nano-technology is a size definition, not a technology definitional capability. Artificial intelligence is included, which, in reality, is rapidly becoming general purpose in software.

The point I want to make in terms of defining what is a national security interest is that the rate of change in technology is accelerating. It is very often the things that we do not know about that give rise to the biggest disruption.

I would suggest in this context that the NSSIF approach is much more flexible and agile in terms of the response that the Government may wish to take to the types of technologies or applications that they want to look at—many of which may not be apparent today—and allows for the emergence of new technologies. It means that there is this flexible and agile approach, which means that the Government are not always regulating by looking in the rear-view mirror with this very prescriptive and static approach. It gives the opportunity to determine the kinds of activities that they are worried about and then to take the appropriate response.

Q281 Chair: Can I build on that? Both of you have spoken about technology and Ms Moore, you spoke quite rightly about the speed of technological change.

Can I just build on that? In the NSI Bill, we are asking for the Government, with a team of 100 or so people, to look at forthcoming transactions and then make a decision as to whether or not they have national security implications.

One could argue that was a relatively clear thing to do in the 19th century and was largely clear in the 20th century, but now in the 21st century, it raises many questions.

I am reminded of the sale of computer games to Iraq in 2003. They were considered dual-use items. Now, frankly, any piece of gaming software that requires huge amounts of artificial intelligence raises a question about what exactly you could use it for. The answer is pretty much anything.



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The question, therefore, is what sort of technological understanding we think we should expect of people in this team, whatever size it is, and how can we honestly expect the Government to have a reasonable view?

Perhaps you would like to come back on that, Ms Moore.

Hazel Moore: I would. I think the implementation challenges that this Bill provides are huge. I very much suspect that the number of transactions that will be notified to this body will be substantially more than the current estimates, not least because of the lack of clarity or case law; people do not really know what is covered. The penalties are potentially quite high. I think that most things will be voluntarily notified, even if not mandatory, just to cover, from a risk perspective. So I do suspect that this body will be overwhelmed and inundated, and will really struggle.

From the perspective of looking at the kind of technologies and trying to get on the front foot about understanding what is in scope and what isn't, I would point to when I used to be involved in Innovate UK, when it had a programme called emerging technologies and industries, which was a programme whereby they took in comment, knowledge, expertise from a range of bodies. In this case it was academia looking at the quality of the academic research in an international context. It was talking to the learned societies. It was talking to the research councils. It was taking in expert views from business. I think in this context there would clearly be a role for national security experts, for the science and innovation networks, for the chief scientific officers. There was essentially an exercise done, on an annual basis, to create a pipeline of technologies that were considered to be potentially strategically important to the UK, and then rank them according to how good we were as a nation, how big the opportunity was, and how successful we were likely to be in terms of commercialising it, because of the size of the supply chain in this country. That would be ranked every year. It strikes me that a similar exercise could be set up with appropriate interdepartmental collaboration—

Chair: I think we may have lost Ms Moore.

Russ Shaw: Shall I just jump in here and build on what she was saying? I think she made some very good points. One of the things that I would also add is to take a look at the existing assets that lie within the UK Government. One particular area that I would say could play a role here is the UK Science and Innovation Network, or SIN. I had the opportunity to work with them just over a year ago. I hosted my Global Tech Advocates summit in Shanghai. We had two people from SIN join us. We were meeting Chinese entrepreneurs, Chinese investors. They were there, and part of the discussion with us. I know that this operates in, I think, at least 30 countries around the world—this collaboration between the FCDO and BEIS—and so those people on the ground in markets like that, focusing on science and innovation, would be a very useful resource to feed into the sectors that we are looking at here.

To your point about should there be technology expertise within the ISU—yes, most definitely; and maybe that collaboration comes from the Science



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and Innovation Network, supplemented with other resources that you would want to bring in. Then once you assess all of that you might want to say, "Okay, we've got this network here; we've got these people in the ISU. What do we need to do to supplement that with people from the private sector or people from academia, who, coming back to Hazel's point, could help us to look at how these get ranked?" One year you might say, "Look, blockchain technology is the be all and end all," and then six months later people might say, "Well, realistically that is not going anywhere. We really need to focus on autonomous robotics," or whatever. That kind of joint collaboration, leveraging assets within the Government that already exist, supplementing that with outside resources, I think could be a constructive way forward.

Hazel Moore: My apologies. I had a small technical issue.

Russ Shaw: I jumped in for you, Hazel.

Chair: We have all got used to these things. I am delighted that Mr Shaw was able to fill in extremely capably in many areas.

Q282 **Royston Smith:** Moving on to the Bill and what the implications might be for the UK tech sector globally, what message does it send to others about the UK tech sector?

Russ Shaw: I think it sends a positive message. If you look at what has happened in the tech sector in the UK over the past eight to 10 years, we have gone from strength to strength. The digital and technology sector in the UK now employs about 3 million people. Many other countries and many other Governments have put measures like this in place—European Governments, the Australian Government, the US Government. For the UK Government to step up and do something similar sends a positive message.

It also sends a soft power message that the Government is serious about this and the Government sees the potential that sits within the UK technology sector, and therefore wants to have a degree of scrutiny and protection over the sector. We have watched, over the past few years, ARM being sold, first to SoftBank of Japan, and now it sits with Nvidia. When I look at that, I say why, back in 2016, did such a brilliant asset from the UK get sold so quickly to the Japanese? The semiconductor industry is a critical industry. If you look at what is going on in the US, President Obama was directly involved with briefing sessions on the semiconductor industry.

I say to colleagues that the Chinese would never ever let a semiconductor company from China be sold to a foreign acquirer or a foreign investor, yet that happened here. So I look at this Bill—maybe it is not 100% perfect—and I think it sends a soft power message globally that we have a strong vibrant tech sector, we are serious about it, the UK Government are serious about it, and therefore, if you are investing in it, you have to go through some extra steps to make sure that the national security of the UK is not undermined.



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Hazel Moore: I only partially agree, to be honest, with Russ. One of the reasons that the UK is such a successful economy is because we are an open economy. We are one of the largest recipients of foreign direct investment in the world. I personally believe it is extraordinarily difficult for us to build large and valuable tech companies without access to foreign investment. If you look at the statistics, about 75% of the investment in the later-stage digital tech companies in the UK is from foreign investors.

We need to be really careful that we put in place the right regime that continues to allow that money to come in, because those sums of money cannot be substituted in the UK. There are not the infrastructure and the sources of capital to provide that kind of fuel to the digital tech sector domestically.

The UK is also the fifth largest exporter of digital tech services in the world, despite the fact that most of our tech companies are still pretty small and immature. There is a massive amount of additional growth and opportunity in the economy from this sector. It is critically important that whatever policies we put in place, they sustain and encourage that, rather than discourage it.

With that in mind, I will give you some direct quotes, because I asked a number of people what they thought about the Bill, both in the US and in the UK. I quote: "The National Security and Investment Bill looks pretty draconian. It gives the impression that the UK is not open for business." Others said, "The UK's proposed regime is even more heavy than CFIUS," or, "The scope of the mandatory notifications is breath-taking." These are direct quotes from other parties. They certainly give me pause for thought as to the scope of the Bill and the kind of behaviours that might result as potentially unintended consequences.

Q283 **Chair:** Clearly, they are unnamed quotes, so I cannot speak to their specifics, but did you get any comparison with other areas, such as with the foreign investment Act in Australia or the planned changes in France, Germany and many other parts?

Hazel Moore: I did get some comments about some of the European regimes, and there was some comment that the Germans and the French in particular are looking to significantly strengthen their regimes. It is not necessarily that we are massively out of sync with others, but in a context where CFIUS, as a relatively mature regime, is seen as a bit of a benchmark for this, the fact that we are now being seen as more draconian than that regime is a concern, certainly for me.

Russ Shaw: I want to challenge that point on CFIUS slightly, because CFIUS did block the Broadcom acquisition of Qualcomm back in 2018, which was a very significant, \$100-billion merger attempt. Hazel is making some good points, but I do think CFIUS is pretty strong, and pretty much a deterrent for investors around the world. I think this Bill is comparable in a number of matters.



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The other point I would make is that we should also talk about the implementation of the ISU, because if we get it right, there is an opportunity here to demonstrate a transparent, non-bureaucratic approach. The benchmark I would use is the reputation of the Financial Conduct Authority that is in place around the world, in terms of how a regulatory body from the UK can build a global reputation that is first class.

Hazel Moore: I agree 100% with Russ, in that there are some important parallels and lessons that could be learned from looking at the FCA. The FCA takes a principles and proportion-based approach to regulation, so there are thousands and thousands of companies that do not pose a systemic risk that come under its auspices and are treated with a very light touch. I would also highlight the fact that the FCA has been incredible at how it has dealt with innovative new financial technologies, and has built a world-class reputation for leading in the FinTech space, which has contributed to making sure that London is the global centre for FinTech, not Silicon Valley. The FCA has been a very significant factor in enabling that, so I agree with Russ: implementation is going to be so important as far as this Bill is concerned.

Q284 **Royston Smith:** Just to wrap up, notwithstanding the fact that you have just agreed with each other on the last point, it is a bit refreshing to have two witnesses who have differing views. That is helpful for us. I think I understand what Ms Moore's position on my next question is, so I will put it to Mr Shaw. Do you not believe that there will be restrictions on investment as a result of the Bill? Do you think that it will not affect the UK's global competitiveness?

Russ Shaw: I think some investors will think twice about investing in the UK as a result of the Bill—there is no doubt about that. However, that comes back to my point: if we are going to go ahead with this, if this unit is set up, and if it very quickly establishes some quick wins in terms of how it builds its reputation, how transparent it is and how non-bureaucratic it is, then I think investors will think twice and say, "Well, maybe we should reassess the UK from an investment point of view."

Hazel made some really good points about the fact that you do not want to minimise the investment coming into the UK, because we need our businesses here to scale, and we do not necessarily have enough of our own UK funding levels to do that. There is a balance equation here. Looking at when Google acquired DeepMind in 2014, we look at that today through the lens of 2020, and some people say, "Maybe DeepMind should not have been acquired." Contrary to what I said about ARM, I actually think that was a very successful investment and acquisition, because Google, in collaboration with DeepMind, built an ecosystem around AI. DeepMind did not have the funding to grow and drive revenues that could have kept it a long-term sustainable business.

Each case needs to be evaluated one by one, but the more quickly we can establish that the ISU is well run and well managed, with good, competent staff—coming back to the question earlier—I think trepidations around



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investing in the UK as a result of this Bill will ease. That said, the UK is also a very good country in which to do business, whether that is talent coming here to set up businesses or helping businesses to expand from here to overseas, we have that reputation—certainly within Europe, but I would also say across the world as well. I am concerned, and I do want to minimise that, but I think proper implementation of this Bill would alleviate that.

Q285 **Bob Seely:** Let me follow up with Hazel. You have given us three unattributed quotes and I would love to know where they are from, because if you are trying to make a point, I think you are in big danger of backfiring. Where are those quotes from?

Hazel Moore: One of the quotes came from a lawyer from Washington, who worked in CFIUS, in one of the Departments involved in the implementation of CFIUS, for a number of years and is now in private practice. He knows the system inside out. I must confess they came mostly from lawyers. One of the quotes came from a UK-based competition lawyer and the other one came from a tech company in the UK.

Q286 **Bob Seely:** They came basically from a bunch of lawyers, then. I do find that bizarre because, by Ministers' own design, this is specifically designed to be a much more liberal approach than that of Australia or the United States. If this is draconian, God help us, because it is quite clear that this is a much lighter regulation than CFIUS; CFIUS has much greater input from the military and from people looking at geopolitics on this. If anything, this is incredibly light touch, because you only go through one Ministry, which is overwhelmingly focused on business and enterprise, and, as previous contributors have said, it does not include any sense of looking at wider geostrategic issues. I think the point you made, unfortunately, has accidentally made the opposite point.

Just moving on to a positive, we are being confronted with two models. Clearly, Hazel, you are presenting the ultimate free market; you would prefer it if there was almost no regulation and companies could be sold to whatever Chinese investors, or investors from Russia or elsewhere, with no questions asked. On the other hand, you have Dr Mackmurdo, who comes at this from the point of looking at other cultures as being very different from our own, as having a fusion of civilian and military and as seeing the extension of economics as state conflict or state competition by other means. Do you have any sympathy with those arguments at all, and do you think your lawyers would have any sympathy with those arguments at all?

Hazel Moore: I am a free marketeer. I am a businesswoman. I look at things through the lens of business, and I make no apology for that. I do recognise the need for national security and appropriate regulation and safeguards from the perspective of national security. I would certainly agree that there are certain parties and certain actors who have malign intent, who we would not want to own or control certain critical parts of



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our infrastructure or our technology or to have implications for the security of our citizens. I absolutely accept that.

Q287 **Bob Seely:** On that point, for example, would you have significant Chinese state entities—because, let's face it, any significant Chinese entity is going to be a state entity—in large parts of Britain's critical national infrastructure?

Hazel Moore: No, I think that doesn't make any sense at all, but my concern is that this Bill is a sledgehammer to crack a nut. If we think about the number of transactions that involved foreign participants in 2019,

for example, of 575 M&A transactions, I think 15 involved Chinese or Russian entities and only five of those were tech-based. From an investment perspective, the equivalent numbers were that about 20 transactions involved Chinese or Russian entities. They are very small numbers in reality, so finding the appropriate regulatory regime to be able to have the right oversight for critical national infrastructure or national security does not necessarily mean that a very broad range of transactions should all go through this unit in BEIS.

Q288 **Bob Seely:** I certainly agree with what you just said. As politicians we tend to be focused on the stuff that grabs attention and makes it into the newspapers. I agree that that is a very small number of transactions, but, at the same time, it is potentially a very important number. Let's look at two issues. First, there is Nortel and its relationship with Huawei. Huawei was a subcontractor of Nortel and, 10 years later, Nortel goes bankrupt amid all sorts of allegations about how the relationship with Huawei went sour, industrial espionage, IP theft and others that I am sure you have seen out there.

Secondly, there is a wider industrial concern for those folks who lead this country that, time and time again, the UK has had, for short but potentially significant periods, leadership in industries that it has always gone on to lose. We can go back to the first jet aeroplane, the Comet, various telecoms and nuclear energy. Maybe we cannot sustain that because we are too small, we lack the ability to attract capital and we are not a continental nation, but it is a continued frustration that we see real genius in this country that is either not invested in or supported or which is bought out by foreign friends or foreign rivals. Do you accept that that has been a continuing problem in British policy making?

Russ Shaw: Can I jump in on that? I think you are making very valid point, but you also have to look at the global situation we are in. There are two massive tech behemoths in the world—the US and China—and then there is everybody else. I would argue that the UK is becoming a strong No. 3 in this scenario. We want to come up with a way in which the UK can navigate between these two polar opposites—I think in the next decade it is only going to get worse rather than better—to figure out how we engage with overseas investors, because they can sometimes bring in the capital we need to grow these businesses.



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When I launched Tech London Advocates back in 2013, there were three tech unicorns in the UK; there are now over 80. So we are building really good world-leading businesses, and a good chunk of them are going to be acquired to help them scale. We have to be smart about which industries we want to leave to be acquired and which we want to keep. I referenced semi-conductors earlier, and I thought that was a mistake. One other point I wanted to make about the Chinese—

Q289 **Bob Seely:** Russ, can I ask you about what you just said before you go on? That is a fundamental problem. Are you saying that we are doomed always to have most of our companies bought out and go to America or be bought by China—hopefully not—or whoever in order to get the foreign capital coming into this country and we have no choice but to accept that? Is that a model we are doomed to live with, or can we in fact try to keep more of this base in the UK and—preferably—owned by the UK? Is it that we can have the foreign capital but the companies will leave or we will not get the foreign capital and we will not get the companies built in the first place?

Russ Shaw: I think we need to come up with third ways and mitigating factors so that we can get some of the capital to invest in our infrastructure, talent and capability and not have them depleted and shipped off to Japan or the US.

Now, I will be a bit contentious here, because Huawei was brought up as an example. I know the decision was recently reversed and we have now said no to Huawei. I did not agree with that, because I felt that having Huawei at least in the non-core aspect of our 5G network was interesting from an investment point of view. More critically, we had a facility that they set up, run by GCHQ, called the Huawei Cyber Security Evaluation Centre. I know that the US sanctions that have been imposed have made that null and void. I was really saddened by that, because we had a telescope into the Chinese infrastructure and capability that we could better understand and learn from as a nation. If we step back and look more broadly, the opportunity we have here in the UK is: as we straddle these two tech behemoths, how do we gather knowledge and insight that strengthens our own infrastructure and the 17 verticals that we have here, some of which we might have to agree to sell out to get investment in, and some of which we might want to protect?

It comes back to my point earlier. I like the concept of the ISU. Getting the balance right, and getting it to work in a first-class manner, can help us to keep that investment pipeline coming into the UK. We might want to be protective about some of these companies, and we can turn those 80-odd tech unicorns into multibillion dollar companies. They could risk being bought down the line but, at the same time, it sends a message to many of the countries around the world: "Come here. Set up here. You don't have to go to China. You don't have to go to the US, because it is really hard to go to the US when you want to expand. Come to the UK." This is where we need to be talking about how we turn the UK into a tech nation.

Q290 **Bob Seely:** I am very glad that you have raised Huawei, because both



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the Chair and I were very engaged with that, so I know a little bit about it and about the Cell as well. You have made the argument that, actually, we could study what the Chinese are up to in the Banbury Cell. I have to say that nobody has ever made that argument to me as a reason for keeping Huawei in this country. I would have been interested in that argument, because I understand it, but nobody in Government, or anyone related to Government or the National Cyber Security Centre, ever made that argument.

Russ Shaw: I am surprised.

Q291 **Bob Seely:** Yes. Secondly, and critically, you rub up against the economics and the tech. I understand there is a tech centre in Cambridge, but that confronts the strategic interest argument. Huawei would have played a very critical, and potentially dominant, part in a significant element of critical national infrastructure for years. Then you have the influence on politicians—the Chinese influence on our political decision making—and that balance between attracting talent and having the state threatened. That is where you need a definition of national security that encompasses this. Huawei was not a direct military threat, but we should avoid Chinese dominance in any one sector. You could argue that we should avoid American dominance, too, even though the Americans are our closest allies. Anyone dominating any particular sector of our critical national infrastructure raises significant question marks over this country's ability to be sovereign in the decisions that its politicians and political leaders make. I am glad you raised Huawei, because it is actually a really important point—where you have a balance between the free market, the security of the nation and the freedom of decision making.

Russ Shaw: The point I want to make again on Huawei—I hear exactly what you are saying, and you are making very relevant points—is that we have lost some time on the implementation of our 5G network, but that is probably a price to pay from a national security point of view. Whether it is Huawei here or the engagement in China, we need to know and understand what they are building. The last time I was there was in October 2019. My head was spinning at the size and scale of what they are building, which covers all these 17 sectors. Hazel and I have spoken so positively about the FCA and our FinTech ecosystem, but it pales in comparison with what they are building there. In the context of this Bill and the ISU, how do we get some type of engagement so that we know and understand what is going on? Maybe it comes back to the Science and Innovation Network that we have through the FCDO and BEIS. That can help us to do that, but I would rather know what they are building and creating.

Q292 **Bob Seely:** Do you think our universities should be part of this security and investment? A non-trusted vendor from a non-trusted state, or however you want to phrase it, can come in to buy facial recognition technology and use that in its public surveillance. It can potentially take that and use it for negative purposes, but it can also sponsor that research in a university, which provides exactly the same outcome. Do



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you therefore think that we need to have a much closer relationship with universities, to see who they are working with, the sort of work that they are producing, and who they are producing it for?

Russ Shaw: Yes.

Hazel Moore: I think that is a really difficult question to answer. We in the UK cannot act in isolation. The technology industry—the technology market—is a global market. There are extraordinary things being developed in China, the US, Japan, Germany and all sorts of places. Collaboration is the best way for us to make sure that our academics and universities stay at the cutting edge of new discoveries—

Bob Seely: But Hazel, what happens if collaboration is just a polite way of people coming in, taking the ideas, saying thank you and setting up shop in Shanghai?

Chair: Can you let Ms Moore answer the question?

Russ Shaw: Can I say that goes the other way as well?

Chair: Sorry, Mr Shaw, I will stop you as well and let Ms Moore answer the question.

Hazel Moore: My point is that we in the UK cannot shut ourselves off. We do not have the resources. For our tech sector to flourish and for our universities to flourish, we need to make sure that we are accessing the best ideas and the best technologies from wherever they come. As I said before, I accept that there are appropriate restrictions that need to be put in place to make sure that things are not taken and put to nefarious purposes—presumably that is what the Bill is looking to address—but I certainly come at this from the perspective of, if we as the UK want to be successful globally, we have to engage globally. We need to make it a proportionate regime in order to do that.

Q293 **Chris Bryant:** I have a couple of specific questions. Earlier, you referred to the list of 17 subject areas or industries. One of those is communications, which seems very broad to me. Do you think it is too broad? Should it be more specific? Do you think that is in the right place or not?

Hazel Moore: I would go back to the comment that I made in relation to that list, which is that being prescriptive about the technology misses the opportunity to be flexible and agile in terms of what that technology is being used for. We should be thinking about protecting against activity, intent and purpose rather than saying that there is a specific type of material on the list that we should be concerned about. For me, communications would fall under that broader remit.

If you look at that list of 17 technologies, it is a bit difficult to discern the intent of the Government, because there is not really a consistent approach in terms of how the different sectors have been defined. There are pages and pages of definitions of advanced materials, for example,



and half a page on software. That does not seem to me to be the right balance.

Q294 **Chris Bryant:** Thanks for that. If I were to speak to the Russian or Chinese ambassadors about this, they would say to me, "This is all just a great got-up concern. It's evidence of the ongoing Russophobia and Sinophobia that has obsessed the west for far too long. Frankly, get over yourselves." First, what is your answer to that? Secondly, perhaps more importantly, how do we make sure that there is no—I do not like to use the words "unconscious bias"—subtle form of racism in the decisions that we make in this area?

Russ Shaw: You mean racism against a particular country or nationality such as China.

Q295 Chris Bryant: Yes.

Russ Shaw: To your first point, there is plenty of evidence to go back to them and say, "There is evidence about how you've stolen intellectual property and launched misinformation campaigns and so on that has driven us to this point." I think there is plenty of diplomatic ground—I am not a diplomat—to push back to the Russians and the Chinese and say, "We have to do this."

To the point about racism, I think we have to be very careful and very sensitive in terms of how we convey this. I think we have to start from an informed point of view. I engage a lot with the Chinese. I have very good relationships with them. I see and understand a lot about what is happening there, but when I hear, for example, the President of the United States talk about "the China virus", and I hear from my Chinese counterpart saying, "Is the UK like this as well?" I have to say, "No, we're not."

We have to be very clear about why we are doing this and why we are putting some of these measures in place. It is not targeted to one particular country. Coming back to the example I used earlier, we sold ARM to the Japanese and now the Japanese have sold it to the Americans. Some of the things that we look at from the big tech companies in the US deserve some extra scrutiny.

To me, it is not China or Russia or the US; it is our national security as a nation that we have to be mindful of. Again, I am not a diplomat and I am not in the Foreign Service, but I think those are some messages that can easily be counterbalanced back to them through what we are trying to do here. Again, coming to the point I made earlier, good ISU management and good reputation building à la the FCA I think will go a long way to easing and addressing those concerns.

Chris Bryant: Hazel, do you want to add anything?

Hazel Moore: I do not have anything to add to that.

Q296 **Chris Bryant:** Finally from me, to go back to the issue of vaccines, one of the easiest ways to make the UK topple over in the next six or 12 months



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would be to make lots of people in the UK nervous about taking up a vaccine. Where does that count in the scheme of things?

Russ Shaw: I talked about national security and read off the list of things that I would look at. I would add public health security to the definition of national security. To me, a vaccine sits within that in terms of how it gets implemented and the efficacy of it. I think it is part of our national security because it relates to public health security.

Hazel Moore: I think a lot of problems in relation to a vaccine and the take-up of a vaccine largely relate to misinformation and conspiracy theories. There is one approach, which is taking down that kind of information when you find it, but I think there needs to be another much more proactive approach in terms of messaging and communication about the benefits of the vaccine and the public health implications for people. It is about not just saying that they are wrong but putting the positive case for it. At this stage, it is an information campaign.

Q297 **Chair:** You have been extremely generous with your time and even more generous with your challenging ideas, so I will just ask one or two final questions before signing off. If any members of the Committee wish to just get in with their last ones, we are approaching the final strait.

The last question from me is: what would you put in as amendments to the Bill? Where would you make an amendment? I know that is slightly, “How long is a piece of string?” but I would be grateful if you focused on one or two areas where there is a substantial amendment that you would make.

Hazel Moore: Interestingly, one of the previous witnesses talked about golden visas. I do not know anything about golden visas, but we talked about the importance of the implementation, and the importance to business of certainty and being able to get a quick decision. I do not know whether there is a regime that means that investors could apply for pre-approval and get pre-screened—people who would regularly do business—and therefore there is a fast-track approach for certain investors to be able to go about their business with minimal interference. That is one idea that I have.

The other one, which is perhaps more directly a response to the Bill, is that the five-year call-in period is excessive. It spans, or likely spans, different potential Governments and political interests. It is a lifetime in relation to the development of many technologies, and there can also be a very different interpretation of national security over a period that long. I think that that timeframe gives considerable uncertainty to business. If you have bought something, integrated it and then, five years later, you are told that actually the goalposts have changed and you have to unwind it—for me, that is a very negative signal.

Russ Shaw: Hazel and I have disagreed on a few points, but I fully agree on that point. I think five years is too long. It is a disincentive to investors if you have to go back—and the technology space just evolves and moves so quickly that five years is an eternity.



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There are a few other points I would raise. Hazel brought up a really good point, which I wanted to come back to. I agree with Hazel: I think there is going to be a surge in interventions, well above the 1,000 to 1,800 outlined in relation to the Bill, and I think the ISU will need to be prepared for that, because if there is that surge, you want it to get off on the right foot.

The one other point I will make is that having the Secretary of State as the final arbiter can be seen as political. I heard the reasons and rationale as to why this is sitting within BEIS, with links into the FCO, and that all makes sense, but I think the perception by overseas investors is that having the Secretary of State as the final arbiter could be seen as a somewhat political move, so if there is any thinking about this or way in which more independent oversight could be brought in, in terms of decisions, without making it too bureaucratic, that is something I would certainly take a look at.

Hazel Moore: I will just say, though, Russ, that I would rather this sat with BEIS than with the security services.

Russ Shaw: Yes—fair point! My point was just the political signal that is sent by having somebody who is a politician in charge of it. That could send a message.

Q298 **Chair:** Would you go for a committee?

Russ Shaw: Committees, in my mind, certainly take longer, but I think that if there is an independent committee of, say, two or three people who are evaluating this, and the Secretary of State can have input, but they make the final call as they are independent, that could be more effective.

Hazel Moore: I really would like to emphasise speed of response. Because there is no de minimis in the Bill and because this is going to capture even the smallest companies, there is a real risk for early-stage businesses, who are probably going to go through maybe an annual cycle of getting investment in over a number of years. There is a real risk that they could just be stuck in an endless cycle of engagement and assessment as every transaction gets scrutinised, which adds cost, friction, uncertainty and delays. If we could really be confident that the vast majority of transactions are going to be dealt with in an expeditious way and are not going to cause issues, business would be a lot more comfortable about the potential workings of this new regime.

Chair: It does rather raise questions as to how you would uncode five years of coded-in acquisition—it would be like unscrambling an omelette.

May I thank you both enormously for this afternoon's session? You have been extremely candid; and for that, we are extremely grateful. I am going to ask members of the Committee, before we close—because once we close, the Zoom link goes down—to jump back on to the Teams link that we were on, just to close off a couple of private session things. Thank you all very much indeed for your time.



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