



House of Commons
Foreign Affairs Committee

**Government response
to the Committee's
Third Report:
Sovereignty for sale:
the FCDO's role in
protecting strategic
British assets**

**Fourth Special Report of Session
2021–22**

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The Foreign Affairs Committee

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Fourth Special Report

On 14 July 2021, the Foreign Affairs Committee published its Third Report of Session 2021–22, [Sovereignty for sale: the FCDO's role in protecting strategic British assets](#) (HC 197). The Government's response was received on 15 October 2021 and is appended below.

Appendix: Government Response

The Government welcomes the opportunity to respond to the Foreign Affairs Committee's third report, *Sovereignty for Sale: the FCDO's role in protecting strategic British Assets*, published on 14 July.

The National Security and Investment (NSI) Act 2021 will update and strengthen the Government's powers to investigate and intervene in potentially hostile foreign direct investment. It aims to help provide reassurance that Britain is open for business, but not open for exploitation; and to protect critical supply chains. The Government is confident the NSI Act will provide more security for British businesses and people; more clarity for businesses and faster investment processes; and a regime that brings our powers into line with those of our closest partners.

The FCDO will work with the Investment Security Unit (ISU) in BEIS, and other partners across government, to ensure that the regime is rigorous and robust. The FCDO also has an essential role to play in the implementation of the NSI Act, including by considering the national security implications of planned deals, providing advice on foreign policy implications, and leading on diplomatic handling. The expertise and local knowledge of our global network will help ensure that the NSI decision-making processes are based on evidence from across the Government.

The Government takes careful note of the Committee's report and has considered the recommendations in detail. This paper sets out the Government's response to each of the Committee's specific conclusions and recommendations.

The Committee's text is in bold and the Government's response is below.

FCDO's role in understanding national security risk

The takeover of Newport Wafer Fab by Nexperia represents the sale of one of the UK's prized assets to a strategic competitor, at a time when global chip shortages means that the products manufactured by NWF are of vital national importance. Failure to conduct a detailed assessment of this transaction under the NSI Act would indicate that the Government continues to hold an unrealistically optimistic understanding of the Chinese government's intentions and is prioritising short-term commercial interests over the long-term security of our country. The case of NWF may yet serve to demonstrate that, despite the stated intentions of the NSI Bill, the Government has not yet learned the lessons of previous years. (Paragraph 21)

We recommend that the Government calls in the acquisition of Newport Wafer Fab by Nexperia for review and imposes appropriate mitigating measures, as a matter of urgency. (Paragraph 22)

We note the Committee’s recommendation. The Government does not and will not prioritise short-term commercial interests over national security considerations.

The Government is committed to the semiconductor cluster and the vital role it plays in the UK economy. While the Business Secretary will have powers to retrospectively ‘call in’ transactions when the Government’s investment screening regime under the National Security & Investment Act commences in January 2022, as the Prime Minister set out in his evidence to the Liaison Committee on 7 July, the National Security Adviser is presently conducting a review into the acquisition of Newport Wafer Fab by Nexperia. The review will consider carefully the various aspects of this acquisition. It would be inappropriate to comment further before the conclusion of the National Security Adviser’s review.

It is vital that there is continuous monitoring of the investment and technology landscapes to catch non-notified transactions, as well as monitoring for changes to board compositions or ownership models, which may not serve the UK’s security interests, after the initial transaction has taken place with Government intervention if necessary. This should be additional to the notification regime established by the NSI Act and will require regular feed-in from multiple departments, including the FCDO, building on the tech ambassador we recommended in our report on the Integrated Review, Brave new Britain. (Paragraph 27)

We note the Committee’s recommendation, and agree that regular market monitoring to identify deals that may raise national security concerns should and will be a key part of the new regime. The market monitoring function will also help identify wider investment trends, and patterns of behaviour.

Ongoing monitoring of the global technology landscape by the FCDO should inform any future changes, as needed, to (a) the sectors subject to mandatory notification under the National Security and Investment Bill, and (b) the factors to be taken into consideration by the BEIS Secretary of State when assessing transactions, as set out in the Statement of Policy Intent. We recommend that the annual report outlines how this information has been taken into account in the Secretary of State’s decisions. (Paragraph 28)

We note the Committee’s recommendation. In terms of changes to the global technology landscape, the FCDO will be involved in any revision of the notifiable acquisition regulations which underpin the mandatory notification system. FCDO, BEIS and all departments and agencies have a shared commitment to ensuring the areas of the economy covered by mandatory notification obligations keep pace with technological advances, as well as the constantly changing national security risks that we face.

For the FCDO to add value to the NSI regime, it will be important that the Department has the necessary skills, expertise and structures to effectively support the ISU. If the Government continues to behave in the same ways and rely on the same skills base as it has previously, it will continue to see the same results—or worse, given our changing security environment. (Paragraph 29)

The FCDO should demonstrate leadership on the foreign relations aspects of foreign investment decisions. Supporting the ISU’s work in this area is a key responsibility of the FCDO. It will be vital that the Department has the right expertise both at overseas

Posts and in London to fulfil this responsibility, including through ongoing monitoring of the global investment landscape. We recommend that the Government outlines how it intends to achieve this in its response to this report. (Paragraph 30)

We agree with the Committee that the FCDO holds the key role in supporting the ISU's work in this area.

To deliver that, a dedicated FCDO team has been established to engage with and support the ISU's work. A key role for this team is to raise awareness of investment security issues, and help build FCDO capability in this area, both in the UK and overseas. This was discussed at the FCDO Senior Leadership Conference at the end of June 2021, and we are identifying and securing the short and long-term capabilities required.

The FCDO works closely with relevant counterparts in DIT, DCMS and elsewhere to ensure that expertise at overseas Posts is used to support investment security casework, as well as wider investment and economic security strategy. These teams horizon scan, monitoring the global investment landscape and trends within it, and routinely support the ISU by sharing commercial intelligence. FCDO also hosts the One-HMG overseas platform which supports other departments' activities and cross-HMG objectives, including on Trade and Investment. For example, the HM Trade Commissioners and DIT staff in over 100 countries work in lockstep with Heads of Post and other Embassy/High Commission teams.

In terms of changes to the global technology landscape, the FCDO will engage closely in any revision of the notifiable acquisition regulations that underpin the mandatory notification system. FCDO, BEIS and other departments and agencies have a shared commitment to ensuring the areas of the economy covered by mandatory notification obligations keep pace with technological advances, as well as the constantly changing national security risks that we face.

We support the Government's decision to keep the NSI Act agnostic of geography or type of actor, so that investments are judged on a case-by case rather than country-specific basis. The FCDO has a vital role to play in communicating to other parts of government its assessment of the broader strategic intent of foreign governments in their investment decisions, and this information should be a primary consideration when considering specific transactions. The FCDO should be responsible for advising BEIS on these matters and we intend to hold the Department to account for any failure to do so. (Paragraph 37)

We agree with the Committee's recommendation. Following full commencement of the NSI Act on 4 January 2022, ISU officials will coordinate input from across government, including from the FCDO, to ensure the Business Secretary can make informed and well-evidenced decisions. The FCDO will contribute the expertise and local knowledge from the global network, including its assessment of other governments' intent, to inform NSI screening and assessment processes. The FCDO will also continue to monitor and report more broadly on the strategic intent of foreign governments and their investment decisions.

Cross-Government cooperation on investment screening

We recommend that 10 percent of Investment Security Unit staff should be secondees from FCDO, to ensure that FCDO expertise can be drawn upon on a day-to-day basis. (Paragraph 44)

Staff in the ISU bring valuable knowledge from across the civil service and the national security community to the investment screening process. The Unit is supported by a network of advisers from across government. The FCDO will continue to work exceptionally closely with the ISU.

We note the specificity of the Committee’s recommendations, but do not consider it necessary to mandate that a specific percentage of ISU staff should be seconded from the FCDO. Our priority is to ensure that the ISU can draw on relevant expertise and input from across Government, wherever it may be, in a timely way, and we will implement the most effective way to do so.

That is why the FCDO has created a dedicated team in the National Security Directorate to coordinate casework and input into shaping BEIS’ processes. This team coordinates across the FCDO network of Posts, including other government departments that operate in overseas posts, and with the relevant geographical and thematic FCDO Departments.

We will continue to keep staffing and structures under close review, to ensure that we are providing the ISU with high-quality advice and support, and that the information flows are smooth.

Cooperation with like-minded partners and allies

Given the complex and transnational nature of the global investment landscape, the UK cannot operate alone on this matter. The Government should cooperate on FDI screening with other countries with whom we share values and strategic objectives. We recommend that the FCDO seeks to play a leading role in bringing together countries and partners from overseas and in building alliances to make sure investment vehicles in one country aren’t used as a Trojan horse in others. (Paragraph 54)

The FCDO already works closely with several countries (e.g. USA, France, Australia, Germany and Italy) who have similar investment screening regimes in place. Our Embassies have discussed this at senior level with key partners and host governments to ensure that there is good understanding of the rationale behind the NSI Act and the processes that we are putting in place to implement it. This is an ongoing discussion.

We are continuing to promote our work on investment security, and to encourage countries that do not yet have similar investment security regimes to follow our lead in this area. We are continuing to explore additional ways to further our co-operation with like-minded partners and allies.

The FCDO’s work complements, and is complemented by, the work of other Government partners including BEIS and MOD, and our conversations and cooperation with Five Eyes, and G7 partners including through the Investment Security Experts Group (ISEG). This

cooperation has been invaluable in the development of the UK’s investment screening reforms. The Government will continue to learn from our partners, share best practice, and tackle shared risks alongside our international partners.

Transparency and reporting

With cross-Government working comes a need for cross-committee scrutiny. If the Government is to succeed in achieving an “integrated” approach to UK security and foreign policy as set out in the Integrated Review, Government departments must be held to account by all committees with the relevant remit and expertise. In the case of the Investment Security Unit, this would ensure that scrutiny of Government decisions is not only conducted by select committees with a primarily pro-business lens, but would provide a more balanced and nuanced assessment of its decisions. (Paragraph 64)

We acknowledge the Secretary of State’s concern about the workload entailed by involvement of multiple committees in scrutinising the ISU but would argue that this should not be a barrier to effective scrutiny. FAC’s important contribution to UK national security and foreign investment was recognised in the Government response to our report in February 2021. Following our scrutiny of the National Security and Investment Bill, it is our intention to monitor its effectiveness. This requires the Government to furnish us with the necessary information. (Paragraph 65)

We recommend that the Chairs of the Foreign Affairs Committee, Intelligence and Security Committee and Science and Technology Committees are also provided with private briefings on the activities of the ISU on Privy Council terms, to ensure that Government decisions are scrutinised from all angles relevant to the UK’s interests. These briefings should be held bi-annually as a minimum. (Paragraph 66)

The Government believes it is right that the BEIS Select Committee should oversee the work of the ISU in its operation of the NSI Act. This is the Parliamentary Committee with responsibility for overseeing the work of BEIS, where the ISU is housed. The Government has committed to ensuring the BEIS Select Committee has access to the information it needs to undertake such scrutiny, and a Memorandum of Understanding underpinning these arrangements will be published in due course.

The Government will continue to work with the Foreign Affairs Committee and other relevant Parliamentary committees to ensure that they are appropriately informed of the NSI system and the work of the ISU. This includes scrutiny by the Science and Technology Select Committee, where the work of the Unit falls within the specific remit of that Committee. The Government also welcomes the Intelligence and Security Committee’s continued scrutiny of the work of the intelligence community, including where that supports the work of the ISU.