

# Joint Committee on National Security Strategy

## Oral evidence: National Security and Investment

Monday 15 October 2018

4.20 pm

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Members present: Margaret Beckett (Chair); Lord Brennan; Lord Campbell of Pittenweem; James Gray; Lord Hamilton of Epsom; Lord Harris of Haringey; Baroness Healy of Primrose Hill; Baroness Henig; Lord King of Bridgwater; Baroness Lane-Fox of Soho; Rachel Reeves; Stephen Twigg.

Evidence Session No. 1

Heard in Public

Questions 1 - 21

### Witnesses

[I](#): Professor Alan Woodward, Centre for Cyber Security, Surrey University; Ollie Welch, Head of Defence/Aerospace and Security Policy, EEF.

[II](#): Tim Jarvis, Director, Consumer and Competition Policy, Department for Business, Energy and Industrial Strategy; Paul McCloghrie, Deputy Director, National Risks and Infrastructure, Civil Contingencies Secretariat, Cabinet Office.

## Examination of witnesses

Professor Alan Woodward and Ollie Welch.

Q1 **The Chair:** Good afternoon. Thank you very much for coming. I apologise that we kept you waiting for a moment or two. Quite a bit is going on in the House today and sometimes that causes problems.

The White Paper says that the Government have to make proposals because of “technological, economic and geopolitical changes”. I would be grateful to hear from each of you whether you share that assessment.

**Professor Alan Woodward:** Personally, I do. One of the things that has happened, and I am sure we will talk about it, is that we are all a lot more interconnected not just electronically but in manufacturing and our supply chains. In my own area, IT, although we might get software from the UK, we certainly do not get the hardware from here, so we have all become a lot more interdependent on other countries, and some of them may or may not be hostile actors in the future.

**Ollie Welch:** I absolutely agree. Traditionally, our members in the defence sector would perhaps have expected 20 years ago to be leading technology, whereas there has been a marked change over a generation such that the sort of technology we would describe in a national security context has expanded into areas of technology that may not be generating it. It is recognisably more difficult to control something when its initial purpose and future intentions may not be clear at the outset.

**The Chair:** I gather that other countries are tightening controls on foreign ownership of corporations. Is it your impression that that is part of a general move, or is it specific to the UK?

**Professor Alan Woodward:** I am not sure that I am perfectly qualified on that front. If it is, it may be missing the point. A lot of the document is about thinking of control as ownership, whereas I am not sure that is where the most influence is going to come from.

**The Chair:** It is influence that is important.

**Professor Alan Woodward:** I believe so.

**Mr Ollie Welch:** I am certainly aware that other nations are looking at this. The US has recently made some changes of its own, and you are right to identify a general global move towards this sort of requirement. I am not an expert in those particular regimes.

**Lord King of Bridgwater:** Our questions have to be set against a background where we are talking about major corporations and whether somebody will come in and take a significant shareholding, arguing about what that percentage shareholding would be and the size of the company. We know that at present this country is one of the targets for a lot of other countries to come here and buy up our technology. A lot of the technology that is going to be really interesting in a good part of the field we are interested in may be carried on at the moment in universities, as you know,

Professor. They are trawling round Cambridge, Oxford, Bristol and other places looking for some of the bright ideas that are coming up and seeing how they can take them on.

How well do companies know that the Government are interested in what the arrangements will be? I should think most of them are quite ignorant of that. Do you think that knowing quite what we are talking about here is a real problem? It seems to me that the business of setting up rules and regulations for the size of company and what the percentage of shareholding will be is pretty irrelevant to some of the issues that could prove to be quite strategic in the longer term.

**Professor Alan Woodward:** I agree. In universities where some of the technologies spin out into smaller companies, it is probably the last thing on their mind; they just want some investment to keep going to the next stage. If somebody comes along with folding money and says, "For a share in your company, we'll give you some investment", which they are not necessarily getting from within this country, what else are they meant to do? It is very difficult.

**Lord King of Bridgwater:** Do you think any of them have the slightest awareness that they might have a national responsibility to advise the Government that they have been approached?

**Professor Alan Woodward:** I do not think so. It is certainly not uppermost in their minds. If you are a researcher at a university and you have a clever idea—a new process or a new technology that you have developed—your prime concern is about moving it on to the next stage, scaling it up and that type of thing; you are not necessarily thinking, "Hold on a minute. In 10 years this could be of national significance". I just do not think that is the mindset.

**The Chair:** To a certain extent, they are probably being pushed to take an interest in the commercial prospects of their work.

**Mr Ollie Welch:** Indeed. I agree with that assessment in part. The problem is not necessarily that businesses seek investment in lieu of national security implications. Where businesses were aware of that, they would report it and understand it as an issue. There is, nevertheless, a problem with companies, particularly small ones and potentially tech start-ups, not thinking in a national security context about their technology. They do not have a handle on the threat picture or an understanding of where the Government might have a better understanding. There is effectively an air gap between that, and the challenge is how you close it.

**Professor Alan Woodward:** Take something that is not my area at all: an industrial process that might improve something and be of extreme benefit to the UK economy in five years' time. Chemists, production engineers and people working on that might think that a foreign Government or, as they would see it, a foreign company could come in and invest. It is not that they would think it was necessarily of national significance. I do not believe that.

**Lord Harris of Haringey:** I want to clarify something Professor Woodward said. You were not sure that ownership was the right measure and you would like us to look at influence, but ownership is clearly being used in all of this as a proxy for risk and so on. What do you think would be the right thing to focus on?

**Professor Alan Woodward:** That is a very good question. I note that in the document it is almost as though it evolves; it starts talking about ownership, presumably through the number of shares, once more than 25% of shares are taken, or a controlling interest is taken, but influence in an asset can be very much through the supply chain these days. Companies that are of national significance can be very much subject to single sources. To give a very simple, perhaps trivial, analogy, you can have a wholly-owned gas-fired power station in the UK, but if you do not control the supply of gas, you can shut off that power station as surely as if you said, "I'm going to shut it down for commercial reasons".

**The Chair:** We have drifted slightly into another area.

Q2 **Rachel Reeves:** I want to go back to what significant influence or control means. Do you think the Government's White Paper is clear enough? How difficult will it be in practice to make a judgment about what constitutes unacceptable influence or control? Is it even possible to pin it down? Is the White Paper doing enough on that?

**Mr Ollie Welch:** It is very challenging. I understand how the Government arrived at their position, because by definition you are dealing in unknowns, but from a business point of view of course that carries an inherent risk. There is a risk that at any stage of the process you could be subject to a call-in if it was discovered that you had technology that was of interest. There is therefore a challenge about what that means for future investment and whether it is a disincentive. I would like to see a better and more comprehensive attempt at defining that, even if it could not be pinned down into a very definitive list of articles.

**Rachel Reeves:** How would you do that? How would you change what is in the White Paper?

**Mr Ollie Welch:** It would be a real challenge, and I do not entirely have an answer. Clearly, you need the ability to talk to the technologists at an early stage. The Government need to be in a position to understand where the technology comes from and what its future implications are, so maybe it could be that kind of consultation process.

**Professor Alan Woodward:** Especially when it comes to the national security side of things, it is almost inevitable with things such as this that you will end up with fairly wide definitions, and it will then be for the judgment of the Minister and his advisers as to when something is triggered. There are some very specific trigger events, and then the last one just talks about acquisition of "significant influence or control". Inevitably, there will have to be an element of judgment about it. I am not sure how prescriptive you can be.

**Rachel Reeves:** But without prescription, without having greater clarity about it, if a Minister decided that something was against our national interest, presumably his or her decision could be judicially reviewed.

**Professor Alan Woodward:** Yes. Presumably, there has to be some oversight; you cannot make such decisions without recourse. People could have some right of appeal and go forward with it, but if something is too prescriptive, especially given the rate at which I see my own area of technology advancing, you do not necessarily know what might happen, so you need not a catch-all but almost an enabling clause that allows them to make a judgment that can be challenged.

Q3 **Lord Hamilton of Epsom:** To go back to the question of finance for tech start-ups, start-ups are very risky businesses and an awful lot of them go bust anyway. If we blunder into this and start putting enormous restrictions on who can finance whatever, will we not lose a lot of tech start-ups? They will just die on their feet, because nobody is going to invest in them at all.

**Mr Ollie Welch:** Potentially, yes. I guess it would depend on the application of the legislation. There does not appear to be anything that considers the business implications of deciding to remove investment. As you rightly say, some businesses seek investment for a reason, and would notify only if they decided that from a business perspective it was the right thing to do. If that rug was pulled from underneath them, it would be a risk.

**Professor Alan Woodward:** The last thing a small start-up needs is more bureaucracy and overheads. It is a case of where the burden falls and how much of a burden it is. You have to file your taxes. I have run businesses, including PLCs; you have to disclose to the registry who your shareholders are, so a lot depends on how it is then reported back to those in government who may take action on it.

**Lord Harris of Haringey:** Are there some areas that are so sensitive that the best posture for the UK would be to say that only vetted UK companies with vetted UK supply lines should provide those services?

**Professor Alan Woodward:** Personally, I do not think so. There is a spectrum, from "implicitly trust, come what may" to "implicitly distrust", as some of our colleagues in the United States and Australia have said of 5G networks. I think there is a third way, which is "trust but verify". That is the approach we have taken so far in the UK. For example, when Huawei was supplying the 21st century network, an evaluation cell was set up with vetted people from the Government who were able to look at the devices, et cetera. The problem is that "trust but verify" works only as long as you really can verify what goes into the infrastructure and critical positions. As we saw from the oversight report two months ago, there are some process issues in that particular case.

**Lord Harris of Haringey:** You say "some process issues". What they were actually saying was that there was only limited assurance about the risks from using the companies.

**Professor Alan Woodward:** It was not a technical matter; it was to do with the fact that, as I understand it, Huawei was not able to guarantee, and did not have a process in place to show, that what was coming off the production line and going into the networks was what had been evaluated, which drives a bit of a coach and horses through the evaluation process.

**Mr Ollie Welch:** There are processes already in place for companies working in the defence and security sector, for instance, whereby they are expected to maintain UK supply chains and the like. The danger of making a sweeping judgment on whole-scale technologies, particularly innovative future technologies, is that effectively you turn off the tap for investment. From an investor's perspective, it becomes too risky to invest in the UK.

**Professor Alan Woodward:** But, more than that, you potentially do the country a disservice, because you might turn off access to technology that is more innovative than we would necessarily have in this country, or in countries that we would consider to be the most friendly.

Q4 **Lord Harris of Haringey:** We are in a difficult position here, are we not? We have had very recent media reports about secret Chinese chips and goodness only knows what else being embedded in computers. Clearly, western countries have to buy kit from China knowing some of those risks. You have also talked about supply chain risks. Does this not suggest that perhaps the White Paper is missing what might be the key targets?

**Professor Alan Woodward:** Yes, absolutely. That is why I said that influence is wider than just ownership. In the modern world, certainly in the technical sphere, which is the one I am probably more able to talk about, the supply chain is extremely important. You can become very dependent on manufacturing; for example, the UK just does not have the manufacturing facilities to produce most of what we use in the laptops that run this building: 90% of them are made in China. It is as simple as that.

**Lord Harris of Haringey:** You are saying it is too late.

**Professor Alan Woodward:** I am saying we have to adopt a policy of trust but verify.

**Mr Ollie Welch:** The legislation does not appear to want to address that point and it is one that should be picked up.

**The Chair:** I get the slight impression that in the past we have taken a magnificently indifferent view of all this, and a magnificently indifferent view of ownership: let the market sort it all out. Now people realise that that may not be totally wise in every circumstance, so they are going after where they see a gap, which is ownership, but that might not be the only gap, or the best one.

**Professor Alan Woodward:** I totally agree with you. Other countries can do manufacturing a lot cheaper, and our manufacturing base in the technology sphere—my sphere—has moved there. It is too late; we are dependent on them now, but that is not necessarily a bad thing, provided we can verify. If you try to chop them out of certain things, you will miss

innovation and drive up costs, and I doubt whether the UK is of a size anyway that could do it.

**Q5** **Baroness Lane-Fox of Soho:** The Government made some fairly big assumptions about the sectors of the economy that are at greatest risk. Do you share those assessments of the sectors? Do you think they have omitted anything?

**Professor Alan Woodward:** I agree with the CPNI lists. In the White Paper, I was surprised that space was missing.

**Baroness Lane-Fox of Soho:** It is in the longer list.

**Professor Alan Woodward:** It is not in the subset that is considered to be something that will come under these auspices. I suppose that was the main one.

**Baroness Lane-Fox of Soho:** Why would you pick space in particular, as opposed to something else?

**Professor Alan Woodward:** As it happens, space is an area that the UK is very good at. It has a significant lead in a number of areas, particularly small satellites. I suppose one could argue that there is a bit of a cross-over with communications, which is on the small list, but space is now a sphere that is more than pure communications; it is everything from meteorology to whatever. There are now many applications in space, and you do not necessarily want a hostile actor to have undue influence over some of those.

**Baroness Lane-Fox of Soho:** Would you say that there are areas that are not core bits of the economy but are secondary? I think there are five core ones, and then another eight. For the other eight, they assume there are sufficient protections within those areas—for example water, chemicals and other bits of the economy. Do you share their belief that there are sufficient protections in those areas?

**Mr Ollie Welch:** I am not necessarily in a position to talk about that. Perhaps of more interest from a manufacturing perspective are the technology areas and the recognition that, if you limit this to specific sectors, you might miss the broader question.

**Baroness Lane-Fox of Soho:** Can you give an example?

**Mr Ollie Welch:** How technology will develop in future is probably where the White Paper needs to focus.

**Baroness Lane-Fox of Soho:** Can you give an example of where you think that would be best done?

**Mr Ollie Welch:** I do not pretend to be a technologist, but artificial intelligence is clearly a burgeoning area. Many in the manufacturing community are thinking about artificial intelligence and how to digitise manufacturing. The result of that will go in ways and directions that we have not yet predicted, and that has particular implications in the military

sphere. We will be at a sort of Zen nexus in the digitisation of military equipment. The technology that sits below that is currently not thought of in the military space; it is very much in a computing space.

Q6 **Baroness Lane-Fox of Soho:** In the paper, the Government have put together a list of advanced technologies, and AI is in the list, so do you think they have just not thought clearly enough about what that means and its implications? What is your reticence about the way they have structured it?

**Mr Ollie Welch:** It is the reality of the fact that it is an unknown and, therefore, very difficult to pin it down in a White Paper that you write today.

**Professor Alan Woodward:** Five years ago, we would not necessarily have included quantum technologies.

**Baroness Lane-Fox of Soho:** Do you feel the list is appropriate? If not, exactly to that point, how do you manage something that is evolving so rapidly with such unknowns in technological breakthrough?

**Professor Alan Woodward:** I do not necessarily expect the Government to have sweeping powers in this area, but can one become over-prescriptive? Is there an element of having to have something in there? A catch-all is the wrong way of putting it, but if it is recognised that something will become of national significance, or certainly of significance to national security, is that something you should be able to put in? That is the trouble with something that is overly prescriptive. The list is quite prescriptive, but it has some very general things in it, such as computer hardware and quantum technologies. Some of it is very broad, but there are the known knowns and the unknowns.

**Baroness Lane-Fox of Soho:** It is complicated. To wrap that together, and to try to understand how to balance things we know now—the knowns with the unknowns, or what may be unknown right now—do you think they have got it right as regards the threats we can understand and the technologies we can understand now versus the ones we are only beginning to bet on?

**Mr Ollie Welch:** There is a challenge if we are too prescriptive. Presumably, we want to be an open economy and encourage investment, and if you determine that a technology simply by virtue of being new is controlled at that initial stage, it may act as a disincentive both to investors and potentially to researchers doing that work.

**Professor Alan Woodward:** I agree. Even at the point where it is scaled into some manufacturing, you do not necessarily know in the technological sphere what might become important. It is not necessarily even just before it is created. Take something like social media. How would one know that that was going to become so important? That is a rather more ethereal thing, but there are areas of technology where you do not imagine until five or 10 years down the track that they will have such an influence on society.

**Baroness Lane-Fox of Soho:** One way is to look at where our adversaries and competitors in other countries are investing and play that back into how it might have an impact on our own economy and technological advances. Listening to you, one of the things that strikes me is whether we have enough people looking outside their own world or networks in order to think about the potential threats of the future.

**Mr Ollie Welch:** From an industry perspective—the professor can speak from an academic one—we live in a networked world. The manufacturing supply chain is global by definition. At the technology level it is a cross-border thing generally. At governmental level, it is a different question.

**Baroness Lane-Fox of Soho:** That was more my question, as you have gathered.

**Professor Alan Woodward:** That is my concern. In academia and research environments in general, you tend to know what is going on in all the other countries anyway. If you are in a sphere, you know who is in the lead and who is not.

I mentioned quantum technologies. The Chinese are probably some of the world leaders in quantum encryption and key distribution, but there is an element of where the bridge is back to the decision-makers and those framing the legislation, and defining and putting the policy into practice. I do not see that at the moment. I am not sure whether that is because there is no mechanism, organisation or structure for it, or whether it is a case of awareness among those who sit in both Houses.

**Baroness Lane-Fox of Soho:** That is reassuring.

Q7 **Lord Hamilton of Epsom:** If a medium-sized British defence company is doing some quite secret work for the Ministry of Defence, we must, surely, draw different conclusions about a bid from Lockheed Martin, a French company or a Chinese company, must we not?

**Professor Alan Woodward:** I would hope so.

**Lord Hamilton of Epsom:** We seem to be obsessed by the technology that might be taken over, but we do not seem to worry about who does it. Surely, who does it is absolutely critical.

**Professor Alan Woodward:** We were talking about influence earlier. I suppose it is influence at the point when something is put into operation. If somebody builds something for you and they are, say, Chinese, do they then have an ongoing ability to influence its operation? That is where I would see the dividing line. There are very few things put into military use these days that do not have some components from countries we might not be altogether happy with, but it does not necessarily mean that they control the whole assembly.

**Mr Ollie Welch:** The legislation, as proposed, puts the emphasis on business to notify. Business is only in a position to judge on the basis of the technology it holds. That is what it understands. It is not the role of

business to make a determination from a diplomatic point of view; it would not have access to the same intelligence and so on. Technology is probably the right place to start. I absolutely agree that there is a fundamental difference, and I am sure that the intention is that that would materially affect the outcome of any call-in notice.

**Lord Hamilton of Epsom:** How about the triggering events? Concerns were raised about those. Do you think that the documents deal with the problems about the triggering of events of significant influence or control?

**Professor Alan Woodward:** In so far as most of the bullet points are quite specific, they are quantifiable. The last bullet point about "acquisition of significant influence and control" is the one we dealt with earlier. It is fairly broad, but it is almost inevitable that something like that will have to be included. Point F, on page 5, in the executive summary, is about whether somebody has the ability to direct the operations of whatever is being acquired.

**Mr Ollie Welch:** The definitions are necessarily open to some extent. From a business perspective, you want things to be as defined and narrow as possible, both to incentivise investment and so that businesses feel confident as to when they need to notify. Particularly for small businesses, that could be quite a bureaucratic burden, so you want to be able to rule it out in the vast majority of cases very early on. The more open-ended it is, the more the Government risk creating a better safe than sorry scenario, which could result in unnecessary bureaucracy for business and a very large bureaucratic burden for the Government to deal with as well.

Q8 **Baroness Healy of Primrose Hill:** The draft statement of policy intent appears to put the onus on asset owners and entities to work out whether national security concerns are sufficient for an acquisition to be notified to the Government. Is that likely to be a problem in your view? What support might SMEs or businesses not already in security critical industries need when considering security issues in the way the White Paper proposes? It seems that they are going to be left to make it up themselves.

**Mr Ollie Welch:** That is a real risk. There may be sectors, such as defence and security, that are in a better position to make those judgments, but the reality is that in certain sectors the investments in technology may not be in traditional spheres and they may not have experience of dealing with that. Tech start-ups and university spin-outs will necessarily be small. There is a real risk of creating a vacuum in which they do not know whether to notify, and either waste their time in doing so or miss the opportunity when they should have done it. I would like more advice and perhaps more support to be provided to help small businesses overcome that challenge.

**Professor Alan Woodward:** I can add nothing to that.

Q9 **Baroness Healy of Primrose Hill:** The draft statement of policy intent stresses that national security interventions should be "necessary, proportionate and even-handed". Do you think that the proposals are proportionate from a business perspective? Do you think most businesses

will be content with a voluntary notification system rather than the alternative and more certain mandatory approach, or do you think it will make them reluctant to get involved because they are unclear? Do you think the burden of the proposed processes will be manageable for businesses that are trying to start up and concentrate on the technology without the whole diplomatic aspect?

**Mr Ollie Welch:** The White Paper as written leaves a lot of interpretation open to the Secretary of State dealing with it. The proof of the pudding might be in the eating, depending on how burdensome that becomes. For example, what we consider significant or not could, in theory, change with different political opinions.

The debate about its being voluntary or mandatory is interesting. We consulted on the original Green Paper and we talked to some of our businesses. Although most preferred a voluntary system, one or two thought a mandatory approach could be easier because at least it would simply be a process they had to follow. The danger of a mandatory approach would be around incentivisation. If there is a mandatory approach, it sounds as if you are assuming there is a problem until proven otherwise, whereas from an investment and business perspective a voluntary approach feels much more open: "We recognise there is an issue, but it is a small one and we will deal with it as and when it arises".

**Professor Alan Woodward:** I am not entirely sure what the processes would be. If it is a case of notification of, say, something as simple as share ownership going up by more than a certain percentage—to go back to the main trigger points—I can imagine that being fairly light and very understandable. Anybody who has ever been the director of a company knows that you look at your shareholder register; you know who has the right to appoint directors and so on. The last trigger point, about when somebody has undue influence, is a lot more open-ended. If that becomes notifiable, what does it mean? You would need either a lot of guidance or somebody in government looking out to see when it might have occurred.

**Lord King of Bridgwater:** This could affect a whole range of different companies in this country that would not have the slightest idea that they had obligations or expectations in this field. How will the Government cover the waterfront?

**Professor Alan Woodward:** Speaking from my own experience of running businesses, when new legislation comes out that affects the running of the business, as a director you have to make yourself aware of it.

**Lord King of Bridgwater:** That is the whole point. People have businesses to run and have plenty of things going on. They will not have the slightest idea that they might come within the remit that might be relevant under this legislation.

**Professor Alan Woodward:** Yes.

**Lord King of Bridgwater:** With new ideas coming forward that could be

quite significant, and people busily working on them in a backroom, or wherever it might be, it seems to me that the challenge for government is how to get the message across to people who need to know that they need to be aware of their responsibilities.

**Mr Ollie Welch:** I represent a trade association, so I would of course say that there is a role for us in that, and we would be happy to provide support. We may have the audience, but it is about the detail that is communicated, and that has to come from government in a very clear manner and has to be understood in a way that is business-literate, particularly for small businesses, so that it can be digested quickly and not get in the way.

**Professor Alan Woodward:** As I said, there may be a role for government looking out, with a degree of horizon scanning, to see what is coming up in new technologies and who might be working in them, and then communicating with those people.

**Lord King of Bridgwater:** The EEF is long established, and has good relations and communication with its members. I do not know how good it is in the tech field and some of the new developments, and whether there are sufficient parallel organisations that might be able to help in that field. Are there?

**Mr Ollie Welch:** There are sector-specific organisations, certainly in the manufacturing sector, such as TechUK, which has specific reach in that space, but it would be naive to think that that would be all-encompassing, and for the Government to suggest that that was their only mechanism might be dangerous.

**The Chair:** Thank you very much indeed. You have been very helpful. It has been an interesting session. I hope I am not incorrect in saying that my strong impression is that in the past we have had what might be called an informal system, although I am not sure we had a system at all; we just said we would leave it to the market. Now there is thought of changing that, but you two seem to be particularly concerned about potential burdens on business, bureaucracy and so on, and you are saying that in some respects we have already sold the pass. Is that unfair?

**Professor Alan Woodward:** No, I think that is right. We are where we are now, and we have to deal with it. There is no going back with the technology in some of these areas, certainly not in short order, so we have to put processes and legislation in place to deal with the threats that come with where we are now.

**The Chair:** Thank you both very much.

## Examination of witnesses

Tim Jarvis and Paul McCloghrie.

Q10 **The Chair:** Thank you both very much indeed for coming. The Government have suggested that various changes require them to bring forward the proposals in the White Paper: technological, economic and geopolitical. Is it primarily technological, economic or geopolitical, or is it all of the above?

**Mr Paul McCloghrie:** It is a combination of changes happening in the world. We heard about some of them from the previous witnesses. It is certainly the case that the world is becoming economically more complicated. Supply chains are longer. Product components are designed in one country, manufactured somewhere else and assembled somewhere else before being sold in the UK or elsewhere. More countries are involved in the supply chain for our goods, and those goods tend to be more complicated.

There have been significant efforts over the previous decade to help make investment easier, both into the UK and from UK companies into companies overseas. That is a very good thing, but it means that money and capital flow around more easily than they did before.

Technology is changing a lot. Even in our daily lives, the ability to communicate quickly and find things out by searching huge volumes of data extremely quickly has changed the way we live our lives, and that has big consumer benefits, but it has national security implications as well. It has become harder to protect our national security and the technological advantage we have over our adversaries in some areas because of those changes. It is fair to say that the separation between companies and states that we are used to in the UK is not quite as clear-cut in other countries of the world, and there is a trend in that as well. A lot of factors are driving this.

**The Chair:** Your consultation exercise closes tomorrow. I am not asking you to pre-empt it, but are you able to tell us the flavour of it, and that on the whole people broadly agree with what is in the White Paper? Perhaps this is the other half of the same question: is there any particular common response coming through, especially one that surprises you?

**Mr Tim Jarvis:** As you say, the consultation closes tomorrow, so we are expecting a flood of responses in the next 24 hours. We have had some already, and we have been carrying out a number of consultation exercises with interested parties.

Some initial themes have come out of the discussions we have had so far. First and foremost, there has been general acceptance of the need for the Government to act in this area and update the arrangements they have at the moment. There is fairly broad consensus on that. There has been a general welcome for the principles we tried to establish in the White Paper about the need for a clear, transparent and predictable regime, and a lot

of the consultation responses are trying to engage with that, to ensure that the regime does that.

There has been some recognition of the progress that has been made since the Green Paper was published in October 2017. We have tightened the areas we are now consulting on and have narrowed the areas where we are looking for views. There is general acceptance that the statement of policy intent will be quite a crucial part of the new regime, and we have published a draft of that already. We are expecting quite a lot of comments on some of the detail. The statement of policy intent will need to be approved by both Houses of Parliament in its original form and when it is subsequently amended, so I suspect we will get quite a lot of comment on that.

**Lord Hamilton of Epsom:** Do you have any problem with the takeover of GKN by Melrose?

**Mr Tim Jarvis:** It is worth recognising that the takeover of GKN by Melrose comes within the remit of the legislation as it currently stands. Under the Enterprise Act 2002, the Government have the power to intervene in mergers on grounds of national security above a certain threshold. GKN-Melrose was above that threshold, so it was open to the Government to intervene in the merger on national security grounds. After a thorough assessment, the decision was made not to do so.

**Lord Hamilton of Epsom:** Why do the Government need more powers than they already have?

**Mr Tim Jarvis:** The existing regime under the Enterprise Act carves out transactions below certain thresholds for companies with turnover of less than £70 million a year, or where the combined share of supply of two companies in a particular market is below 25%. There is recognition that perhaps those thresholds made more sense when we were looking at big infrastructure projects. The discussion we have heard today about some of the threats in the technology sector suggests that we need to expand the regime to cover potentially smaller transactions. That raises questions about how to do it in a proportionate way.

Q11 **Baroness Henig:** We are told that the Government are not acting in isolation and that many of our allies around the world are moving in the same direction. Have the Government sought in any way to co-ordinate our proposals with other key countries in bringing in changes—for example, so that experiences can be shared and we can learn from each other? Is that happening?

**Mr Tim Jarvis:** Yes, very much so. As you would expect, we regularly talk to our allies in particular about these issues. As you say, certain countries are looking at their own regimes in response to the same sorts of threats we have talked about. The US regime has been updated recently, and the Australian regime has undergone some changes, and we have talked to the representatives of the bodies that carry out those functions in those countries to develop our own proposals. It is worth noting that those

regimes start from a very different place, so we have very much sought to look at what would work in a UK context.

**Baroness Henig:** I gather that Germany, for example, will set its threshold for scrutiny of investment at acquisitions of 15%, whereas we are talking about 25%. Is there any intention to look at that again, to revisit it?

**Mr Tim Jarvis:** In part, it reflects the existing nature of UK law, and elements of it. The reason why the 25% threshold was alighted on was its relevance in UK law. In company law, for example, shareholders require a 75% majority for special resolutions, so 25% gives you an obvious control.

It is not quite a clear blue line, as we heard earlier, and that is recognised in the current regime. For example, the Competition and Markets Authority has a measure of material influence that starts at 25% but allows it to look at ownership below that when it thinks that might have material influence. That is what we have sought to do in these proposals, and in the draft statement of policy intent we have sought to define in more detail the areas of significant influence of control. That threshold works in UK law up to a point, but we recognise that there will probably need to be some flexibility.

Q12 **Lord Harris of Haringey:** The core areas identified by the Government for acquisition controls exclude more than half of the 13 critical national infrastructure sectors. Why was it thought that foreign ownership of water companies is not a security risk?

**Mr Tim Jarvis:** The definition of core areas is in the statement of policy intent, which is intended to give some guidance about the areas of the economy where we most expect the regime to bite. It is important to note that the regime does not exclude any part of the economy from being called in if a national security assessment is deemed necessary. We have sought to recognise, in the core sectors, that some parts of the economy are very heavily regulated, and we would generally expect that those regulations were what was needed to look at any deals. It is still possible under the regime to call these things in, so it does not exclude them; it is simply trying to prioritise.

**Lord Harris of Haringey:** Are you saying that the water sector, for example, is so well regulated by Ofwat that you have no security concerns? Does Ofwat have particular expertise in that field?

**Mr Tim Jarvis:** No, we are not saying that we expect Ofwat to undertake all the security assessments we need of that sector, but we are aware that Ofwat has a lot of levers and information available to it about the sector, which can inform our national security assessments. If that then requires us to undertake a more detailed examination, we can do so under this regime.

**Lord Harris of Haringey:** The earlier witnesses specifically highlighted the long-term implications for the space sector, and the UK's role in that. Again, that is not included, and I do not think there is a regulator to inform national security decisions there.

**Mr Tim Jarvis:** Again, those sectors are included in the regime; all 13 CNI sectors are covered by the regime. In the draft statement of policy intent, we have highlighted where we think there is most likely to be a need for potential interventions under the regime. It is a requirement in the space sector that there needs to be a licence for certain types of activity, and that licence needs to provide information about who owns it. There are some protections in the sector. I again stress the point that we are not ruling out any sectors from being within the scope of the regime.

**Lord Harris of Haringey:** Can I ask a slightly different question? Are some bits of the various sectors, whether in the core areas identified or elsewhere, so sensitive and important that there should be a requirement that they are supplied only by properly vetted, UK-owned, UK-supply chain providers?

**Mr Tim Jarvis:** There are existing provisions for certain parts of the defence sector where access to confidential information for government requires certain protections to be put in place and people to be security vetted. We very much expect those sorts of arrangements to continue.

**Lord Harris of Haringey:** What about the provision of cloud services—for example, for the security agencies?

**Mr Tim Jarvis:** That could come within the definition of a core area as a supplier to an essential part of the CNI sector, and it would obviously be open to the regime to look at potential suppliers in that market and ensure that appropriate protections are put in place. That is possible now, under the current regime.

**Lord Harris of Haringey:** It would be possible to say, if one wanted to, that it should be only a UK supplier, or only a supplier based in one of the Five Eyes countries, or it could be open to anyone, provided that somebody had had a good look at them.

**Mr Paul McCloghrie:** With government contracting, you can put those kinds of provisions in the contracts that government has with suppliers of data services, and so on. Some contracts have such provisions, which allow government a say or veto power over the contract when there is a change of control in the company the contract is with.

**Lord Harris of Haringey:** Thinking specifically about cloud provision, as I understand it—I am not an expert on UK law, let alone US law—US law says that, if you are a US provider of cloud, the US Government can look at what you have acquired on US-based servers. Given that we are of course terribly close to the US Government, as always, is it appropriate that a US supplier should provide cloud services for something sensitive, such as data held by our security agencies?

**Mr Tim Jarvis:** As with the regime now, all such acquisitions will be treated case by case, which would reflect the national security position at the time, and the appetite of the Government around any risks associated with that. The regime does not seek to provide a definitive answer to that question,

but it would provide the Government with the powers to impose remedies that they deemed necessary in certain circumstances, such as those you described.

**Q13** **Baroness Lane-Fox of Soho:** We talked earlier about different ways to assess the nature of advanced technologies, and the threat from them. I am interested in how you came up with the list, and who you consulted to do so.

**Mr Tim Jarvis:** As you would imagine, we consulted very widely and talked to trade associations, academics and people investing in these sectors. This discussion and the earlier one go to the heart of the question about the need to balance flexibility in the regime, to reflect what is likely to be a very changing world, while trying to give businesses certainty about how the regime will work. At the moment, we have tried to define the areas that, from our discussions and consultations, we expect to be of interest, while retaining flexibility in a changing world and environment.

**Baroness Lane-Fox of Soho:** Who specifically did you talk to in the wider network? Was it, for example, the Government Office for Science or the Chief Scientific Adviser? Can you give some examples of the future-looking people you talked to?

**Mr Tim Jarvis:** There is a network of scientific advisers across government, so we engaged with them, and we talked specifically to the Chief Scientific Adviser on national security. We also talked, as the other witnesses mentioned, to TechWorks, which is a trade body, and various other tech councils, such as UK Photonics and people like that, who are experts in some of these developing fields.

**Baroness Lane-Fox of Soho:** As you heard from our earlier witnesses, there is a very complicated balance in getting the right level of anxiety about the future along with keeping the right level of innovation for now. How have you reflected on that, and how do you manage that tension with the security implications? It is a hard thing to unpick.

**Mr Tim Jarvis:** Yes, it very much is. We have looked at the current regime. Outside the thresholds I described earlier, the Secretary of State has quite wide powers across the economy to intervene on grounds of national security. In taking a view that we need to widen the scope of that to transactions of smaller value, we need to provide some certainty, predictability and transparency to the regime. That is what we have repeatedly been told is needed. In the example we have given, the mechanisms that we are introducing under the new regime will enable companies to notify and gain assurance following that notification, within a short period of time, that their investment can proceed.

**Baroness Lane-Fox of Soho:** I get it from the supply side, but from the governmental side what can you systematise for horizon-scanning and future-proofing upcoming threats?

**Mr Tim Jarvis:** Oh, I see; sorry, I slightly misunderstood your question. Obviously, we need to carry on talking to the sorts of people we talked

about earlier, and there is a lot of monitoring of these sectors for all sorts of reasons across government, as well as capacity across government and relationships with individual sectors. It is very much that sort of engagement that will help to inform how the regime develops as it goes forward.

**Baroness Lane-Fox of Soho:** That does not sound hardwired into the system; it sounds more casual.

**Mr Paul McCloghrie:** For quite some time, the Government have faced the challenge of trying to work out where the technology sector is going; a lot of parts of government take that seriously and consider it part of their role. The Government Office for Science, which you mentioned, publishes regularly on future technology. The MoD runs its Development, Concepts and Doctrine Centre, which is launching its *Global Strategic Trends* publication, and that looks at technology. Rather than creating something new, the challenge is to make sure that the people already doing this feed in their views and knowledge.

**Baroness Lane-Fox of Soho:** One thing that everybody has mentioned is quantum technology, which is profoundly complicated to understand and difficult to assess. I am not an expert, but, as I understand it, future capacity could be insanely important, yet right now we are still a long way from any effective deployment of it. Do you see quantum technologies as one of the key areas that you would imagine keeping a focus on, particularly some of the vulnerabilities that you might be prone to because of the capacity for different kinds of sensing, encryption breaking, or any of the different things that you know about?

**Mr Paul McCloghrie:** Quantum technology is certainly on our list of things where we pay attention to developments, and keep ongoing dialogue with some of the companies at the cutting edge, some of which are based in Britain. You mentioned quantum sensing, computing, big data analytics and algorithm breaking. Quantum communications, and the ability to communicate with people in ways that are not open to interception or detection, are another area that we would be particularly interested in.

**Baroness Lane-Fox of Soho:** It is hard for people in the sector to understand this stuff, let alone Governments, and I salute you guys for getting your heads around it all, specifically the advanced technologies. How do you ensure that you have enough people who are far enough up the learning curve to make informed policy suggestions and decisions?

**Mr Tim Jarvis:** There is expertise across government and through the scientific network, as we have described, in the Government Office for Science. By highlighting those areas in the White Paper, we have signalled that we need to focus on them, and we are looking for the scientific community to engage with us and help us understand things as they develop.

**Baroness Lane-Fox of Soho:** Do you think that happens effectively at the minute?

**Mr Tim Jarvis:** It happens case by case, which is how, on the whole, we would tend to approach such things. It is quite hard sometimes to think in the abstract about a transaction that might concern us. We have a good system in place for when a case comes up that we think might raise national security concerns; we have a network of people we can go to for advice to make a full security assessment of a transaction, and that is what we anticipate developing in the new regime.

Q14 **Lord King of Bridgwater:** My question is on a point I raised earlier. Were you in for the earlier session?

**Mr Tim Jarvis:** I was, yes.

**Lord King of Bridgwater:** I raised a point about how people know whether they are being effective. How are you going to cover the waterfront and make sure that the people we need to know about actually know that they need to be known about?

**Mr Tim Jarvis:** That is clearly one of the big challenges for the new regime. We have sought to put quite a lot of detail in the White Paper and in the draft statement of policy intent. We are consulting widely with trade associations and advisers. I am sure that, as we introduce the regime, we will need to look at how we can leverage our existing relationships with those sectors across government to ensure that there is growing awareness of the regime and how it works.

Q15 **Lord Brennan:** Is there a hit list of acquirer risk countries or foreign entities? If there is, where is it, and, if there is not, should there be one?

**Mr Paul McCloghrie:** There is no blacklist of countries. It would be very difficult to point to any country or place and say that all acquisitions from there were safe and would never raise national security concerns. It is relatively straightforward to come up with hypothetical situations in your head, such that an investment from almost anywhere could raise national security concerns. There is no blacklist, and each transaction is assessed case by case.

**Lord Brennan:** When Australia or the US ban a Chinese company from investing in certain communications businesses in their countries, what do we do?

**Mr Paul McCloghrie:** If that kind of investment was happening here, we would assess it based on the information in the case, on exactly who wanted to buy what, looking at the kinds of risks set out in the White Paper.

**Lord Brennan:** Are we doing something as a consequence of that?

**Mr Paul McCloghrie:** Do you mean in consequence of the Australian decision?

**Lord Brennan:** The US and the Australian decisions.

**Mr Paul McCloghrie:** Yes, we would bear them in mind, if a similar investment was happening here.

**Lord Brennan:** How does a company deal proactively with the acquirer risk? If there is no list, how do ordinary companies operating in the marketplace deal with the risk?

**Mr Tim Jarvis:** In the draft statement of policy intent, we tried to set out more detail on what we understand by the three risks—the target risk, the trigger event risk and the acquirer risk. We will look at them case by case, but clearly there are likely to be certain transactions that raise more concerns than others.

In answer to your earlier question, we have existing powers to intervene on cases, and the track record of successive Governments in this area shows there have been eight interventions on grounds of national security. Six of those have been in relation to acquisitions by companies based in countries that we would traditionally see as allies. It is particularly about what they are buying and the sort of things we would need to put in place. It is very much not a country-specific proposal. Obviously, we would need to look at each case on its merits.

Q16 **Lord Brennan:** People in the marketplace might well think about this problem and think of examples of what would happen under the White Paper. The Huawei oversight board could give only “limited assurance” because of the state of the evidence this year. How would Huawei survive if it applied to acquire part of an English communications company, in the light of the advisory board’s findings?

**Mr Paul McCloghrie:** It is probably worth being clear that what the advisory board does is quite different from what the regime does. The advisory board looks at the integration of Huawei engineering into UK telecoms systems very much from an engineering assurance point of view, making sure that there are no flaws, back doors or weaknesses in those products, or in how they are integrated. The evaluation centre does not look at Huawei’s wider corporate strategy or what it might invest in. If it was to invest in the UK telecoms sector, under the proposals in the White Paper, that could be looked at through the national security lens to see whether any kind of intervention was needed.

**Lord Brennan:** Civil nuclear is a principal core area of national security. How would the Hinkley Point nuclear proposal, involving Chinese investment, survive the White Paper approach?

**Mr Paul McCloghrie:** It would be like GKN, I think.

**Mr Tim Jarvis:** Yes, it is worth stressing that a number of these transactions, such as Huawei and elements of Hinkley Point, could come within the existing regime. It would have been open to Ministers, for example, to take a view, and we would expect them to continue to do so. The regime does not set out a change in risk appetite in relation to some of those transactions; it simply seeks to widen the existing scope to enable us to examine more deals in more detail.

**Lord Brennan:** The approach will not operate retrospectively.

**Mr Tim Jarvis:** No.

**Lord King of Bridgwater:** Would you confirm that you are not going to issue a list to companies of the countries that they do not need to worry about? You talked about doing it on a case-by-case basis, and that must be right, because situations change. Rather than having a comfort list of people who are all right and saying that any of them can buy up anything they like in the UK, you will do it case by case, and you will not publish a list in advance of who is all right and who is not all right. Is that correct?

**Mr Tim Jarvis:** That is right.

**Lord King of Bridgwater:** That is very good. At Hinkley Point, which is in my old constituency, the Chinese came in behind EDF. Part of the arrangement is the understanding that they might have the opportunity themselves to build their own nuclear power station in this country. That obviously raises wider issues, which go way beyond Hinkley Point.

**Mr Tim Jarvis:** What the new regime does, compared with the old one, is to enable the scrutiny of acquisition of assets as well as simply acquiring a company. It is intended to widen the regime to enable us to look in more detail at those sorts of deals.

**Lord Hamilton of Epsom:** What happens about second-hand risk? Say that a company in a friendly country acquires a tech-sensitive business here, and then, subsequently, the Chinese take a 25% holding in the parent company. Whose responsibility is it to report that or flag it up? Would you watch that? How does it work?

**Mr Tim Jarvis:** That could be a trigger event under the regime. If it was a company of interest, we would likely be monitoring it, and we can take a notification from anybody involved in the transaction.

Q17 **Stephen Twigg:** I have several questions about responses to the White Paper consultation. First, have the security agencies expressed any concerns about the White Paper proposals?

**Mr Tim Jarvis:** We worked very closely with the security agencies through the development of the proposals, through Paul and his team. There was a cross-Whitehall board, and they were represented on that and helped to develop the proposals.

**Stephen Twigg:** Were there no concerns, particularly on voluntary notification?

**Mr Tim Jarvis:** The advantage of the voluntary notification regime from a national security perspective is the flexibility that it allows to respond to changing circumstances. The agreement across Whitehall was that that was the preferred regime.

**Stephen Twigg:** Is the National Cyber Security Centre fully on board with what is being proposed?

**Mr Paul McCloghrie:** Yes; it was part of the cross-Whitehall discussion of the proposals and part of that agreement.

**Stephen Twigg:** Earlier, in the first panel, we heard from business about voluntary versus mandatory notification. Can you say a bit more about discussions you have had with multinationals or UK businesses that have benefited from foreign investment? In particular, is there concern that there could be a negative impact on foreign investment as a result of these changes?

**Mr Tim Jarvis:** On voluntary notification versus mandatory notification, the Green Paper that we published in October 2017 offered three proposals: an expansion of the current voluntary notification regime, with an expanded call-in power; a mandatory regime, where we identified the sectors we were interested in; and a combination of the two.

The responses we received were reasonably broadly split. A small majority was in favour of a voluntary notification regime. There was very little support for a combination of the two. Those who wanted a mandatory notification regime wanted the certainty that that would give. The problem then is that you would have to define clearly the sectors you were interested in, which would make the regime much less flexible to respond to changing threats.

Q18 **Baroness Henig:** We have a voluntary notification scheme, which takes away certainty in a way, as you have just said. The White Paper envisages "informal discussions" to clarify when businesses should notify the Government about an acquisition. Do you envisage many businesses failing to meet their obligations due to uncertainty, confusion and not being sure quite when they should respond?

**Mr Tim Jarvis:** The reference to informal discussions in the White Paper very much reflects some of the feedback we had to the Green Paper consultation and this consultation. One of the perceived advantages of the current regime, whereby companies notify the Competition and Markets Authority, is that they value the pre-notification engagement they can have.

We are keen to replicate that to help businesses understand what they need to do, should they be operating in one of the sectors we have referred to, and to help them triangulate the risks we set out in our statement of policy intent. Clearly, we are talking a lot to advisers, to law firms in particular, which advise companies about how the regime will work, and they are greatly helping us. We are trying to refine the proposals through the consultation process.

**Baroness Henig:** It is a bit of a work in progress. A mandatory system would have made it much easier, in some ways.

**Mr Tim Jarvis:** It would have made it easier in the sense that it would have been very clear what was in and what was out, but it would obviously have taken out of scope of the regime something that might potentially be a national security risk that had not been anticipated. In the White Paper

and the statement of policy intent, we have given quite a lot of detail on how the processes work. We are looking for responses to the consultation to help us to hone that.

**Q19 Lord Harris of Haringey:** The White Paper says that it is anticipated that about 100 cases a year might be called in as part of the process. How did you derive that figure?

**Mr Tim Jarvis:** It is described in the White Paper as our initial analysis, and it is very much that. We looked at the sectors that we set out in our statement of policy intent. For some of those transactions data are available; for example, there are data on mergers and acquisitions in sectors. It fluctuates a lot year by year, but it gives you a central estimate.

In some of the other types of investments that would come within the regime, data about increases in share percentages and acquisition of assets are a bit harder to come by, so we sought proxies for those. The proportion that we said is likely to be called in is based on historical practice in cases that were called in under the current regime. We would accept that the figures are likely to need to be refined more at the point when we introduce legislation, and it is very much the aim of the consultation process to help us to hone that figure and to try to understand the number of transactions in sectors that might fall within the regime.

**Lord Harris of Haringey:** The figure of 100 cases is based on past experience. Presumably the figure will vary, but what is your expectation of how many of those 100 will actually be blocked? Presumably, on the basis of that past experience, you will have some idea where you draw the line.

**Mr Tim Jarvis:** For 16 years, since the current regime under the Enterprise Act 2002 has been in place, the Government have not blocked outright any merger or acquisition on national security grounds. They have imposed remedies in around seven cases. We anticipate that that practice would continue.

**Lord Harris of Haringey:** Seven out of what—1,600?

**Mr Tim Jarvis:** No. Under the current regime, a public interest intervention notice is issued to examine the case in more detail. That has been done eight times in relation to national security, and seven times it has resulted in some remedy or slight change that enabled the deal to go through, but with some modifications. That is the sort of practice.

**Lord Harris of Haringey:** It is a very small percentage, based on past experience.

**Mr Tim Jarvis:** It is, yes.

**Lord Harris of Haringey:** When something has been called in, what level of expertise exists within the government machine to assess the implications? What market monitoring will you have to see whether in fact you are aware of all the various deals that might be out there, which you

need to call in? How many staff do you expect to deploy on that? Do you have the skills available?

**Mr Tim Jarvis:** On market monitoring, we very much look to build on what we have at the moment in the current regime. The Competition and Markets Authority monitors mergers in the markets, as you would expect, and has staff available to look at open-source data and market intelligence to identify deals that are going ahead. The CMA has a duty to notify the Government of anything that may raise national security concerns.

We have a network of relationships with various sectors across different government departments, and we co-ordinate those. But you are right: in the new regime, we will look to centralise some resource to ensure that we have the right people available to business to engage with it on the specifics of the regime and how it works, and ensure that we are monitoring markets to the extent that we need. Since the publication of the White Paper, we have started to look at that in more detail, but we are not yet at the stage where we have finalised it.

**Lord Harris of Haringey:** Are we talking about a team of three, of 20 or 100? I have no idea.

**Mr Tim Jarvis:** The Competition and Markets Authority has a staff of between 600 and 700, although I would need to check that, and probably about half of them are involved in various types of market monitoring for the purposes of looking at transactions from a competition perspective and at markets more generally. That resource is obviously available to government and informs them. We have staff in individual departments who work on particular sectors right across government, and a range of people are involved in that work. We would look to co-ordinate that to a greater extent.

Q20 **Lord Harris of Haringey:** The process will look at national security issues. Will it also end up adding economic or competition matters? If so, how exactly will it do that?

**Mr Tim Jarvis:** No is the short answer. The proposals for legislation in the White Paper are purely focused on national security, and the Secretary of State has made that clear in his statements. It is anticipated that that would be in the legislation that was brought forward. As it is now, the Secretary of State operates in a quasi-judicial capacity in these sorts of cases, and the legislation requires the Secretary of State to make an assessment purely on national security grounds as one of the public interest grounds.

**Lord Harris of Haringey:** In essence, there would be two entirely separate processes.

**Mr Tim Jarvis:** Yes.

**Lord Harris of Haringey:** The same deal might be examined by the same Secretary of State on national security grounds and on competition grounds.

**Mr Tim Jarvis:** No. You are right that potentially different assessments could be going on at the same time, but the competition assessment of a deal would be done by the Competition and Markets Authority. We need to ensure that the operation of the regime allows for parallel processes, and we are talking to the Competition and Markets Authority about how that would work. To a certain extent, it is the case now. It may well be that cases that raise competition concerns might also raise national security concerns, and at that point we work with the Competition and Markets Authority to make sure that the processes run in parallel.

**Chair:** Is it not possible that there might be differences of view? One thing that struck me, while listening to all this—I may be mistaken, so tell me if I have missed it—is that it does not seem ever to be envisaged that there might be a difference of view between a company that is being approached for investment or takeover, or whatever it is, and the Government of the day who are concerned about national security. You are relying on a completely voluntary system even to tip the Government off. Is it thought inconceivable that such a thing could happen?

**Mr Tim Jarvis:** We anticipate that the way the regime will work is that, when deals or transactions are called in for further scrutiny, at that point the parties to the transaction will no doubt, as they do now, make representations about the nature of the transaction and how they would seek to mitigate any concerns that the Government might have. We expect a similar process to play out under this regime.

**Mr Paul McCloghrie:** The proposals give the Government the power to call in transactions that have not been notified.

Q21 **Chair:** You are just finishing your consultation. Do you have a potential timescale for introducing the legislation? After all, these are quite major issues.

**Mr Tim Jarvis:** They are major issues, and the Secretary of State was very clear in his foreword to the document that we need to take a deliberative and consultative approach to the proposals.

**Chair:** It will be at the end of the Parliament, then.

**Mr Tim Jarvis:** When the conclusion of the consultation is complete, there will need to be a decision about where we go, if there is to be legislation and at what point it would be introduced.

**Chair:** I recognise that these things are complex, but do you not think you should be getting on with it at this moment in time because you need the legislation by X, if possible?

**Mr Tim Jarvis:** As I say, it will depend on the outcome of the consultation and the decisions of the Secretary of State at that point about how to proceed and when.

**Chair:** I hesitate to raise this terrible word, but there is Brexit. I understand that the Commission has proposed an EU-wide screening

regulation. I recognise that it is a body that does not itself always move with great dispatch, but if some EU proposals came in, would we have to amend our own proposals to meet them?

**Mr Tim Jarvis:** The proposals in the EU at the moment are in draft form and are still part of discussions. They introduce a framework. Historically, the EU has always recognised member state competence in areas of national security, so we expect that the proposals would continue to do that. Obviously, we are involved in the discussions about that proposed regulation and how it would work, and we need to continue to assess the extent to which our regime is compatible with it.

It is important to note that what is being proposed at EU level is not a centralised screening of investments; it simply sets a framework for information exchange between member states in certain circumstances, and the ability of the Commission to provide a non-binding opinion. We would obviously have to look at it in detail if the regulation was introduced in its current form, depending, of course, on when it was introduced.

**Chair:** In our approach, we are stressing member state competence.

**Mr Tim Jarvis:** Yes.

**Chair:** Thank you very much indeed.