

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

NATIONAL SECURITY AND INVESTMENT BILL

First Sitting

Tuesday 24 November 2020

(Morning)

CONTENTS

Programme motion agreed to.
Written evidence (Reporting to the House) motion agreed to.
Motion to sit in private agreed to.
Examination of witnesses.
Adjourned till this day at Two o'clock.

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Saturday 28 November 2020

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The Committee consisted of the following Members:

Chairs: SIR GRAHAM BRADY, † DEREK TWIGG

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| † Aiken, Nickie (<i>Cities of London and Westminster</i>) (Con) | † Onwurah, Chi (<i>Newcastle upon Tyne Central</i>) (Lab) |
| † Baynes, Simon (<i>Clwyd South</i>) (Con) | † Tarry, Sam (<i>Ilford South</i>) (Lab) |
| † Bowie, Andrew (<i>West Aberdeenshire and Kincardine</i>) (Con) | † Tomlinson, Michael (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| Fletcher, Katherine (<i>South Ribble</i>) (Con) | † Western, Matt (<i>Warwick and Leamington</i>) (Lab) |
| Flynn, Stephen (<i>Aberdeen South</i>) (SNP) | Whitehead, Dr Alan (<i>Southampton, Test</i>) (Lab) |
| † Garnier, Mark (<i>Wyre Forest</i>) (Con) | † Wild, James (<i>North West Norfolk</i>) (Con) |
| † Gideon, Jo (<i>Stoke-on-Trent Central</i>) (Con) | † Zahawi, Nadhim (<i>Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy</i>) |
| † Grant, Peter (<i>Glenrothes</i>) (SNP) | Rob Page, Yohanna Sallberg, <i>Committee Clerks</i> |
| † Griffith, Andrew (<i>Arundel and South Downs</i>) (Con) | † attended the Committee |
| † Kinnock, Stephen (<i>Aberavon</i>) (Lab) | |

Witnesses

Charles Parton OBE, Senior Associate Fellow, Royal United Services Institute

Sir Richard Dearlove KCMG OBE

Public Bill Committee

Tuesday 24 November 2020

(Morning)

[DEREK TWIGG *in the Chair*]

National Security and Investment Bill

9.25 am

The Chair: Before we begin, I have a few preliminary points to make. Please switch electronic devices to silent. Tea and coffee are not allowed during sittings. Members can sit in any seat marked with a “please sit here” sign. That includes the side tables and the Public Gallery, although *Hansard* colleagues have priority on the side tables. Members sitting in the Public Gallery should stand by the microphone to my right.

We will first consider the programme motion on the amendment paper. We will then consider a motion to enable the reporting of written evidence for publication, and then a motion to allow us to deliberate in private on our questions, before the oral evidence sessions. In view of the limited time available, I hope we can take these matters without too much debate. I call the Minister to move the programme motion agreed to yesterday by the Programming Sub-Committee.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Nadhim Zahawi): I beg to move,

That—

(1) the Committee shall (in addition to its first meeting at 9.25am on Tuesday 24 November) meet—

- (a) at 2.00 pm on Tuesday 24 November;
- (b) at 11.30 am and 2.00 pm on Thursday 26 November;
- (c) at 9.25 am and 2.00 pm on Tuesday 1 December;
- (d) at 11.30 am and 2.00 pm on Thursday 3 December;
- (e) at 11.30 am and 2.00 pm on Thursday 8 December;
- (f) at 11.30 am and 2.00 pm on Thursday 10 December;
- (g) at 9.25 am on Tuesday 15 December;

(2) the Committee shall hear oral evidence in accordance with the following Table:

TABLE

<i>Date</i>	<i>Time</i>	<i>Witness</i>
Tuesday 24 November	Until no later than 10.30 am	The Royal United Services Institute
Tuesday 24 November	Until no later than 11.25 am	Sir Richard Dearlove KCMG OBE
Tuesday 24 November	Until no later than 2.45 pm	The Centre for International Studies, London School of Economics
Tuesday 24 November	Until no later than 3.30 pm	Skadden, Arps, Slate, Meagher & Flom LLP
Tuesday 24 November	Until no later than 4.15 pm	The Institute of Chartered Accountants in England and Wales

<i>Date</i>	<i>Time</i>	<i>Witness</i>
Tuesday 24 November	Until no later than 5 pm	The Investment Association
Thursday 26 November	Until no later than 12.15 pm	Slaughter and May
Thursday 26 November	Until no later than 1 pm	Professor Ciaran Martin, the Blavatnik School of Government, University of Oxford
Thursday 26 November	Until no later than 2.30 pm	Herbert Smith Freehills
Thursday 26 November	Until no later than 3.15 pm	Simons Muirhead and Burton
Thursday 26 November	Until no later than 4 pm	Chatham House
Thursday 26 November	Until no later than 4.30 pm	PricewaterhouseCoopers

(3) proceedings on consideration of the Bill in Committee shall be taken in the following order: Clauses 1 to 10; Schedule 1; Clauses 11 to 58; Schedule 2; Clauses 59 to 66; new Clauses; new Schedules; remaining proceedings on the Bill;

(4) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 11.25 am on Tuesday 15 December.

It is a pleasure to serve under your chairmanship, Mr Twigg, and to serve with colleagues on this important Bill Committee.

Question put and agreed to.

Resolved,

That, at this and any subsequent meeting at which oral evidence is to be heard, the Committee shall sit in private until the witnesses are admitted.—(*Nadhim Zahawi.*)

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—(*Nadhim Zahawi.*)

The Chair: Copies of the written evidence that the Committee receives will be made available in the Committee Room. We will now sit in private to discuss lines of questioning.

9.27 am

The Committee deliberated in private.

Examination of Witness

Charles Parton OBE gave evidence.

9.29 am

The Chair: We will now hear oral evidence from the Royal United Services Institute. Before calling the first Member to ask a question, I remind all Members that questions should be limited to matters within the scope of the Bill and that we must stick to the timings in the programme motion. The Committee has agreed that for this sitting we have until 10.30 am. Will the witness introduce themselves for the record? [*Interruption.*] I am going to suspend the sitting for a few moments to see whether we can sort out the technical problems that we are having. This is not the first time; even the Prime Minister had problems yesterday.

9.31 am

Sitting suspended.

9.34 am

On resuming—

Q1 The Chair: I will resume the sitting. Sir, could I again ask you to introduce yourself?

Charles Parton: Thank you for inviting me. I am Charles Parton. I was, for 38 years, a diplomat, mostly with the UK, but for five years with the European delegation until the end of 2017. My area of work has largely been on China and, in the last decade, on the politics of China and the Communist party. I was an adviser to the Foreign Affairs Committee of the House of Commons on two of its recent China reports. I continue, since leaving diplomacy, to study what the Communist party is doing and the relevance of that to our UK policy.

The Chair: Thank you very much. I call first Chi Onwurah.

Q2 Chi Onwurah (Newcastle upon Tyne Central) (Lab): It is a pleasure to serve under your chairship in this Committee, Mr Twigg. Thank you very much for joining us, with your extensive background, Mr Parton. As you know, we have an investment screening regime under the Enterprise Act 2002 that has led to 12 interventions on national security grounds since the Act came in. Which security threats do you feel are not covered by those existing public interest powers? While we have been waiting for the Government to act on this front, are there specific instances where you think the Government should have acted but did not exercise their powers, or did not have the relevant powers to exercise?

Charles Parton: I would not profess to be an expert on individual cases, but I would like to make some general response to your excellent question. The first point to make is that the Government have not really been attending to the problem with the attention that they should, given the nature of the threat, particularly from the Chinese, although others may be relevant too. I do not think that there is the structure for actually assessing the degree of the threats; I think that 12 cases since 2002 is very few indeed, when you look worldwide at the Chinese programme for technology acquisition, both under and over the table. That in itself shows that there has been insufficient attention paid to the issue.

The delay in the Bill is also regrettable, because the threat has been fairly clear for some time. I would urge the Government, first, to research the question, which is the one you asked, of to what degree in the past have the Chinese in particular bought up technology companies, the acquisition of which was greatly against our interests? That work could and should be done.

I am an associate fellow at the Royal United Services Institute, which has a team that has been looking through technology at a number of questions, but it could quite easily divert that team to look at this question, which needs China expertise and the ability to search through a lot of open data, which it has. I am not a member of the Government, but I am not aware that the Government have done that sort of research to establish the full degree of the problem.

From the point of view of the threat—if you will excuse me, as this is the first question, for putting a little bit of context to it in terms of the China thing—it is

undoubted that there is nothing wrong with investment. In fact, that is extremely good. We want as much investment and good relations with China as with everyone else, but we need to recognise that there is a values war going on. I have written an article about that, which came out in the Conservatives' China Research Group report a week or so ago.

This is not a cold war, because China is very important to us for trade, investment and many global goods, and it is a science and technology power, but we should not underestimate the degree to which Xi Jinping and the Communist party intend, as Xi said to the first politburo meeting, to get the upper hand against western democracies. He talks about us being hostile forces and about a big struggle all the time. When you add that to his policy of civil-military fusion—using civil in the military context—and the fact that he has set up a party organisation specifically to push that forward, and the change in investment policy away from things such as property, football clubs and other things, very much towards benefitting China and its technology, we have to be a lot more careful than we have been in the past.

The first step for that is to do the research. I am not aware of a really good assessment of just how much technology has been bought, the targets and so on. Maybe the Government have one—I don't know—but I do not think that they do.

Q3 Chi Onwurah: Thank you very much for that response. I certainly agree with you on the delay in addressing this critical issue. I appreciate your experience, particularly with China, which obviously, as you say, has made a number of technology acquisitions.

I was particularly interested in the civil-military fusion, if you like, of China's technology ambitions. Could you say a little more about how the Chinese see nascent technologies that are indirectly critical to downstream industries that supply our national security? I am trying to understand how, if you like, we differentiate between industrial strategy and technology to ensure that we have leading defence and national security capabilities. Is there a distinction that we can make there? Do we need to do further research, as you suggest? Do the Chinese make that kind of distinction? Do we need to address some elements of our industrial capability when we consider national security?

Charles Parton: We should widen this not only to companies, but to academia, if I could come back to your question from this angle. We have the phenomenon at the moment of Chinese companies, one might say, hiring our academics, in one way or other, to do scientific research on their behalf. Some of that is probably something that our defence establishment and security establishment would be pretty upset about if they were aware of it.

It is quite difficult to distinguish some of these and to know about them all, but a few weeks ago *The Daily Telegraph* did a story on, I think, Oxford University and Huawei's commissioning of research. I think there were 17 projects. I looked at those, and I am not a technologist by any means, but some of them rang certain alarm bells. If you are researching, on behalf of the Chinese, drone technology, cryptography, gait—Gait is very important for gait recognition. We have facial recognition and voice recognition, but in circumstances where people are wearing masks or there is bad weather, gait is an

absolute identifier. Again, are these bad technologies? Well, there are perfectly good civilian uses for them, no doubt, but there also military and surveillance uses. I think we need to be very clear on what our academics, as well as our companies, are doing.

To give you another example, if you go on the website of one of the top Oxford mathematician professors, he has now retired and set up a company with a base in Shenzhen. He is an absolutely top mathematician and does the most abstruse things in cryptography. Should one of our top mathematicians be helping the Chinese in cryptography? Well, there are perfectly good and innocent uses of cryptography, I presume, for things such as banking and e-commerce, and there are perfectly not good uses of it, in military and surveillance and other things. I have no idea whether that is something we should be concerned about. On the face of it, it strikes me that we should be.

I think we need to broaden the scope—forgive me if this is outside the Committee’s scope; you are only looking at the Bill—because the whole question of defence of technology needs to be looked at, in terms of whether we are strengthening a hostile foreign power, but also let us not forget the reputation of British companies and universities. If you look at what is going on in Xinjiang, for instance, with the concentration camps there—activities that quite definitely meet the definition of crimes against humanity under article 7 of the International Criminal Court’s Rome statute, or article 2 of the UN genocide convention—should our companies and universities be helping with technologies that can be used to strengthen that surveillance and that repressive regime? What is the difference between that and South African apartheid or some of the other things that we have seen in the past? Increasingly, the excuse of, “Well, we didn’t really know what was going on,” has gone, and companies and academia will have to be much more careful of their reputation. I have slightly moved away from the nub of your question. Perhaps you could just push the tiller a bit and put but me back to the centre of it again.

Q4 Chi Onwurah: I think you addressed the core of my question. I really like your phrase “defence of technology”, rather than the technology of defence, because the question was around how you distinguish in the industrial strategy between specific security concerns and the development of technologies that give us capability in those sectors. Can we identify at what point that becomes a national security concern?

Charles Parton: That is sort of way outside my technical expertise, but I would certainly say that one major criticism I have of the Bill is that you have to set up the right structure to be able to do that. I am not sure that the Bill’s putting everything in the hands of the Department for Business, Energy and Industrial Strategy and its Secretary of State is the right answer.

Let us take Huawei and the debate we had over the last couple of years, as well as the various flip-flops that have gone on. One might add flaps, as well as flip-flops, actually. There has been a big a division between the so-called economic and security Ministries. It is right that both have a say in the decision. Economic interests are very much at stake, but so are security interests. If you put everything into the hands of BEIS, which probably does not have the expertise on China—certainly

not in the defence, security and surveillance realms, although not unnaturally, since its job is to encourage investment—you will perhaps find that the security and repression elements are not given sufficient weight, and more to the point, the perception will be that they are not given sufficient weight. We might therefore go back to this sort of business with Huawei, where there is a fight back and another fight back and so on.

What we actually need is an organisation that is made up of people on all sides of the debate and that has some real experts who actually understand what the technology means. One specific example I came across a year or so ago was a very interesting computer game. Fine. What is wrong with that? Well, I understand that it was then bought up by the Chinese and used to train fighter pilots. You cannot defend against everything, but you at least need some unbiased experts—a sort of, if I can use the words, Scientific Advisory Group for Emergencies—who would be there to advise, and then decisions would actually be accepted by all sides, not questioned.

On occasion, I am sure that questions would be put up to the National Security Council and the Prime Minister for decision if they were really important. However, the issue is often about very small companies with some very interesting technologies that have not been established. The Chinese are extremely efficient at hoovering around, finding them and buying them up early. I am not convinced that the structure and decision making of the whole process are right.

Q5 Nadhim Zahawi: Good morning, Mr Parton, it is great to see you. Without going further on your last point, I want to reassure you that the Bill is designed to deliver a quasi-judicial role for the Secretary of State for Business, Energy and Industrial Strategy. The team’s infrastructure will be pulling in all parts of Government expertise. My question is this: how do you think the current challenge of covid has exposed national security threats through investment? What are you seeing? How do you see the behaviour of malign actors anywhere in the world at a time of covid?

Charles Parton: I think what covid has done is expose the nature of the Chinese Communist party, in answer to your question. I hope that it has brought home to people the nature of the beast. Looking at what happened, China did not do so well to start with, and its people were pretty upset with it. China then used its external propaganda machine to right its domestic problem, pushing forward the line, “Look how badly the foreigners have done, and look how well we are helping the foreigners out of the mess,” while hiding the fact that it had allowed the virus to propagate so fast in the first place. To many people in democracies, that brought home the fact that the Communist party of China is prepared to use that against us.

Where the Chinese Communist party was unhappy with how countries were acting, it started to put them under pressure and made threats about the delivery of personal protective equipment or whatever. Australia is really taking it in the neck at the moment because it had the temerity to ask—perfectly reasonably—for an investigation of the origins of the virus, which is essential for scientific and preventive purposes. Look at the political pressure on Australia. There is absolutely no doubt that where the Communist party sees an opportunity to use whatever is going on at the moment, it will do so.

The question that I have continuously asked is this: to what degree is investment threatened by a country such as the UK, Australia or Canada standing up for its own interest? We are not actually attacking China, but we are saying, “Sorry, but we have our own interests and our own security. You wouldn’t allow the equivalent in your country, possibly rightly, and we are not allowing it here because we are defending our security, in this case.” To what degree is the tool of depriving someone of investment a real threat? I have urged in a number of papers that the Government look at that in dispassionate terms. The China-Britain Business Council recently put out a paper, but I would not describe it as dispassionate. That is for the Government to do. My own feeling is that the likely conclusion is that, on the whole, the threats are pretty hollow. Chinese investment is not done for charitable reasons.

Since 2017—the high point was 2016—China has cut back on investment. Beijing was getting pretty annoyed at the way money was seeping out not in line with its policies, but investment is now more tightly controlled and aimed at the acquisition of science and technology. To what degree are we vulnerable? This is not charity. Money is very cheap at the moment; it can be got at negative interest rates. It is not as though China is the sole source of money. It invests because it wants technology. Surely we have to look at that carefully and ask where is the mutual benefit. If it is mutually beneficial, fantastic, let us go ahead. Let us not be too brow-beaten by this thing—that if you do not do x or y, or if you do not take Huawei, we will hit your investment. I think, in practice, if you look at that and then look at some of the other threats that China has made over the years, including to your exports, all those have grown for all countries, although they had been in the diplomatic doghouse historically—certainly in the past; we will see about the future—but I think it is greatly exaggerated.

Nadhim Zahawi: I am grateful to you, Mr Parton. I do not want to hog the floor, as I am sure many colleagues want to ask questions. Thank you very much.

Q6 Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairmanship, Mr Twigg. I do not know whether you can see me, Charlie, but I am here. I am sitting at the back due to social distancing, but it is good to see you.

Going back to your point about resourcing the investment security unit, can you give a bit more detail about what would be an ideal outcome from your point of view? Would it be that we need specificity in the Bill that key representatives and experts of the intelligence services, of the Ministry of Defence, of the diplomatic corps and of other agencies be formally named in the legislation, so we would have that reassurance that the body doing the screening had all the necessary breadth across the spectrum of both the economy and national security?

Charles Parton: That is a good question; it is not necessarily for me and I do not necessarily have the experience to lay down precisely how it works. For me, I think, first, that all those organisations you have mentioned—although others also on the economic side, such as the Treasury and BEIS—perhaps should be there to set the parameters of what needs to be referred. I think that, as a sort of preliminary filter, one would hope that there was an ability for most companies, and

most universities as well, very quickly to put forward the deals or the pieces of work that they felt might be coming up against the parameters set by such a Government body.

For a quick decision, is the topic one that is suitable, or does it need a little more investigation? Should we be working with this organisation, or in some cases this particular Chinese academic or company, which may have links to the military or to the repressive regime? The experts, as it were, which means the SAGE-type committee, surely should be very quickly—companies and academics need to move quite quickly—making a preliminary estimation of whether this needs to be referred upwards to a Government Committee that wants to look at it in more detail.

I do agree with you that the range of interests needs to be representative if the decision is to be perceived by all sides as acceptable when it is eventually made.

Q7 Stephen Kinnock: Thanks very much; that is very helpful. On this point about making sure that we have the most effective and streamlined system in place, one of the areas where the Bill diverges from legislation in similar jurisdictions, such as Germany and Japan, is that it does not contain a definition of national security as such.

In the Japanese and German cases, they refer to national security including concepts of public order. I refer in particular to your comments about organisations out there in the marketplace, whether they are universities or businesses, needing to have clarity to know what needs to be referred and what does not. They need to know where the amber or red light is flashing, and where it is clearly a green light and not an issue. Would that be aided and facilitated if the Bill contained a definition of national security?

Charles Parton: It is a bit like defining terrorism. It is really quite difficult to be all encompassing. Sometimes, I am in sympathy with the Chinese legislation that adds at the bottom “and other offences” or “and other things”. I think it is quite difficult, even if people are convinced that they can effectively define that. It is not only national security; there is a question whether you are aiding crimes against humanity or the genocide that is going on in Xinjiang. I am using loaded terms there, but I think they are justified. There must be some mechanism for ensuring that those, too, are brought to bear, but I am not expert enough in legislation to be able to say, “Yes, we need a watertight definition of ‘national security’.”

Certainly, the Bill must convey to companies and academics the need to clear a range of topics. That will not be specific, but, at best, they must be encouraged to consult almost as a default, so that they are not caught out. The other question is, what happens if they don’t? What sort of sanctions are they under if they do not consult, when it is clearly something they should consult on, for reasons either of security or of repression and crimes against humanity?

The Chair: Thank you very much. I now call Andrew Griffith.

Q8 Andrew Griffith (Arundel and South Downs) (Con): It is a pleasure to serve under your chairmanship, Mr Twigg. Mr Parton, thank you for your past service.

[Andrew Griffith]

You have clearly studied China and Asia at a fascinating time in their own economic development. I will ask you to play devil's advocate.

As a Committee considering this Bill, we will hear from a constituency that could sometimes trip over into Sinophobia, being against any form of engagement or trade with China. Looking at the economic development of that market and the opportunities that it presents, could you talk a bit about the non-risk-based categories, such as inert goods and household manufactured goods, which the Committee should draw a clear line around, and those categories that you have talked about, which are covered in the Bill and speak to a real national threat?

Charles Parton: Let me make the general point that I am sometimes accused of being anti-Chinese. I greatly resent that. I am anti-party, as anybody should be if they saw what it does in places like Xinjiang or Hong Kong. I am not anti-Chinese. I think the Chinese Communist party itself deliberately muddies the waters on that one and says, "You are anti-China," when, actually, you are opposing the policies of the Chinese Communist party. That said, I began the session saying that we want investment from China, trade with China and good relations with China. China is a major player. This must not be a cold war. If America or China decides to pursue that, we must try to avoid it.

I always talk about the holy trinity of national security, UK interests and UK values. We should establish those with the Chinese and say, "Sorry, those are non-negotiable. Just as you sometimes come and say, 'These are our core interests and we are not negotiating them,' we have the right to do that too." But beyond that, we want open trading relations and open investment relations. What is wrong with China buying London Taxis International? Nothing. If it wants to invest and that is mutually beneficial, great.

We want an open China as much as possible. We certainly want a much more level playing field than there is at the moment. China runs a series of negative lists and there is much on them, particularly in the area of services, which we would want opened up. We must press for that in conjunction with the Americans, the EU, Australia and all the other democracies that wish to trade with China. In many ways, that is in China's interest. It is certainly in the interests of its people. A closed market, with China just relying on its own consumption—it is a big market—is not going to be good for China any more than it is good for us. I fully go along with that. I do not think we should be anti-China in any circumstances. That is, in a sense, racist. We should be anti-Communist party, or certain against its policies, but with the Chinese people, and in trading, we should maintain a perfectly normal relationship.

Q9 Matt Western (Warwick and Leamington) (Lab): It is a pleasure to serve under your chairmanship, Mr Twigg. Mr Parton, I want to pick up your point about access to academics, universities and so on. There is clearly a big push from universities to invest heavily in China and build relationships. Do you think there should be more safeguards in the Bill for those relationships? Secondly, do you think the Bill provides sufficient protections for intellectual property?

Charles Parton: On the first question about academics, I am not sure whether this is about investment. I think that academics are in some ways a separate question, unless universities are setting up, as they do, companies, and are moving that way.

Q10 Matt Western: I am thinking about Cambridge and so on, which are moving into more commercial areas.

Charles Parton: Where academia sets up a company, and that involves itself with China, yes, that should be under the purview of the Bill. There is a separate question about when Chinese companies hire or fund—whichever you like to say—UK academics to carry out a specific piece of research for them. Universities are working on that, and that is a very urgent question. Again, I think that a much stricter regime should be put in place to stop the seeping out of technologies that could be used in the military field or the repressive one. I am not convinced that that is there at the moment; I am sure it is not. That might be a separate question. It may or may not be one that requires parliamentary legislation—people who are experts on that can make up their mind—but some form of consultation with the Government, or perhaps a sanctions regime, needs to be put in place so that that does not happen.

On the question of intellectual property rights, China has a very rigorous campaign to get hold of our IP. Some of it is stolen through cyber, and I am sure our intelligence services and others are doing their best to combat that. I am not sure about the degree to which this Bill can act as a defence against Chinese abuse. It can certainly try to encourage companies to raise their own defences, but the UK has an organisation—the Centre for the Protection of National Infrastructure—that aims to put out that advice and help. I do not know whether it is strong enough in its actions and shield; that is outside my area of expertise. It is certainly there, but perhaps it, too, needs strengthening.

Q11 Nickie Aiken (Cities of London and Westminster) (Con): It is a pleasure to serve under your chairmanship, Mr Twigg. Mr Parton, thank you for your time today. You said that small firms may come under pressure to be bought up, and are often targeted. What is your view on how this Bill can strengthen national security by ensuring that firms—particularly small firms—are not taken over by legitimate, friendly actors, which further down the road are bought up by China or whoever? Does the Bill protect us from that type of long-term acquisition?

Charles Parton: I suspect that there is a limit as to how far down the line one can go, but where activity is still going on in the UK—that is to say, where UK individuals are still running that company in the UK on behalf of a friendly foreign country, and the company is later bought up—that should be covered by this Bill. Otherwise, you are absolutely right: you may find a company in Liechtenstein buying it; then the company gets bought by the Chinese, and the technology gets siphoned out. There has to be a defence against that.

If a company is bought by a friendly country and the technology is exported, and nothing is happening in the UK, then I cannot see how extraterritoriality would be applicable.

Q12 Simon Baynes (Clwyd South) (Con): It is a pleasure to serve under your chairmanship, Mr Twigg.

I want to explore the extent to which the world—if I can describe it as one world—of academic consultants and private sector companies, to which you have referred, would agree with what you are saying. You refer to having a SAGE-like committee; is there a danger that, if you did have such a committee, it would actually have very divergent views?

I fully respect where you are coming from, but you made some quite hard-hitting comments earlier about crimes against humanity in the concentration camps, and questioning whether companies and academia should be involving themselves in aspects of China. You also referred to a top mathematician, who was formerly at Oxford University, helping China with cryptography.

I want to get a feel for the extent to which you think that your views are shared by academics, consultants and the private sector, and then feed that back into whether, if you did put together a SAGE-like committee—and I can see the sense in doing that—you might find it quite difficult to come to a consensus.

Finally, it must be quite difficult to judge exactly whether what is being developed—whether it be from an academic idea or from a corporate idea—will be helpful to the Chinese in a way that is detrimental to Britain, or is actually a perfectly sensible piece of research and development that could be of benefit to both countries.

Charles Parton: Can I take those three questions almost backwards, or certainly not in the order in which you have presented them? In terms of expertise within a SAGE-type community, those experts would not be making the political decision. They would be making the technical decision: “To what degree can these technologies be used in a military, as well as a civilian, context?” That is the advice that would be going up. It would then be for the Ministers on a committee to say, “Well, we judge that risk to be acceptable,” or “We do not.”

Of course, nothing is black and white in technology because, as the distinction between civil and military is increasingly eroded, it is quite difficult to know; there are many shades of grey here. A judgement has to be made on any particular technology—either “Sorry, we will have to rule that one out,” or “On this one, yes, there are some risks, and maybe we will come to regret it, but on balance, we will let that one through.”

On whether consultants, academics and others agree with my views on China and the nature of the regime, I think that depends, if you will excuse my saying so, on the degree to which they have studied China and looked at the issues. It is noticeable that those who read what the Chinese communist party says about itself tend very much to agree with what I say, or with the sort of views that I put out. Those who have other interests do not. Of course, there are some who I would say are captured, quite frankly, by the degrees of interference and other aspects that the Chinese United Front Work Department pushes.

There is a variety of opinion there, but I think that those who understand China and read what the party says—the party says an awful lot, actually, if you bother to read what it says; it is not a black box—are inclined very much to my views. Those views are: be careful,

because it is not coming from the same angle as us, and has some very distinct and not very nice aspects to it. At the same time, it is a major economic power, a major science and technology power, and a major influence on the goods in the world, whether for health, development, peacekeeping or whatever, and we must get on with the country to the best of our ability. I don’t know if that answers your question fully; do come back.

Simon Baynes: That is good. Thank you very much.

Q13 Peter Grant (Glenrothes) (SNP): I am pleased to take part in this Committee under your chairmanship, Mr Twigg.

Mr Parton, the Bill looks primarily at direct investment by potentially hostile operators. Does it give sufficient protection against indirect control? For example, a company may be reliant on its bankers, who may or may not be based in a hostile territory, and who may rely on technology through a company such as Huawei; or a company’s ultimate owners and controlling party could be registered in an offshore tax haven, and it could be that nobody has any idea who actually owns that company. Does the Bill give sufficient protection against those kinds of threats through indirect influence and control?

Charles Parton: I am not a legal expert, but the Committee stage of the Bill needs to look deeply at that question. If there is any doubt as to who the ultimate owners are, that should be taken into account by whatever organisation makes the recommendation on whether a particular investment is acceptable. If we cannot follow through relatively easily back to the ultimate beneficial owners and users, that is a factor that needs to be weighed very heavily in the decision on allowing a particular, possibly sensitive, investment to go ahead.

Q14 Peter Grant: In your experience, is that a technique that either the Chinese Communist party or other potential hostile players either have used or are likely to use if it is in their interests? Do you have knowledge, for example, of China using non-disclosure territories to set up companies in order to try to invest in the UK or elsewhere? Are you aware of them using the influence of the technology, for example, to try to exert influence on companies that do not, at first glance, appear to be directly owned from China?

Charles Parton: I have to say that that is outside my expertise, but I do think it is an extremely good and important question that could be researched relatively easily. Forgive me if I am pushing RUSI here, but I suspect that RUSI has the capability in one of its teams to do some data mining on that, and come up with an answer. It is a very important question, but I am not aware of any research, though there may be some, that goes deeply into that question. It is certainly one that should be followed up.

Q15 Andrew Bowie (West Aberdeenshire and Kincardine) (Con): It is a pleasure to serve under your chairmanship, Mr Twigg. Good morning, Mr Parton. The Bill obviously aims to protect national security while promoting investment in the United Kingdom and not dissuading any inward investment into the country. With your experience, and given everything that you have said this morning, do you think the Bill will succeed in its aims?

Charles Parton: Again, I am not a legal expert, but it seems to set out the legal framework. It all very much depends on the structures and mechanisms, and the resourcing of them, that are set up to ensure whether the judgments about a particular company or a piece of academic research and the technology from them should be blocked or allowed through. I put it back to the Committee: if its detailed research, and the measures that go into the Bill, show that whatever organisation is set up is sufficient unto the job, and that the channels are there to ensure that all these small and sometimes obscure technologies are at least passed by it, that is a really important piece of work.

Q16 Andrew Bowie: Secondly, I wondered how the proposal might compare to regimes that are already in place in comparable countries—for example, our Five Eyes partners.

Charles Parton: I have not done comparative research on that, or done a paper on it. That is something that needs to be done by the Government. Perhaps they have done that. The impression that I get from discussions of this sort of question in the various fora that I mix in suggests that the Americans and Australians have taken a much more hard-hitting approach than we have. Again, it depends on what structure is set up by the British Government, and how it functions in line with the Bill. Forgive me for not giving you a full answer, but that is the sort of research that needs to be commissioned by the Government in order to make decisions on how to deal with that question.

Andrew Bowie: Thank you.

Q17 James Wild (North West Norfolk) (Con): It is a pleasure to serve under your chairmanship, Mr Twigg. Mr Parton, I want to ask about influence. We have seen companies linked to hostile states hiring former diplomats, civil servants, parliamentarians and Ministers to provide a veneer of respectability. How can we do more to guard against that? Secondly, on the Bill, provided advice is drawn widely from the agencies and other parts of Government through the investment security unit in the way that you have described, do you think that having a quasi-judicial decision made by the Secretary of State guards against that influence and potential cronyism in the decision making?

Charles Parton: The question of elite capture is very important and very topical. First, I have called for this in various papers that I have written. The Cobra committee that makes decisions on employment after political or civil service careers definitely needs strengthening. I am not sure of the degree to which work on that is going on; in fact, I do not think much is. Certainly neither the provisions, nor the exercise of those provisions, have been sufficiently rigorous. It is very much a question of lengthening the amount of time between leaving a particular post and taking up a job where, in some cases, you are laundering the reputations of some of these companies. If that period is too small and the criteria are too weak, there is a great risk of people, while still in office or still in post, saying to themselves, “I’d better not be too harsh on this, because in a couple of years’ time, I might be approaching these people, or they might approach me for a job.” That is pretty crude, I know, but it is perhaps easier to see in the case of a defence company. If you were in the MOD, say, and you

had to make a decision, one hopes you would make it entirely in the national interest, rather than with a view to possible employment by whichever company might be bidding for a contract, but that is one area that needs strengthening.

The other area in all influence problems, of course, is that sunlight and transparency is the one weapon we have, but if a Minister, an ex-Minister or a top civil servant is running a consultancy company, and let us say Huawei is employing that company—I choose this example by sheer chance—that should be known. That should be declared, because if such people—who are still influential with their old colleagues, whether parliamentary, ministerial or civil service—are urging a certain line, as I have heard some urge, it may not be disinterested; in fact, it certainly is not in some cases. That needs to be made clear. Sorry, could you just repeat the second part of your question?

Q18 James Wild: It was picking up on your point, which I think we all share, about ensuring that the investment security unit draws advice from the agencies and across other parts of Government. Provided it does that, having a quasi-judicial decision that is challengeable under judicial review by a Secretary of State in some ways guards against that soft influence or cronyism getting involved in a SAGE-type committee. Can you see the benefits of that model?

Charles Parton: Yes, but I think you have to be very happy and convinced that the Minister in charge is one whose future does not incline him or her to make a decision that is somewhat biased. It is not without precedent in the world, anyway, that some ex-Ministers have been under the influence of the Chinese Communist party for one reason or another, so you have to be quite careful about that, and it is a really important decision. That is why I would be more inclined to make sure it is very clear that it is not just within the purview of BEIS, because BEIS’s job is to push investment. That is perfectly fair, but there may be occasions—not now, but in the future—where people’s backgrounds, inclinations or futures incline them to be less than even in their judgment.

The Chair: This will probably be the last question, from Stephen Kinnock.

Q19 Stephen Kinnock: Thank you very much, Chair, for giving me another bite at the cherry. Mr Parton, as a final point, I thought it might be useful to remind the Committee of the symbiotic nature of the relationship between the Chinese Communist party and the Chinese business community. Based on your extensive experience in China, could you briefly outline how the Chinese Communist party in essence runs the business community; the role that it plays in ensuring executives are appointed who are sympathetic to the party; and the whole way in which the nomenklatura works? That will help us to understand the extent to which Chinese business interests in this country are, in essence, the same as the interests of the Chinese Communist party.

Charles Parton: That is a very good question.

Chi Onwurah: Could I just add to that? That is an excellent point, but could you also say a little bit on how China responds to proposed takeovers that might implicate its national security, if those takeovers are allowed? How does it respond to that investment into its companies?

Charles Parton: Those are both good points. First of all, divide it into the state-owned sector and the private sector. In terms of the state-owned sector, the top executives of the big state-owned companies are appointed by the central organisation department of the party. That is the organisation that is, as Mr Kinnock has said, in charge of the nomenklatura: the top 3,000 to 4,000 party officials. Of course, a lot of state-owned companies are also owned at the provincial and lower levels, and there, too, the top executives are party members and beholden to the party. Let us not forget that most foreign investment by the Chinese is state owned, so it is not just a fair bet but a fair certainty that any state-owned enterprise investing is fully politically controlled.

When it comes to the private sector, Huawei has spent a large amount of its time insisting that it is a private company—I really do not care. And I do not really care that the national security law says that any individual or organisation must help the party or security organs when called upon. The brute fact is that, in the way the system is run in China, if the party tells you to do something, the only response from private business to an order is to say, “Certainly, Sir. How high do you want me to jump?” so this debate is entirely irrelevant. The party is now pushing committees into all private enterprises—foreign and local—and it would be a very unwise head of a private company who said, “No, Mr Xi Jinping. I don’t think so.” If nothing else has been shown by what has happened with Jack Ma, China’s second-richest person, and the Ant Group finance company in the last few weeks—there are, of course, financial risk reasons they might want to control Jack Ma’s Ant Group—it is, “Sorry, you are beholden to the Communist party.” That was a very fierce reminder of it.

In terms of this debate, I do not think we should be under any illusion that if a party says to a company about its technology or whatever, “Well okay, it’s all very well that you’ve got that, but we want it fed into our People’s Liberation Army organisations and science and technology system,” no company is going to say, “Oh no, that’s not right. We won’t do that.” For instance, when Huawei says, “If we were asked to do something against our commitments, in terms of what we do abroad, that would threaten security, we would not do that,” it is rubbish. They know that.

The Chair: I am afraid that brings us to the end of this part of the session. Mr Parton, I thank you on behalf of the Committee for your evidence and the clear, concise answers you gave. We must now move on to the next session. If Members want to take a comfort break for a couple of minutes, I am happy to do that.

10.33 am

Sitting suspended.

Examination of Witness

Sir Richard Dearlove KCMG OBE gave evidence.

10.35 am

Q20 The Chair: Order. We will now hear oral evidence from Sir Richard Dearlove. Please introduce yourself for the record, Sir Richard.

Sir Richard Dearlove: I am Sir Richard Dearlove. I was in MI6 for 38 years. I was chief of the service from 1999 to 2004. Before that I was head of operations, and

before that I was head of all the admin and personnel. In fact, I completed the building of the new headquarters and the move of the whole service into that. I retired in 2004 and became the Master of Pembroke College, Cambridge, where I was for 11 years. I am now chair of the board of trustees of the University of London and hold a number of other directorships and advisory roles. I still remain pretty heavily involved as a talking head on geopolitics and intelligence issues, and I have founded a small think tank, which is actually an educational charity in Cambridge called the Cambridge Security Initiative. That gives you in essence my colourful past.

The Chair: Thank you so much for being a witness.

Q21 Chi Onwurah: Thank you very much, Sir Richard, for bringing your expertise to the Committee. The existing powers for intervening in transactions on national security grounds came in when you were chief of MI6. How have security threats evolved since then? Specifically, which security threats do you consider are not covered by existing public interest powers? It would be helpful to hear whether you think the Government have missed specific threats, or types of threat, by relying only on historical powers, and by not bringing in new legislation until now?

Sir Richard Dearlove: Wow. That is a massive question. Bear in mind that a large part of my career related to the cold war. In that period, our main concern was the Soviet Union and the members of the Warsaw Pact. It was characteristic of that period that there were heavy controls, mainly exercised through NATO structures, to prevent strategic material from leaching, as it were, into the economies of the Warsaw pact. I will not go into all the mechanisms. Historically, one does not need to worry about those now, but it was very much an issue that was at the forefront of people’s minds during that period of the cold war. Bear in mind also—I think this is important in looking at the broader context of what you are interested in—that the Soviet Union had hugely sophisticated what’s called S and T operations: science and technology. A whole line of Soviet intelligence of the KGB was devoted to obtaining strategic material that would help the Soviet economy, particularly in the military industrial complex.

This is now in the public domain: in the mid-1980s, there was a major intelligence success, which, interestingly, was conducted by the French, but in which the UK had an important role. We completely dismantled, or learned, exactly what the Soviet Union and its allies were up to on a global basis. We knew before, but we did not know the detail to that extent, and what we learned was pretty shocking. That case has not been greatly publicised, but it was probably one of the most important intelligence cases of the cold war.

With the break-up of the Soviet Union and the disintegration of the Soviet empire, particularly the economic structures that bound the Warsaw pact countries together, in the West our attitudes towards those issues changed very significantly. There was a much more laissez-faire situation and, as countries broke away from the Soviet empire, an enthusiasm to trade with them without the same degree of control.

During that period, you had the emergence of China, which was still very much a regional power but with aspirations to become a global power. To short cut, we

have now transferred to China the concerns we had about the Soviet Union and its allies, but the problem with China in some respects is much more serious than the problem with the Soviet Union, although that was bad enough. Charlie Parton, who was talking to you before, is an expert on China specifically. I am not, and my view is maybe more strategic, although I had a lot to do with China when I was head of MI6.

If you look back at the emergence of China as a regional power, from the very start—when Mao was still alive and was then succeeded by Deng Xiaoping—its intelligence community focused on China’s economic growth. It was not particularly interested in what we would see as strategic or political intelligence. There is a famous passage in Kissinger’s book on China in which he is talking to Mao and Mao says to him, “We’re not interested in your politics because we have our own ideological view of the world, and I don’t really care what our intelligence service reports about what’s going on in the west.” What he did not say, but what was quite clear because it became evident subsequently, particularly under Deng Xiaoping, was that the primary purpose of the Chinese intelligence machine outside China was to contribute to the economic rebuilding of China.

We in the West have been, over a longish period of time, pretty naive and had forgotten the fundamental dangers of having a close relationship with China. I am not anti-Chinese or a cold warrior. I understand—and this is the complexity that lies at the heart of this legislation—that our economies in the West are tied to China’s. They are intertwined in a manner that did not exist during the cold war between the United Kingdom and the Soviet Union. Of course there were economic links with the Soviets but essentially the relationship was one of separation. But that is not the case any longer. We are intimately engaged with the Chinese economy. Our enthusiasm—I am using “our” in the broadest sense of the West’s enthusiasm—to trade with China and to have a close relationship and to build that relationship is thoroughly understandable, but in the process we have let down our guard and we have been extremely *laissez-faire*, as it were, in our attitude towards the commercial threat from China.

I remember very well on one of my visits to the far east, when I was coming out of China through Hong Kong, talking to a British lawyer who had been head of a legal office in Shanghai for a long time. He said, “Richard, you have got to understand one thing about the Chinese attitude to us: they don’t understand win-win. All they understand is ‘We win, you lose.’” However intimate and successful your relations with China may be economically, if you are too successful, you can absolutely guarantee that the Chinese will transfer that success to themselves in their own economic structures, having allowed you to run successfully for a period of time.

What we now know and understand is that the Chinese are highly organised and strategic in their attitude towards the West and towards us. For example, some of the thousands of Chinese students who are being educated in Western universities, particularly in the UK and the United States, are unquestionably organised and targeted in terms of subjects—I am thinking more about graduates, PhDs and post-docs—looking at areas of strategic interest to the Chinese economy, and they are organised by Chinese intelligence.

We need to conduct our relationship with China with much more wisdom and care. The Chinese understand us incredibly well. They have put their leadership through our universities for 20 or 30 years. We in comparison hardly know anything about China because we just do not have that depth of knowledge and experience. You have people such as Charlie Parton and many wonderful Chinese scholars who understand intimately, in particular, the workings of the Chinese state, but they are rare individuals who are now massively in demand in trying to educate people about the problem that we have on our hands.

I am not one who is saying that we have to hold China at arm’s length. It is impossible to do that because they are so intimately involved in our economy, but we have to understand where we restrict their access, where we control their access and where we do not allow them to build strategic positions at our expense and literally take us for a ride. If you go back a little way, we were incredibly naive about this, which accounts for the position we got into with Huawei. It was completely ridiculous that we should even have been considering Huawei to build our 5G. That is probably why you called me. I was heavily involved in lobbying MPs through these various structures. I am delighted that the Government have now taken a grip on this issue.

The Chair: Thank you. I have no leeway to go past 11.25 am, so please can we keep questions as succinct as possible.

Sir Richard Dearlove: Sorry. That was a long answer, but it is precisely the question one should be considering.

Q22 Chi Onwurah: Absolutely. I appreciate the response and I would like details of the Soviet case of the military-industrial complex that was dismantled, which you mentioned. That would be interesting to compare.

You have talked about the relationship between the military-industrial complex, in the case of Russia, and economic development, specifically in the case of China. We have essential industries that are critical to our economy and there has been concern that BEIS is going to be overseeing the security implications. Where we have industries and technologies that are critical for national security, they are also critical for our economic security, so our national and economic security end up being linked. You have talked about some of those links in the case of Russia and China. How can we reflect those links effectively in the Bill? Do we need structures within BEIS, or outside BEIS, to identify and reflect the overlap between economic and national security?

Sir Richard Dearlove: This is a really difficult question. I am expressing the problem, not the solutions. You have to bear in mind that I spent my life as a poacher, not a gamekeeper, so my view of these problems is mirror imaging. I was an offensive intelligence officer, not a defensive one. I spent my life trying to penetrate Chinese intelligence, if you see what I mean.

The problem is much bigger than just national security; that is one of the difficulties. It leaches into the whole future of our economic competition with China. I do not like to talk about it, but some people use the phrase “a new cold war”. I do not subscribe to that. We have to find some other way of talking about this. They are very serious competitors who are beginning to edge along

the path of enmity in the way they treat us on some issues—witness Hong Kong at the moment—so you have to have some sort of flexible scrutiny arrangement.

The reason this is so difficult to comprehend is that areas like climate change and energy policy, which are national security issues but not right on the frontline, are so big that, I think, China has a pretty disturbing agenda for us. They will encourage us to follow policies that they think are disadvantageous to our economy.

If you take their statements on things like climate change, which is relevant to what we are talking about, China is going to go on increasing its carbon emissions up until 2030, if we look at the figures and understand its policies. China is going to completely miss out renewables. When it has generated enough wealth and success in its economy, it is going to jump from carbon energy straight to nuclear and hydrogen. It will have the wealth and the means to do that. Renewables for the Chinese are going to be rather peripheral, because they will not generate the energy intensity that the Chinese economy requires. China has a road map in its head that is really rather different from ours and there is no question but that, competitively, our green agenda is going to put us at an even greater disadvantage to China, if you take a 30-year view of that.

There are some very worrying aspects of this. That means that if we are gaily allowing the Chinese to walk off with all sorts of bits of our economy, we are going to pay possibly a pretty high price for that over a long period. We need to take a strategic view of this. China certainly has a strategy, and at the moment we do not really have a strategy. We are beginning to realise that we have to have one, and maybe this Bill is a healthy first step in that direction.

You will need sub-committees of some sort, with flexible thinking and experts to advise on where these problems lie. The difficulty is also that we do not want to ruin our economic relationship completely with China. We still need to partner with it in areas that are advantageous to us and our economy as well.

Q23 Nadhim Zahawi: The Bill provides for an annual report to Parliament, Sir Richard. What is your view on balancing transparency and ensuring Government can take national security decisions sensitively? Where does that balance lie in terms of our ability to be as transparent as we can without harming sensitivities around these decisions?

Sir Richard Dearlove: My view would be that the annual report has as much transparency as possible, but you are probably going to require a secret annexe from time to time. It is a bit like the reports of the Intelligence and Security Committee, which I dealt with frequently as chief. They and we were keen that they should publish their reports, but there comes a point where it is not in our national interest that some of this stuff is put in the public domain. I would be pretty clear cut on that.

The Chair: I call Peter Grant, who will be behind you, Sir Richard, because of the social distancing rules we have in Committees.

Q24 Peter Grant: I think this is the first time I have had to stand further away from somebody to speak to them. Thank you for your attendance today. We have heard

a lot this morning about the threat from China and a bit about the threat from Russia. There may well be other hostile states out there that have their eyes on us. There are certainly hostile non-state enterprises that have their eyes on us. Is the Bill wide-ranging enough to allow the Government to respond to all those different kinds of threat? Does it allow enough flexibility to respond to the threats that we have not yet discovered, that we do not know about or have not yet been invented?

Sir Richard Dearlove: Obviously, the threat scenarios shift and change. I think I accept that. Clearly, at the moment, what is driving our considerations is mainly China, but you are right. It applies to others—Iran, North Korea—and there may be other states.

A good example in the past, not a current one, is Pakistan. The Pakistani bomb built by A. Q. Khan—the Khan Research Laboratories—was created by sending 600 Pakistani PhD students to do separate bits of research in different universities around the world. That is the origin of our thinking on counter-proliferation, and it is another very clear example of where you have to have control from the security services. Now, I believe, we register PhDs in relation to the nationalities studying in certain areas.

The Bill should be able to accommodate a changing set of scenarios, and you are right to say that non-governmental organisations can become problematic. The proliferation issue, whereby Khan was trying to sell his technology to other countries, happened around the time of my retirement and the disarmament of Libya. That was all based on Pakistani technology, but there was a commercial network run by a family of Swiss engineers called the Tinner. This is an example of how dangerous things can be. The Tinner network had several semi-clandestine factories dotted around the world that were all making different parts for nuclear centrifuges. Okay, that network was eventually dismantled by the UK and the Americans, but the problem of national security goes into some pretty odd areas, and you are right to identify those as not necessarily just being China or, in the past, Russia. There are still aspirations on the part of certain powers to break the non-proliferation treaty and become nuclear weapons states.

Q25 Mark Garnier (Wyre Forest) (Con): It is a pleasure to serve under your chairmanship, Mr Twigg. Sir Richard, I want to ask some questions about how the Bill and the mechanisms that make it operate cut across certain other parts of Government Departments. That is clearly looking at how we can scrutinise investments coming into the UK, but we also have a department with respect to export control. Broadly speaking, this is quite a similar type of problem. Although it is not necessarily looking at intellectual assets, it certainly looks at the ability of countries that are buying certain things to reverse-engineer, and therefore to try to steal our intellectual property in that way.

I am interested in your view on how the department that is proposed to be set up within BEIS to scrutinise this cuts across the Export Control Joint Unit, which is obviously a combination involving four Government Departments. Is that complementing it or contradicting it? Can they cut across each other? How do you see those two departments working together? They ultimately have the same aim, although they come from slightly different objectives.

Sir Richard Dearlove: I cannot give you a detailed answer to that question. From my experience, I would say that on some of these issues the co-ordination of Government Departments is one of the really big challenges, particularly when they ultimately have different objectives. The sophistication of our co-ordination mechanisms in the UK has not been highly developed, so we have run into problems in the past. My suggestion would be that this be given forethought rather than afterthought—that there is some arrangement to avoid those clashes of departmental interest.

Q26 Mark Garnier: I would not want to put words in your mouth, but it sounds like you would suggest that this Committee urge the Government to look at the possibility of developing relationships between those two departments, so that they are not contradicting each other.

Sir Richard Dearlove: Yes, because they could be pulling in different directions. You have to have some degree of co-ordination. It is always better if these things are anticipated and something is put in place in advance, rather than scrabbling around to sort it out afterwards. I have seen that happen a lot.

The Chair: We are back to facing the front now, Sir Richard. Most members of the Committee wish to speak and I want to get everyone in, but I will have to cut them off at 11.25. Keep questions as succinct as possible.

Q27 Matt Western: I want to pick up on a couple of points. You spoke about energy policy and, as we have seen over the past nine months, some of the risks and threats to our society and economy come from unexpected places. Do you think that the Bill does enough to recognise where those threats may come from and that they may be from a malign power?

I am thinking of the consideration of investments from China in our nuclear power stations and other infrastructure networks. Something as simple as road traffic signals or rail infrastructure might break down if someone decided they wanted that to happen. Do you think the Bill does enough to recognise the unexpected areas of investment that a malign state might want to attack?

Sir Richard Dearlove: Probably not is the answer. The Bill should take account of the complexity of modern technology and the difficulties that we could run into in the future if we allow foreign entities to have a strategic piece of our critical infrastructure. Relationships can change over time and you can cause huge difficulties by throwing a switch and engaging a piece of software that is deeply embedded in something somewhere and causing a huge problem.

I do not want to be too alarmist, but Chinese engagement and involvement in nuclear power is another area of terrific concern and worry. It is not something that we should take at face value. We need to think very carefully about some of these issues. I would much rather have a French company building a nuclear power station than a Chinese company.

Q28 James Wild: You mentioned Huawei. Were you involved in 2003 when BT was letting the contract for the network? Did you raise concerns at that point?

Sir Richard Dearlove: No, I was not. The first Huawei contracts were signed by BT in 2003 and, because BT was the primary provider, the relationship between BT and the intelligence community was, let us say, important; I will not go any further than that. BT was a successor to the General Post Office and, essentially, that was how the relationship came about.

At the time, people like myself were deeply concerned and shocked that we were signing deals with a Chinese company that looked to us to have strategic implications. Basically, as chief, I was not consulted. Basically, when I raised some questions, I was largely told, “It is nothing to do with you. These are issues we can control.” The relationship with Huawei took off without real consideration at the time that it would have a bearing on national security. I think that was extremely misplaced. I have written or said somewhere before that those of us who raised objections in 2003 were just disregarded.

Q29 James Wild: Well, the ISC report makes clear that Ministers were not informed about the contract at all at the time.

Sir Richard Dearlove: I knew about the contract and said I thought it was completely inappropriate.

Q30 James Wild: In the Bill, there are 17 sectors listed where mandatory notifications are required. They include transport and communications, as in some of the points that Mr Western was raising. Should others be added to that?

Also, do you think that although we need to look at the Bill as to what it does, we should also recognise that it does not solve all the problems and threats from hostile states—that the intelligence activity and other things we do to raise the cost of theft of IP need to be seen holistically across the piece, and that the Bill cannot solve all the problems?

Sir Richard Dearlove: The Bill is a step in the right direction. What is important about the Bill is that it raises parliamentary and public awareness of the issue. Everybody takes a big step forward in being sensitised to the problems in the future.

To be honest, I do not have any suggestions right now to add to the list, but I might look at that and see whether there are certain areas. For me, the Bill is almost a symbolic move—one that is long overdue and signals a change in attitude at Westminster and on the part of this and future Governments. It is a very healthy, pleasing and important development.

Q31 Stephen Kinnock: Thank you very much, Sir Richard, for the evidence that you have given us today. The Intelligence and Security Committee defines critical national infrastructure as

“certain ‘critical’ elements of infrastructure, the loss or compromise of which would have a major, detrimental impact on the availability or integrity of essential services, leading to severe economic or social consequences or to loss of life.”

Would the Bill benefit from having that definition of critical national infrastructure embedded in the middle? Linked to that definition, should special measures be taken to raise our guard even higher when it comes to any kind of investment in our critical national infrastructure?

Sir Richard Dearlove: I would certainly see that as advantageous, because it defines a clear area where you start and from which you can make judgments about

the involvement of foreign firms being given space or activity in those areas. That is not a bad idea at all, actually.

Stephen Kinnock: I know time is short, so thank you.

Q32 Simon Baynes: Thank you, Chair. Thank you, Sir Richard. When and why did we let down our guard to China and where would you restrict its access? You made that comment in your statement, and you have commented already on areas such as nuclear power. Can you add to that to give us a bit more of an idea of other strategic areas where you think we should restrict its access?

Sir Richard Dearlove: I think we were over-enthusiastic about becoming a favoured trading partner with China. I am not going to name names, although I think I have done in one or two instances where, let us say, certain Ministers were incredibly enthusiastic and uncritical about building a commercial relationship with China. Part of that was driven politically, in that if we are going to not be a member of the EU, we need alternative relationships. I am not sure I would see it quite like that.

There has been a big emphasis on building a privileged position with China, which has led to people such as myself shouting from the sidelines and being pretty unpopular. For example, the 48 Group Club that the Chinese set up in the UK is extraordinary. They recruited a whole group of leading British business and political figures into that group who were designated cheerleaders for a burgeoning relationship with China. Huawei was an important part of that. The composition—the British membership of the Huawei board—was a very impressive line-up of people who were there to persuade us to drop our guard.

Anyway, I am glad that that is now largely history. A lot of the people who were involved are very keen to jump ship and be disentangled from those involvements. I am sure that, in time, the economic rewards that they were offered to go on to those boards and things were pretty significant. So the Chinese knew how to play us and that is why we got ourselves into this very difficult position on 5G.

Sorry, what was the second part of your question?

Q33 Simon Baynes: The second part was: can you say a bit more about where you would restrict their access, because that was one of your key points? You have mentioned nuclear power.

Sir Richard Dearlove: On artificial intelligence, given that the UK is a leader in its own field, there are all sorts of aspects of AI and we would not want to allow the Chinese to buy those companies or take over the technology. There is no question but that the China dream that Xi Jinping has expressed is based on—let me put it like this—authoritarian technological supremacy and having a capability that dominates the global market in those areas. Huawei was definitely a step in that direction.

The critical areas are largely about the speed of technological advance and AI-related companies. We are very sophisticated in those areas, and the Chinese do not have a good record themselves of developing that sector without pinching it from the west—not to put too fine a point on it. The embargo placed on chip manufacturing by the Americans is a serious problem for China, because at the moment they cannot replicate that. I am sure that they will solve the problem themselves

in due course. Of course, we have a certain dependence on them for certain things such as rare earth elements, so the quicker we can develop alternative sources, the better.

I am Cornish—I was born and brought up in Cornwall—and I see that one area where you might, using new technology, get rare earth out of the ground is Cornwall. I am devoted to the development of the Cornish economy, and I would love to see us making a real effort to develop Cornwall, for example, as a source of those elements, which is technically possible. It would be more expensive than buying them from China, but would be of huge benefit to our domestic economy. That is a good example of a sensitive area.

The Chair: I call Andrew Bowie. This will probably be the last question.

Q34 Andrew Bowie: I will be brief. Thank you for commenting. It is a real privilege to listen to you and take on board everything you said regarding our naïveté and the intertwining of our two economies, nowhere more so than in the North sea, where CNOOC, China's national oil company, initially through Nexen, a Canadian company—this is going back to something my colleague raised earlier—is now the biggest producer of oil. Allowing what some might describe as a hostile actor to have such control over our energy security is incredible—very naïve.

I was going to ask you a question I put to Mr Parton, although it is probably more relevant to you. How does what the Bill proposes compare with what is being done in other, comparable countries, such as our Five Eyes partners? Does it go as far as the Australians and the Americans, or are we still some way short of where we should be?

Sir Richard Dearlove: No, I think we will catch up. A very good example for us is Australia. They are hyper-dependent economically on their relationship with China, but the current Australian Government had the resolve to take a tough line on strategic issues, and they have suffered as a consequence. But their relationship with China will come back into balance, so the idea that you cannot be hard with the Chinese on these issues because it will prejudice a good trading relationship is rubbish.

The Chinese will probably respect you more if they know you mean business, they want a clear-cut relationship, and they see you have the legal means to impose that domestically, so they cannot just buy a high-tech company and walk off with the intellectual property, thank you very much. In the past, we have been so laissez-faire, it is ridiculous.

Chinese involvement in the oil industry is an interesting example too—I mean, look what they are doing now. They are doing deals with Iran and with Saudi Arabia on carbon fuel, exactly in the way I explained earlier. They are not going to cut their fuel emissions until they are ready to go for a nuclear-hydrogen economy, which they will have the means to do. We are sitting by and watching it happen, in a manner of speaking, and not worrying about the consequences for us.

One of my friends, who is a Chinese scholar, drew my attention—you will enjoy this, I think—to the 36 stratagems from the era of the warring states, which is 481 to 221 BC. I will mention three of the stratagems, because I think they are appropriate to the thinking of this

Committee. Kill with a borrowed sword—that is, get what you can. Loot a burning house—bear that in mind in terms of taking advantage of the current pandemic. The third one is hide a knife behind a smile.

The Chair: We have two minutes left for anyone who wants to get a quick question in.

Q35 Sam Tarry (Ilford South) (Lab): It is an honour to serve under you, Mr Twigg. We have focused mainly on China. Thinking about regimes we could put in place to govern all this as we work through the Bill, do you think there could be exemptions—a bit like the US has done for potential allies? Could we have almost a graded system, so we can build relationships quicker and faster with those we want to support, or do you think that would be a bad idea?

Sir Richard Dearlove: You are talking about allied countries?

Sam Tarry: Obviously, if you are involved in global universities, for example, there will be some countries that we want to keep a much better relationship with, and whose students our intelligence services will have to monitor less.

Sir Richard Dearlove: There is definitely a graded difference in, let us say, our burgeoning relationship with India, but India can also raise some strategic security concerns for us. It has not always been entirely friendly, and bear in mind that it has quite a sophisticated weapons programme of its own. However, it would be wrong to treat India in the same way as you treat China; I agree that there is a gradation of treatment.

The Chair: That brings us to the end of the time allotted for the Committee to ask questions. On behalf of the Committee, I thank our witness very much for his time.

Before we finish, I want to read a message out to Members. I would appreciate it if Members did their best to arrive in the room a few minutes before this afternoon's sitting starts at 2 pm, to ensure we can be seated in a socially distanced manner so that everybody remains safe.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order 88).

Adjourned till this day at Two o'clock.