Transparency, Accountability, Predictability: Protecting National Security Through the UK's Foreign-Takeover Regime

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Our Future of Britain project seeks to reinvigorate progressive politics to meet the challenges the country faces in the decades ahead. Our experts and thought leaders are setting out a bold, optimistic policy agenda.

Executive Summary

The future of Britain will depend on a new age of invention and innovation. [1] Technological superpowers such as the United States and China are investing heavily in their futures, raising the possibility that everyone else will be trapped behind these two forces – a risk the European Union is belatedly recognising and acting upon.

The UK must find its niche in this new world. With science and technology as our new national purpose, we can innovate rather than stagnate in the face of increasing technological change. The United Kingdom has world-class technological strengths to draw upon, from artificial intelligence (AI) and life sciences to clean energy and cyber-security.

Yet over the past six years, a range of UK assets – from sterling to equities – have begun to look cheap relative to global markets. The UK's discount reflects in part the structural composition of UK stock markets, [2] a risk premium due to political uncertainty [3] and the "Brexit discount" [4] associated with a structural loss in competitiveness as a result of leaving the European Union.

Persistently low valuations have left UK companies vulnerable to foreign takeovers, with acquisitions up almost 400 per cent between 2015 and 2022. While inward investment has economic benefits, this boom has raised questions about whether UK companies are being bought on the cheap, [5] and whether this trend is in the country's best economic and national-security interests. [6]

Successive UK governments have welcomed foreign ownership of domestic companies. Investment from overseas normally brings many benefits to the economy, including new technological and managerial know-how, new competitive pressures, and potentially higher pay and productivity. Yet foreign direct investment (FDI) flows into the UK have fallen since 2016, with both reinvested earnings and intra-company borrowing from foreign parent companies falling relative to pre-referendum averages.

However, the recent wave of foreign takeovers has included approaches for companies in politically sensitive sectors, from semiconductor firms Arm [7] and Newport Wafer Fab (NWF) [8] to cyber-security firm Darktrace [9] and defence companies Cobham, Ultra and Meggitt. [10]

The UK government has struggled to effectively scrutinise many of these takeovers. The aggregate effect of these approaches has been to reinforce an erosion of the UK's industrial and national-security capabilities.

For example, when the private-equity firm Advent International bought the British defence company Cobham in 2018, the UK government imposed relatively weak conditions on Advent, requiring it to inform the Ministry of Defence (MoD) of any intent to dispose of sensitive assets but giving the government limited power to mitigate any potential national-security risks. Consequently, Advent was able to sell off half of Cobham within 18 months, leaving the company without any UK manufacturing sites and the government with almost no voice in the matter. [11]

In addition, the UK government has lost a degree of credibility and fostered uncertainty with its stop-start approach to reviewing the acquisition of NWF by a Chinese-owned tech company. Although the acquisition was initially cleared by then Business Secretary Kwasi Kwarteng in the spring of 2021 and the takeover was completed in July 2021, it was subsequently referred by former Prime Minister Boris Johnson to the National Security Adviser (NSA) for further review. Despite being cleared by the NSA, Kwarteng used new national-security and investment rules introduced at the beginning of 2022 to "call in" the takeover for review in May 2022. As a result of this review, Business Secretary Grant Shapps decided to block the takeover on national-security grounds 16 months after the acquisition was completed.

New national-security and investment rules [12] introduced in January 2022 were designed to strengthen the UK's regime for scrutinising the national-security implications of foreign takeovers. These new rules require mandatory notifications of qualifying acquisitions and investments in 17 sensitive sectors (including AI, defence and energy) and give the business secretary the power to call in any other acquisitions. The newly created Investment Security Unit (ISU) would assess these takeovers, either clearing them or requiring a full national-security review. The business secretary would then have the power to impose remedies to address any national-security concerns, to block deals, or to require acquisitions that have taken place to be divested or unwound.

Having new powers is one thing, but the legislation provides little clarity over when and how the government might deploy them or, most importantly, the framework through which it will assess national-security concerns. Such opacity raises the risk that political rather than strategic considerations will dominate decisions and leave uncertainty when making critical national-security determinations.

Traditional interpretations of national security as limited to the protection of the nation's physical borders are no longer sufficient in a world characterised by high levels of interconnectedness, public-private partnerships in key sectors such as pharmaceuticals and energy, and a growing reliance on technologies and digital infrastructure that underpin the functioning of society.

The UK needs to remain open to inward investment if we want to modernise our economy, generate growth and protect our national-security and defence capabilities. As such, the government needs to further reform national-security investment rules to depoliticise sensitive decisions in favour of a regime with more predictability, transparency and accountability. [13]

In order to understand priorities for reform, this paper first looks at the history of UK foreign-takeover policy. It then reviews recent reforms in the UK, United States, France and Germany before comparing these regimes to best practices identified by the Organisation for Economic Co-operation and Development (OECD). Finally, we set out specific reforms to strengthen the UK's national-security regime. In summary, they include:

1. Provide a clear picture of national security through an annual assessment that feeds into guidance for the ISU, set up under the National Security and Investment Act.
2. Provide a clear framework for how national security affects acquirer risk.
3. Improve transparency of target risk by conducting in-depth supply-chain reviews in sensitive sectors of the economy.
4. Improve transparency of the ISU's operations to give investors more confidence in and understanding of its decisions.
5. Update the list of sensitive sectors through a joint annual review of the global technology landscape conducted by the Department for Business and Trade and the Foreign, Commonwealth and Development Office.
6. Strengthen parliamentary scrutiny of the ISU through quarterly publication of actions and an annual report on how the national-security assessment and technological review have been incorporated into ISU decision-making.

UK Foreign-Takeover Policy: A Brief History

Over recent decades, the United Kingdom has maintained the most permissive inward foreign-investment regime among G7 economies. Despite comprising just 3 per cent of global GDP, the UK was involved in a quarter of all global cross-border merger activity between 1997 and 2017. Almost 50 firms of British origin that would qualify for the FTSE 100 Index are now foreign-owned. The OECD estimates Britain's inward FDI stock at about £1.9 trillion – the largest in the European Union, and the third-largest globally after the United States and China.

Many factors contribute to the UK's status as a magnet for global investment, not least its strong financial and legal sectors, the English language, rule of law and mature consumer market. A significant part of the UK's success in attracting overseas funds, however, has also been political – in particular, the striking lack of politicisation of the UK's foreign-investment rules. For the past four decades, the UK government has treated foreign and domestic bidders as practically equivalent in most industries, until recently judging mergers only on economic grounds, with minimal regard for national security. In contrast to other major economies, including France, Germany and the US, all of which actively employed national-security screening mechanisms, the UK barely intervened in a major foreign acquisition on political grounds between 1990 and 2006.

The UK first formalised its foreign-takeover policy with the 1947 Exchange Controls Act, which, in principle, provided the Treasury and Bank of England with extensive powers to regulate FDI. In practice, however, these powers were very rarely used, and while terms such as "strategic industries" and "national economic interest" appeared in statute, they were only vaguely defined in reality.

In fact, most foreign funds were actively welcomed during the 1950s as a way to buttress the UK's balance-of-payments situation – a much bigger focus for policymakers than domestic industrial strategy. Despite some nationalist rhetoric from Harold Wilson about encroaching American corporate ownership, both Labour and Conservative governments largely continued this policy during the 1960s. The 1975 Industry Act gave the government powers to block foreign takeovers of manufacturing firms with special importance to UK industry, but to date the provision has, again, never been exercised.

During the Conservative governments of Margaret Thatcher and John Major, the UK pursued an industrial strategy of market-based competitiveness, welcoming foreign investment as a way to boost the productivity of domestic industry and increase competition in domestic markets. When pressed on the encroaching foreign ownership of the City of London following the "Big Bang" deregulation on foreign-capital controls in 1986, Bank of England Governor Edward George famously compared foreign investment to the Wimbledon tennis tournament: an institution "held in Britain, staffed by locals, dominated by foreigners but still generating bags of prestige and money for the UK". [14] Foreign

ownership, in other words, mattered little to government so long as foreign management delivered growth for the UK economy – a position that subsequently became known as the "Wimbledon effect".

The New Labour government continued this philosophy. The 2002 Enterprise Act, while codifying significant powers for the Office of Fair Trading to block a foreign merger on competition grounds, was largely silent on the question of political intervention. Residual powers rested with the minister of state to call in an acquisition for a review if it impinged on one of four protected areas – national security, financial stability, media plurality and public health – but in practice these powers were, once again, very rarely used.

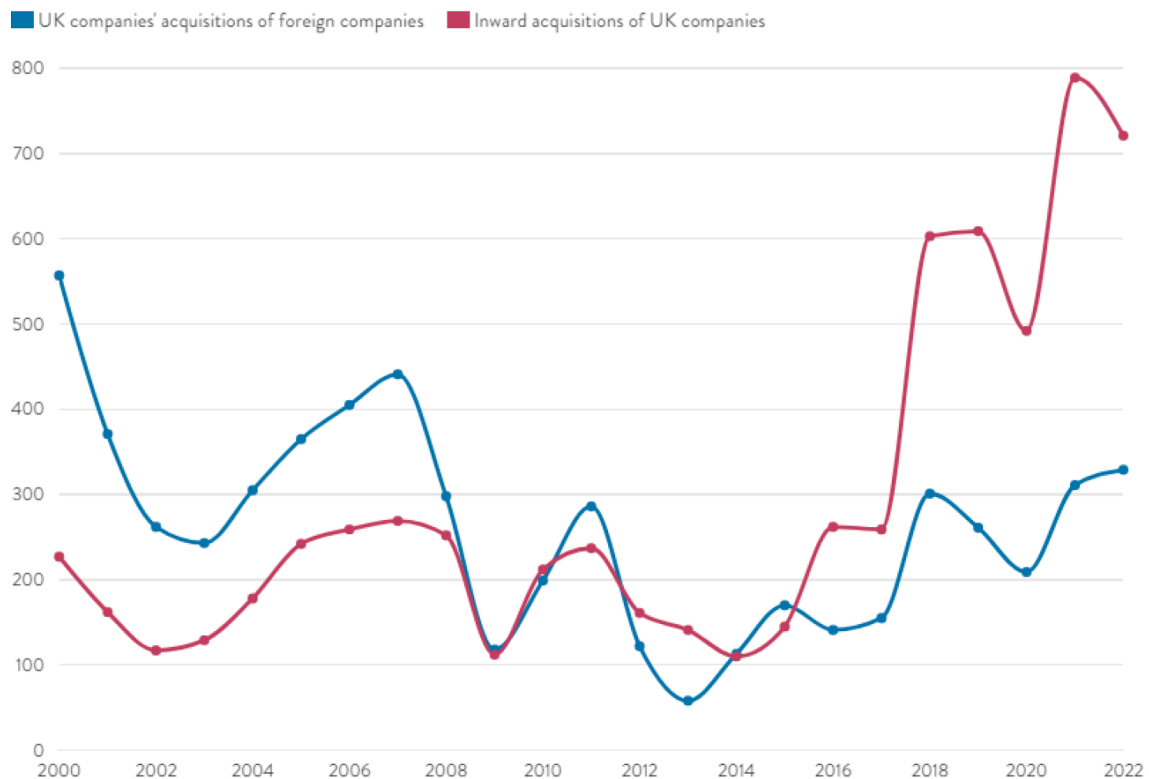
The exceptional takeover boom in the 2000s resulted in significant foreign ownership even in sectors historically considered to be sensitive, such as utilities and the defence industry. Rather than agonise over the economic risks of foreign ownership, however, the UK government, backed by cross-party consensus, emphasised the potential positives: the ability to import advanced technologies from abroad, international economies of scale, greater market competition, potentially more effective international management and greater allocative efficiency for consumers.

The UK's strengths in sectors such as finance, which would likely benefit from capital liberalisation anyway, and comparative weakness in industries such as manufacturing, which are vulnerable to global competition, made the political economy of the Wimbledon effect easier to justify.

From "Wimbledon Effect" to "Brexit Discount"

The UK's vote to leave the European Union in 2016 led to a steep rise in foreign takeovers, even above the already-high levels of foreign investment over recent decades. While the annual number of foreign takeovers in advanced economies across North America, Europe and Asia was largely flat from 2015 to 2022, in the UK there was a 400 per cent increase, as Figure 1 shows.

Figure 1 – Foreign takeovers of UK companies are up 400 per cent since 2015



One reason for this increase in takeovers is that markets have placed a lower value – a valuation discount – on UK companies than on their foreign equivalents. Since the EU referendum, UK stock-market returns have lagged behind international peers, creating a persistent and historically wide valuation discount. According to the investment-banking company Panmure Gordon, the UK's valuation gap was 35 per cent overall in the first quarter of 2022, and 12 per cent after controlling for varying sectoral composition across countries.

Persistently low valuations of UK companies have left them vulnerable to foreign takeovers. The recent rise in takeovers, combined with elevated global economic tensions, has fuelled anxieties about the foreign exposure of UK supply chains and corporate control.

No longer is the UK a beneficiary of the Wimbledon effect. Instead, the institutional structures that determine global capital flows require a premium to invest in UK equities, while the domestic investment industry is set up to send capital out of the country. Against the backdrop of structural economic weakness and a persistent equity discount, the logic of foreign investors is that the best way to exploit UK technologies and capabilities is through takeovers and break-ups, not by investing in UK capacity in a way that generates prosperity in the country. [15]

The 2021 Reforms to the National-Security Investment Regime

Following consultations throughout Theresa May's premiership, the government published the National Security and Investment white paper [16] in 2017 setting out its priorities for reforming the UK's foreign-investment screening regime. The reforms were meant to operate within the strategic framework of the government's National Security Capability Review and its Industrial Strategy white paper, both also published in 2017.

Yet when Boris Johnson's government introduced the National Security and Investment Bill in November 2020, both the national-security and industrial-strategy frameworks set out in 2017 had been scrapped, leaving the new investment-screening regime operating in a strategic vacuum.

The National Security and Investment Act (NSIA), which came into effect on 4 January 2022, introduced the ISU to review the suitability of takeovers on national-security grounds, managed by the Department for Business and Trade (DBT) (previously known as the Department for Business, Energy and Industrial Strategy (BEIS)). The Competition and Markets Authority (CMA) continues to handle competition-based matters, taking over cross-national jurisdictional responsibilities previously held by the European Commission when the UK was in the European single market.

As of January 2022, [17] investors surpassing a "control" threshold in a "qualifying asset" are now obligated to file for ISU approval prior to closing a takeover deal. "Control" is defined in the legislation as when a party crosses a 25 per cent, 50 per cent or 75 per cent equity ownership threshold (with different clearance requirements at each equity stage). An "asset" is broadly defined as any type of financial entity, including a company, partnership, trust, physical capital, land or intellectual property. And a "qualifying asset" is any asset that is a meaningful part of the 17 strategic sectors marked as high-risk.

The ISU has the power to interpret these terms broadly and intends to take the wider context into consideration when calling in a deal for a national-security review. Filing for ISU clearance outside the 17 high-risk sectors is optional, although the secretary of state still has the authority to call in any deal in a low-risk sector if they deem it relevant. Importantly, UK investors are not exempt, meaning an acquisition can be called in regardless of the national origin of the buyer.

Once a foreign buyer notifies the ISU of an intent to purchase a qualifying asset, the unit has 30 working days to make a "Phase 1" decision on whether to clear the sale or proceed to a full "Phase 2" national-security review. Phase 2 lasts for a further 45 days before the secretary of state must either clear the sale or introduce relevant remedies to mitigate national-security risks, including but not limited to blocking the deal entirely. While the timelines for each stage are formally specified, in practice the ISU has the power to run down the clock on these deadlines.

Although the NSIA significantly buttresses the UK's foreign-investment screening powers on national-security grounds, the new regime still has significant drawbacks – namely, there is a high degree of opacity and ambiguity over how the ISU's sectoral remit will be interpreted, what kinds of remedies may be imposed, and what role government ministers have for explicit political intervention.

What Other Countries Are Doing

The UK's reform of its investment-screening regime follows similar efforts across several large economies. International investment is widely seen as a condition for prosperity in home and host economies. Yet inward investment also brings national-security and economic risks. Geopolitical and geo-economic changes in recent years – especially the emergence of new state actors as foreign investors, a more assertive stance of some emerging economies and new technological developments – have sharpened governments' awareness of these risks. [18]

In addition, the technological revolution that we have seen has led to new concerns over foreign investment in frontier and high-technology companies, especially around telecommunications, surveillance and those holding private data. During the pandemic, concerns again arose over the security and resilience of supply chains, particularly in the health-care sector.

In response, governments of advanced economies have begun to shift away from their stance of unconditional openness to international investment and have introduced or plan to introduce mechanisms to manage threats that may be associated with international investment.

United States

Created in 1975, the interagency Committee on Foreign Investment in the United States (CFIUS) has long held significant investment-screening powers, including: imposing mitigations on foreign takeovers, blocking takeover bids and referring politically controversial bids to the president for a final decision. [19] CFIUS was particularly active during Donald Trump's presidency, as geopolitical tensions with China rose and the government used protectionist measures to bolster US industry. Combined, these actions represented the beginning of a shift in the US away from the open, World Trade Organisation-oriented trading regime.

Following the 2018 Foreign Investment Risk Review Modernization Act (FIRRMA), as well as regulatory updates over the following two years, the purview of CFIUS has now been significantly expanded. A foreign company purchasing any equity in a US company that controls or operates critical technology or infrastructure must now file for approval, even if the desired equity stake is non-controlling (compared to the old regime under which only controlling equity bids were monitored). Twenty-eight types of critical infrastructure have now been defined in statute, and formal timelines for merger clearance have also been extended. A list of exempt foreign states has also been issued – namely Australia, Canada, the UK and New Zealand – and companies originating from these countries will receive favourable treatment for takeover clearance. Real-estate transactions are also now subject to CFIUS review.

France

France has a long history of prioritising national autonomy when regulating foreign investment, regularly intervening to discourage undesired foreign takeovers, in particular the proposed Siemens takeover of French rail champion Alstom. [20], [21], [22] The previous regime, which required mandatory government approval of only majority-equity, non-EU foreign acquisitions, has been successively updated since 2018 to reflect growing Europe-wide concerns about foreign corporate control. In November 2018, the list of protected industries was significantly expanded to include many technology sectors.

In May 2019, the Law on Business Growth and Transformation (PACTE Law [23]) gave significant new veto powers to the minister of the economy and finance. Combined with a December 2019 decree, the new rules now require all non-French foreign bidders acquiring controlling equity in critical-sector companies to seek government clearance, as well as all non-EU bidders crossing a 25 per cent equity threshold (temporarily lowered to 10 per cent at present as a precautionary measure during the Covid-19 pandemic). European Union-level filing requirements must now also be observed by all foreign acquirers.

The French regime was reformed in September 2022, providing greater transparency on the sensitive sectors of the economy that are likely to trigger a review and to speed up the review and decision-making process. France, however, provides comparatively little transparency once decisions are made, giving only top-level information about the cases it has reviewed in an annual report.

Germany

Germany's foreign-investment rules have traditionally operated across two tracks: a sector-specific review for foreign acquisitions in sensitive sectors and an all-sector review for general transactions. [24] In May 2019 the German Ministry for Economic Affairs and Energy (BMWi) expanded the list of industries subject to sector-specific review: non-EU acquisitions above 10 per cent equity in seven military and technology sectors now automatically trigger a BMWi review, along with acquisitions above 20 per cent equity in another 20 sensitive sectors. In other industries, non-EU acquisitions may be subject to BMWi clearance, although initial notification is voluntary.

The European Union's Foreign-Takeover Regime

The UK's liberal attitude to foreign takeovers continued after its accession to the European Economic Community in 1973. The 1975 Industry Act gave the government power to block foreign

takeovers of manufacturing firms with special importance to UK industry, but to date the provision has never been exercised.

While the UK's harmonisation with European Union competition law did place subsequent limits on the government's ability to intervene politically against cross-jurisdictional takeovers, other member states have found ways to circumvent these regulations that the UK has declined to pursue. For instance, governments may engender a domestic merger within an industry or create a national champion, resulting in a company large enough to fend off hostile foreign takeover threats; or they may also choose to hold "golden shares" to retain veto power over the sale of a domestic company to a foreign buyer; or they can find a "white knight" domestic buyer as an alternative to a potentially undesirable foreign sale. Often, European governments will issue threatening rhetoric or frustrate regulatory proceedings to signal to a foreign company that they are unwelcome in the domestic market.

Comparing Existing Systems

Drawing on the OECD's analysis of investment-screening procedures in 62 countries [25] and its best-practice guide for investment-screening regimes, Figure 2 compares the policies and mechanisms of the investment-screening regimes in the UK with those in the US, France and Germany.

Overall, the US regime appears to be the most developed, and the operation of CFIUS is supported by annual assessments of national security and detailed supply-chain reviews as part of President Joe Biden's industrial strategy to rebuild American supply chains in critical product areas. [26]

The French regime, by contrast, had typically been seen as difficult for foreign investors to navigate, putting off potential investment. [27] Compared to the US system, the French process places a greater weight on sovereignty, with any takeover by a company or investment vehicle with a non-French shareholder identified as a "foreign investor" and in scope of its screening regime. In contrast to the French focus on sovereignty, the German regime prioritises sector-specific control.

While the NSIA improved the UK's foreign-investment screening regime, assessing it against the OECD best-practice framework and against other regimes shows areas where the UK's regime needs to be strengthened.

In contrast to the US, French and German regimes, the UK regime struggles from the absence of a strategic national-security framework within which it operates, constraining the ISU's ability to make

informed decisions about potential takeovers. Where Germany prioritises specific technologies, France sovereignty and the US a combination of both, the national-security and economic guideposts that were intended to be in place when the NSIA was first discussed – the 2017 National Security Capability Review and the 2017 Industrial Strategy white paper – are no longer government policy.

The current strategic framework, including the 2020 Integrated Review and the 2021 Defence and Security Industrial Strategy – play no formal part in informing the ISU's concepts of "acquirer risk" and "target risk" associated with the buyer and the technology being acquired, respectively. This means there is no formal concept of national security guiding any reviews, let alone evolving as the UK's national-security landscape evolves.

In addition, evidence given at the BEIS select-committee inquiry on the operation of the ISU suggested the scope of the 17 sensitive sectors would benefit from further consultation and streamlining, with some sectors such as synthetic biology being far too complex for regulators to understand if a transaction required notification, while the AI definitions were drawn too widely, capturing a wide swathe of potential activities. [28] This uncertainty has driven a number of precautionary notifications, adding costs for both businesses and the ISU.

Lastly, the ISU appears to operate with very little predictability or accountability. Unlike the CMA merger assessment, inward investors are not allocated a named ISU case handler, making the process seem distant and uncertain. In addition, it is difficult to predict when and why the ISU will seek advice from other departments, such as the Foreign, Commonwealth and Development Office (FCDO) or the MoD, and the ISU has been reluctant to provide information on issues in the case, [29] which limits applicants' abilities to challenge any potentially contentious decisions by the ISU and the secretary of state. [30]

According to the OECD, the best foreign-takeover regimes are those where regulatory objectives are made as transparent as possible; where investors have clarity of the full process and can predict how risk criteria will be interpreted; and where accountability is assured by procedures for oversight from internal government bodies, parliament and the judiciary as well as periodic regulatory-impact assessments and requirements that key decisions be taken at high levels in the government.

Figure 2 – The UK is behind the US and others on the predictability and accountability of its investment-screening regime – analysis of best practice according to the OECD*

	UK	US	France	Germany
Transparency				
Codification of a detailed and complete sets of rules	★★★	★★★	★★★	★★★
Prior notification and consultation of interested parties	★★★	★★★	★★★	★★★
Publication and dissemination in an accessible format	★★★	★★★	★★★	★★★
Predictability				
i. Clarity about applicable rules and interpretation of criteria				
Explicit, objective specification of high-risk technologies or sectors	★★	★★★	★★★	★★★
Easily adaptable list of at-risk technologies or sectors	★	★★★	★★★	★★★
Explicit, objective specification of high-risk and low-risk acquisitions by private and state actors from foreign countries	★	★★★	★	★
Location-based or real-estate-based risk factors	★★★	★★★	★★★	★★★
Control-related trigger thresholds	★★★	★★★	★★★	★★★
ii. Clarity about whether and which rules apply to a given transaction				
Clarity on interpretation of assessment criteria	★	★★★	★★★	★★
Predictable timeframes and certainty about consequences of their lapse	★★	★★★	★★★	★★★
iii. Regulatory proportionality				
Explicit definition of national security	★	★★★	★	★★★
Time limit on retrospective reviews	★★★	★	★★★	★★★
Clarity on potential mitigation measures	★	★★★	★★★	★
Protection of commercially sensitive information against undue disclosure	★★★	★★★	★★★	★★★
Accountability				

Sources: TBI and OECD

**Drawing on OCED reports, including "Acquisition- and Ownership-Related Policies to Safeguard Essential Security Interests", this analysis reports the existence of the mechanisms and policies in the investment regimes of the US, UK, France and Germany, and is not a judgement on their adequacy. ★★★ indicates the country has largely covered this issue, a ★★ indicates the country has only partially addressed this issue, and ★ indicates the country has not sufficiently addressed the issue.*

Transparency, Predictability and Accountability

The NSIA clearly strengthens the UK's ability to screen foreign takeovers over national-security concerns. As the new regime becomes more established, the government could strengthen the transparency, predictability and accountability of the UK's investment regime by improving the strategic framework within which the ISU operates and by improving the transparency and accountability of the ISU's operations and decision-making. Priorities for reform include:

1. **Provide a clear picture of national security through an annual National Security Assessment** (NSA) that feeds into guidance for the ISU, similar to the Annual Threat Assessment in the US. The NSIA needs to be underpinned by a single, cross-government assessment of national security. Rather than making the definition of national security explicit in legislation and therefore likely to become outdated, a new annual NSA would provide a rolling review of short-, medium- and long-term national security risks facing the UK. This NSA would then underpin the national-security considerations for the ISU.

   Currently, the convention is for a new government to conduct a National Security and/or Strategic Defence and Security Review once over four to five years. Having an annually updated view of national security would help:

   1. draw boundaries between any national-security and economic-security issues when reviewing takeovers;
   2. ensure all parts of government – including the ISU – are operating with the same understanding of national-security risks; and
   3. allow for evolving assessments of national security to be reflected in ISU decisions over time.

   As is done in the US, the government should then produce regulatory guidance that sets out the factors that are most commonly used to assess national-security risk. Setting out risk factors in guidance would be far more informative to investors than the current practice of providing specific illustrative cases and would not bind the UK to a specific definition of national-security risk.

2. **Provide a clear framework for how national security affects acquirer risk.** The UK national-security investment regime needs to provide better, more transparent guidance on how the ISU will assess acquirer risk. In the US, legislation authorises CFIUS to exclude certain takeovers from its definition of "covered transactions" where all the foreign people involved in the takeover are from countries that have a mutual-defence or national-security agreement with the US.

In other words, while transactions involving buyers from countries of special concern would require greater scrutiny, transactions involving buyers from allied countries and countries that have committed to safeguard US national security may find little or no scrutiny from CFIUS.

The UK should provide similar guidance. On one end of the spectrum, the UK could say it is likely to take a light-touch approach to transactions that involve nations where the UK has defence and security agreements (for example the US and Australia). On the other, it is likely to look more closely at takeovers that involve individuals from countries subject to military end-use controls, including China and Russia. [31]

3. **Improve transparency of target risk by conducting in-depth supply chain reviews in each of the 17 sensitive sectors of the economy,** highlighting national-security vulnerabilities in each. The government has identified 17 sensitive sectors of the economy it believes are strategic from a national-security perspective. The government should map the supply-chain vulnerabilities in the sectors identified. These reviews would provide clarity where the current areas are too broadly defined or where the existing descriptions are too complex.

   These reviews should be clear about the nature of the vulnerability in a firm, supply chain or industry. Detailed supply-chain mapping in the US, for example, has allowed the Biden administration to differentiate between supply-chain vulnerabilities based on economic security and those based on national security. It has also allowed the US to understand where a takeover would leave a supply chain vulnerable to countries that are deemed a special concern.

   Furthermore, supply-chain mapping would enable the ongoing monitoring and evaluation of national-security vulnerabilities in existing and emerging technologies, allowing the government to rapidly add or subtract from the 17 sensitive sectors as the assessment of national security evolves.

4. **Improve the transparency of the ISU's operations** to give investors more confidence in and understanding of its decisions. While the ISU already obtains advice and expertise from across Whitehall, making that input clear, regularised and institutionalised in a way that is coherent and transparent to investors would help foster greater trust and help ensure that the process is not politicised. This transparency already happens in the US and Germany, and has helped give investors confidence that decisions are being informed by the appropriate expertise.

5. **DBT and FCDO should conduct a joint annual review of the global technology landscape** so that government can, as needed, update the list of sensitive sectors subject to mandatory notification under the NSIA or update the factors considered when assessing transactions.

6. **Strengthen Parliamentary scrutiny of the ISU** through quarterly publication of actions and an annual report on how the national-security assessment and technological review have been incorporated into ISU decision-making. These quarterly reports should be published on the gov.uk

site and sent to the parliamentary select committees responsible for oversight of Treasury, DBT, Defence, and FCDO.

The ISU should submit a quarterly publication to Parliament describing the actions taken by the ISU and/or secretary of state with respect to i) the details of both mandatory and voluntary notifications; ii) a description of the actions taken by the Committee with respect to the transaction; and iii) setting out the factors determining any action or decision.

To paraphrase Hemingway, there are two ways a country loses competitiveness: gradually, then suddenly. Given the markets' current view of the UK's economic prospects, the government has little time to lose in strengthening our investment-screening regime to hold on to our world-class national-security capabilities.

Footnotes

1. ^ https://institute.global/policy/new-national-purpose-innovation-can-power-future-britain
2. ^ https://www.ft.com/content/fb6d8fb3-d7b1-4428-b1ad-ced95b750e80
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