Protecting Tech – is it in the public interest?

Blog post by Adviser Conan D'Arcy, 25 November 2016

"I am tackling the longstanding problem of our fastest growing technology firms being snapped up". So said UK Chancellor Philip Hammond this week. Yet the very next day it was announced that Skyscanner, one of the UK's leading tech companies, had been "snapped up" up by Ctrip.com, the Chinese online travel company for £1.4 billion. Should we see this as an example of the kind of problem Hammond thinks he needs to solve? If so, what might he do?

The core problem is that Hammond's current toolbox for restricting foreign takeovers is limited. The UK authorities can look to soft measures to support home grown tech firms, with the aim of strengthening them against potential takeovers. Or to firm measures such as legislation, regulation or tax to disincentivise or block deals. Soft measures are easier to implement but guarantee little in terms of seeing off acquirers. Firm measures give the government more control but have for a long time in the UK been seen as excessive state meddling in market activity.

Hammond's main announcement on Wednesday was a classic soft measure - £400 million via the British Business Bank to stimulate domestic venture capital funding, with the intention of increasing liquidity for the sector and thereby limiting the need for tech companies to look abroad for funding as they seek to grow and expand. This fund will almost inevitably prove too small to meaningfully reduce the role of foreign capital in funding the UK tech industry.

However, the wider UK government has also hinted at taking hard measures. In July, UK Prime Minister Theresa May proposed a new public interest test to review, and potentially block, foreign takeovers while Business Secretary Greg Clark has announced more limited new powers over "critical infrastructure" deals, such as for the power generation sector. This builds on well-established practices in other developed economies for stricter public interest controls for strategic industries than are currently applied in the UK.

The greater the breadth of such a revised public interest test and the more economic sectors it captures, the greater the sense it will create of a shift of approach in the UK and the harder it will probably be to square with a genuinely open view of FDI. How substantive such a shift might be is another question. Trying to do more to get foreign investors out of the tech sector would be a big break from the past and is unlikely. It is hard to argue that Skyscanner – a consumer travel price comparison website – would ever warrant intervention justified on the basis of a "national interest". Hammond would never argue that the issue is binary: foreign acquisition bad, domestic ownership good. His problem will be setting out a clear policy on what exactly the government thinks is good or bad for the UK – and what it really thinks it can do about it.