



IMPACT ON SECURITY OF UK CRITICAL NATIONAL INFRASTRUCTURE FROM PROPOSED MERGER BETWEEN VODAFONE AND THREE

Briefing note prepared by the [China Strategic Risks Institute](#); commissioned by Unite the Union.

Top lines:

- The proposed merger of Vodafone and Hong Kong conglomerate CK Hutchison's Three group would add to a growing list of major stakes held by PRC firms in the UK's Critical National Infrastructure – with interests across energy, water, telecommunications and transportation.
- The PRC's ownership of much of the UK's Critical National Infrastructure presents a host of dependency and espionage concerns. This weakens the UK's economic security and reduces its strategic autonomy in the event of an escalating geopolitical crisis.
- The vast amount of data collected by next generation telecommunications providers presents a unique set of risks, with the potential to aid hostile state actions in new and dangerous ways.
- CK Hutchison's close links to the Chinese Communist Party are cause for particular concern, with the PRC government practising a deliberate strategy of co-opting businesses and financial elites to achieve its broader geopolitical goals.

The PRC and CK Hutchison's role in the UK's Critical National Infrastructure

Nearly 200 British companies are either controlled by PRC investors or have them as minority shareholders, with such investments totalling £134bn.ⁱ Among these are significant stakes owned by the PRC's sovereign wealth fund, the China Investment Corporation (CIC), a body overseen by high level officials at the PRC's State Council. CIC's UK portfolio expands into many sectors including energy, water, transportation and other elements of Critical National Infrastructure. This includes a 10% share in Heathrow Airport, the UK's largest airport; a 49% share in oil and natural gas company Neptune Energy; and a 9% share in Thames Water – which serves over a quarter of English households.ⁱⁱ

Even before the proposed merger with Vodafone, CK Hutchison already controls significant interests in the UK's Critical National Infrastructure through its CK Infrastructure Holdings subsidiary, with interests including:

- UK Power Networks: a distribution network operator for electricity covering South East England, with a 40% stake owned by CK Hutchison and 20% by the Li Ka Shing Foundation.
- Seabank Power Station: a 1,140 MW gas power plant jointly owned by CK Hutchison and SSE.
- Northumbrian Water Group: a holding company for several companies in the water supply, sewerage and wastewater water industries, acquired by CK Hutchison in 2011.
- Wales & West Utilities: responsible for operating the gas distribution network across Wales and South West England, owned by CK Hutchison.
- Eversholt UK Rails Group: a rolling stock company which owns 27% of the UK's passenger trains, acquired by CK Hutchison in 2015.
- Northern Gas Networks Limited: owned by CK Infrastructure within a three-party consortium.

What are the risks posed by PRC ownership of Critical National Infrastructure?

Whether through PRC-based firms such as CK Hutchison, or state-controlled bodies such as the China Investment Corporation, the ownership of the UK's Critical National Infrastructure by PRC entities presents a significant series of risks to the UK's economic security and strategic capabilities.

The PRC's National Intelligence Law, enacted in 2017, mandates all PRC firms to cooperate with the state's intelligence services when requested. This means that companies may be required to provide access to their facilities, data, and communications for intelligence work. The law's scope includes the overseas operations of PRC firms, and requires firms to cooperate regardless of whether such actions would violate local laws and regulations.

More broadly, the National Intelligence Law reflects the PRC government's "whole of state" approach to espionage, whereby espionage is not limited to intelligence agencies, but also coerces or co-opts companies, organisations and individuals into undertaking intelligence activities. As noted in the recent Intelligence and Security Committee of Parliament report into the PRC, much of the impact that the PRC has on national security is overt – such as through company takeovers and mergers – as opposed to covert activity carried out by its intelligence officers.

That CK Hutchison is a Hong Kong-based and Cayman Island registered company does not exempt it from the demands of the PRC National Intelligence Law. The law extends to not only businesses *registered* in the PRC, but to all businesses *operating* in the PRC. Further, Hong Kong's National Security Law (NSL), enacted in 2020, places further demands on individuals and entities operating in Hong Kong. The NSL grants significant new powers to investigating authorities without the need for a court order, including property searches, intercepting communications and demanding information from individuals and organisations – all of which poses a major risk to data security. The NSL also gives the option for National Security cases to be considered in the mainland, one of many measures which has eroded the firewall that used to separate Hong Kong's legal system from the mainland.

More broadly, the close relationship between CK Hutchison and the CCP puts significant pressure on CK Hutchison to cooperate closely with PRC authorities.

The ability of PRC state actors to utilise its ownership of Critical National Infrastructure to conduct espionage presents a number of risks to the UK's security, including:

- **Cybersecurity Risks:** The PRC's access to key information about the Critical National Infrastructure systems and installations increases its ability to conduct cyber attacks or sabotage, especially in an escalating geopolitical crisis – as may develop over the Taiwan Strait.
- **Dependency and Supply Chain Risks:** PRC firms owning UK Critical National Infrastructure may be more likely to rely on PRC supply and investment chains, raising the risk of being impacted by supply chain disruptions or supply chain weaponisation. Failure to address these risks early can pose significant costs to both taxpayers and businesses - as demonstrated by BT spending £500 million on removing Huawei's 5G equipment, and the UK government buying out China General Nuclear's stake in the Sizewell C nuclear plant for an estimated £100 million. ^{iiiiv}
- **Data Security and Privacy:** PRC ownership heightens the risk that communications and private data could be accessed by PRC state agencies for intelligence or other purposes. As detailed in the next section, this is a particular concern for the telecommunications sector.
- **Economic Leverage:** The ability to threaten disruption to current investments or withhold future investments increases the economic leverage that the PRC government holds, reducing the UK's strategic autonomy and disincentivizing actions which may upset the PRC government – including action on human rights issues.

Espionage risks in telecommunications infrastructure

The Vodafone-Three merger will create the UK's largest telecommunications provider, serving up to 40% of the UK's population. The sheer amount and variety of data that telecommunications providers have access to, both on the individual and aggregate level,

presents a major risk if fallen into the wrong hands. Particular capabilities that could be enabled by access to large volumes of telecommunications data include:

- **Communication Monitoring:** Access to call detail records (CDRs) and text message details allows for the monitoring of who an individual communicates with. This can be used to map social networks, identify key relationships, or other patterns of communication that might be relevant for political intelligence.
- **Data Usage Analysis:** By examining data usage records, it's possible to infer an individual's online activities, interests, and habits. This could include websites visited, apps used, and the frequency and timing of these activities.
- **Location Tracking:** By accessing location data from multiple cell towers and GPS, hostile intelligence services may be able to track the movements of individuals in real-time or retrospectively.

In the context of a hostile intelligence environment, such capabilities could be used to gather information on key political leaders, government officials or military leaders to aid political intelligence gathering, as well as to build 'kompromat' files on individuals. For the PRC government, access to such data could also assist in its widespread efforts to monitor the activities of the Chinese diaspora abroad, particularly dissidents and activists.

As next generation 5G technologies roll out, the use of a range of internet-enabled devices – from cars to energy infrastructure – is set to increase. This will increase the amount and variety of data flowing through telecommunications networks, broadening the scope of espionage and sabotage risks across a range of sectors. The PRC government considers data to be a strategic resource, specifying data security in its list of national security related sectors. As the UK's MI6 Chief has warned, the PRC sees harvesting data in foreign countries as means to identify and exploit vulnerabilities.

CK Hutchison's close links with the Chinese Communist Party

While all PRC firms are liable to state influence, the close relationship between CK Hutchison and the CCP carries a much higher risk of being coerced or co-opted into acting in the interests of the PRC state.

CK Hutchison was founded in 1950 by Li Ka-shing, once Asia's wealthiest man and labelled by some as "The Asian Godfather." In 2018, Li Ka-shing passed on the leadership of the company to his son, Victor Li. Together they are among the wealthiest individuals in the PRC and have developed a close relationship with the Chinese Communist Party (CCP).

Li Ka-shing's relationship dates back to before the 1997 handover of Hong Kong to Beijing, highlighted by Li's appointment to the Preparatory Committee overseeing the handover, cementing his image as a pro-Beijing businessman. Victor Li, continuing his father's legacy, has been deeply involved with the CCP, serving for two decades on the Standing Committee of the

National Committee of the Chinese People's Political Consultative Conference (CPPCC), a position that offers access to the CCP's top leadership.

Although removed from the Standing Committee in March 2023, Victor Li remains a member of the CPPCC and is involved in various influential roles, including being a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development of the Hong Kong Special Administrative Region, and the Vice Chairman of the Hong Kong General Chamber of Commerce. Additionally, he serves as the Honorary Consul for Barbados in Hong Kong.

ⁱ <https://www.independent.co.uk/news/uk/home-news/china-now-owns-ps143bn-in-uk-assets-from-nuclear-power-to-pubs-and-schools-b1841056.html>

ⁱⁱ <https://inews.co.uk/news/world/key-infrastructure-owned-china-thames-water-european-ports-2442052>

ⁱⁱⁱ <https://amp.theguardian.com/business/2020/jan/30/huawei-ruling-will-cost-us-500m-says-bt>

^{iv} <https://www.cityam.com/uk-to-buy-out-china-general-nuclears-share-of-sizewell-c-nuclear-plant/>