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U.S. Panel Cites Risks in Chinese Equipment

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WASHINGTON — In the latest development to highlight the sensitive terrain that the United States and China are navigating on economic issues, a House committee issued a blistering bipartisan report on Monday that accused two of China's largest telecommunications companies of being arms of the government that had stolen intellectual property from American companies and could potentially spy on Americans.

The House Intelligence Committee said that after a yearlong investigation it had come to the conclusion that the Chinese businesses, Huawei Technologies and ZTE Inc., were a national security threat because of their attempts to extract sensitive information from American companies and their loyalties to the Chinese government.

The companies sell telecommunications equipment needed to create and operate wireless networks, like the ones used by Verizon Wireless and AT&T. Many of the major suppliers of the equipment are based outside the United States, creating concerns here about the security of communications.

Those concerns are most acute about Huawei and ZTE because of their close ties to the Chinese government, which the committee said has heavily subsidized the companies. Allowing the Chinese companies to do business in the United States, the report said, would give the Chinese government the ability to easily intercept communications and could allow it to start online attacks on critical infrastructure, like dams and power grids.

The release of the report comes as both presidential candidates have spoken of the importance of United States ties with China and have promised to act strongly on Chinese currency and trade practices that are damaging to American business interests.

Mitt Romney, the Republican presidential candidate, has called repeatedly during his campaign for a more confrontational approach to China on business issues, although he has focused his warnings more on Chinese currency market interventions than on the activities

of the nation's telecommunications companies.

President Obama has also taken a tougher stance on China recently. Late last month, Mr. Obama, through the Committee on Foreign Investment, ordered a Chinese company to divest itself of interests in four wind farm projects near a Navy base in Oregon where [drone aircraft](#) training takes place. It was the first time a president had blocked such a deal in 22 years.

The Obama administration has also filed a case at the World Trade Organization in Geneva accusing China of unfairly subsidizing its exports of autos and auto parts, the ninth trade action the administration has brought against China.

"We have a process that is not aimed at one specific company but using all the assets and parts of U.S. government aimed at protecting our telecommunications and critical infrastructure," a senior White House official said.

The report was released on Monday morning at a news conference held by

Representative Mike Rogers, Republican of Michigan, the chairman of the House Intelligence Committee, and Representative C. A. Ruppersberger of Maryland, the top Democrat on the committee.

They said that the United States government should be barred from doing business with Huawei and ZTE and that American companies should avoid buying their equipment.

The report said the committee had obtained internal documents from former employees of Huawei that showed it supplied services to a "[cyberwarfare](#)" unit in the People's Liberation Army.

The United States government, the report said, should go through the Committee on Foreign Investment in the United States, an interagency panel that reviews the national security implications of foreign investments, to carry out its recommendations. It also said that committee should block any mergers and acquisitions involving the Chinese companies and American businesses.

In the course of the investigation, the House committee said it had uncovered evidence of economic espionage — and officials said on Monday that they planned to hand over the evidence to the F.B.I.

Former and current employees for Huawei, the report said, told investigators for the

committee that the company had committed “potential violations” in the United States related to [immigration](#), bribery, corruption and copyright infringement.

Huawei has been the focus of criticism and security warnings for years, including by the Defense Department. Its expansion plans in the United States have faced resistance from Congress over questions about its ties to the military in China.

Huawei denies being financed to undertake research and development for the Chinese military, and its executives have repeatedly insisted that they have nothing to hide. The company [issued an open letter to the United States government](#) in February 2011, asking for an inquiry to clear up what it characterized as misperceptions about its history and business operations.

At the news conference, Mr. Rogers and Mr. Ruppertsberger said they told the Chinese companies that they had to be more transparent but were disappointed by incomplete and contradictory responses to their questions. Mr. Rogers said the committee was concerned that the companies were extensions of the Chinese government because they were so heavily financed by it.

In testimony before the House committee in September, officials from both Huawei and ZTE said that supposed “back doors” in its software that provided unauthorized access to American companies’ computers were flaws, not intentional vulnerabilities.

But Mr. Rogers said the companies had been told to tell the Chinese to “stop hacking” into American companies and infrastructure if they wanted to do business in the United States.

“The world is a changed place,” Mr. Rogers said. “We better have faith and confidence in our network.”

In a statement, Huawei condemned the committee’s investigation and report.

“Unfortunately, the committee’s report not only ignored our proven track record of network security in the United States and globally, but also paid no attention to the large amount of facts that we have provided,” Huawei said in its statement, later adding that “the report released by the committee today employs many rumors and speculations to prove nonexistent accusations.”

Huawei has had considerable success in winning large telecommunications contracts in Europe and in emerging markets. But it has had little success in the United States, where politicians have long worried, despite Huawei’s denials, that it might be used for Chinese

eavesdropping or other cyberwarfare activities.

The company was founded in 1987 by Ren Zhengfei, a former officer of the People's Liberation Army and a military technology researcher who has run it ever since. The company is owned by its employees and, unlike many Chinese corporations, has chosen not to sell shares in Hong Kong or the United States, which would require financial disclosures.

ZTE said on Monday that it "had set an unprecedented standard for cooperation by any Chinese company" with a Congressional investigation.

"ZTE is China's most transparent, independent, globally focused, publicly traded telecom company," the company said in a statement.

At a regularly scheduled news conference in Beijing on Monday before the release of the report in Washington, Hong Lei, a Foreign Ministry spokesman, said "I hope the United States will respect the facts, abandon prejudice and do more things conducive to China-U.S. economic and trade cooperation, rather than the opposite."

Michael S. Schmidt reported from Washington and Christine Hauser from New York. Keith Bradsher contributed reporting from Hong Kong, and Quentin Hardy from San Francisco.