

Sent: Mon, 08 Oct 2012 15:19:21 -0400
From: "Hayden, Caitlin" <caitlin_m_hayden@nss.eop.gov>
To: eengleman1@bloomberg.net
Subject: Re: Fwd:For Immediate Release--Chairman Rogers and Ranking Member Ruppertsberger Warn American Companies Doing Business with Huawei and ZTE to "use another vendor"

Here's what I can say on record:

We understand the potential for risks to our country introduced via the supply chain for telecommunications equipment and services. Over the years, the government has put in place a number of processes seeking to ensure that its use of globally sourced-technology does not introduce unmanageable risk into sensitive missions. The complexity of this topic - and the global commercial market for telecommunication equipment and services - requires careful balancing of equities and a thoughtful response to risk management. Our current interagency processes are the latest in years of efforts. They are not aimed at any particular company, but rather look broadly at the opportunities, risks, and implications of reliance on global, commercial markets.

Across the government, a full range of interested Departments and Agencies are engaged in efforts to institutionalize understanding of the telecommunications environment to ensure a nuanced response to risk that addresses national security concerns as well as the competitiveness of industry and the US economy. We are approaching the development of solutions jointly through partnerships between the national security, trade, and economic security communities. Additionally, the U.S. government is engaged in consultations with industry to better understand the level of risk, and the impact of any risk mitigation efforts.

The Departments of Defense and Homeland Security have been leading a Task Force since April 2011 as a focal point for our efforts – including other national security and economic Departments and Agencies and used existing information sharing authorities to incorporate industry expertise. The Task Force focused on developing a more complete understanding of relevant risks, identifying elements of the telecommunications infrastructure that have a nexus with vital government and economic operations. Departments and Agencies involved in the Task Force also developed proposals for a program of work that provides a range of options for responding to identified risks. I am not in a position to provide further details on those options at this point.

The Office of the United States Trade Representative also created a new telecommunications sub-committee under the Trade Policy Staff Committee, analyzing the possible impact of foreign government trade policy actions on the U.S. supply chain. The goal is to use, as appropriate, U.S. government trade authorities and initiatives to promote the further opening of foreign telecommunications markets and to ensure a level playing field when U.S. telecommunications equipment manufacturers and service suppliers are competing against foreign enterprises in the U.S. market and other markets around the world.

Finally, the White House continues to lead government engagement from a full range of interested Departments and Agencies to institutionalize understanding of the telecommunications environment and ensure a response that addresses national security concerns as well as the competitiveness of industry and the U.S. economy.

----- Original Message -----

From: ERIC ENGLEMAN (BLOOMBERG/ NEWSROOM:) [mailto:eengleman1@bloomberg.net]
Sent: Monday, October 08, 2012 02:11 PM
To: Hayden, Caitlin
Subject: Fwd:For Immediate Release--Chairman Rogers and Ranking Member Ruppertsberger Warn American Companies Doing Business with Huawei and ZTE to "use another vendor"

Caitlin, any White House reaction to this report from House Intelligence Committee today to Huawei/ZTE?

Thank you,
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P6/b(6)

----- Original Message -----

From: Ashley.Lowry@mail.house.gov
To: ERIC ENGLEMAN (BLOOMBERG/ NEWSROOM:)
At: Oct 8 2012 10:16:20

[cid:image003.png@01CDA531.2C314760]

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Chairman Rogers and Ranking Member Ruppersberger Warn American Companies Doing
Business with Huawei and ZTE to "use another vendor"

WASHINGTON, D.C. - The Chairman and Ranking Member of the House Intelligence Committee, Mike Rogers (R-MI) and C.A. Dutch Ruppersberger (D-MD), today released a report recommending to U.S. companies considering doing business with Chinese telecommunications companies Huawei and ZTE to find another vendor. The report encourages U.S. companies to take into account the long-term security risks associated with either company providing equipment or services to our telecommunications infrastructure. Additionally, the report recommends that U.S. government systems, particularly sensitive systems, exclude Huawei or ZTE equipment or component parts.

The report highlights the interconnectivity of U.S. critical infrastructure systems and warns of the heightened threat of cyber espionage and predatory disruption or destruction of U.S. networks if telecommunications networks are built by companies with known ties to the Chinese state, a country known to aggressively steal valuable trade secrets and other sensitive data from American companies.

Additionally, the report notes that modern critical infrastructure is incredibly connected, everything from electric power grids to banking and finance systems to natural gas, oil, and water systems to rail and shipping channels. All of these entities depend on computerized control systems. The risk is high that a failure or disruption in one system could have a devastating ripple effect throughout many aspects of modern American living.

The report, released today in a Capitol Hill news conference, states that Huawei and ZTE provided incomplete, contradictory, and evasive responses to the Committee's core concerns. The report

comes after a year-long investigation into the national security dangers posed by Huawei and ZTE, the two largest Chinese telecommunications companies doing business in the United States.

The report includes five recommendations.

1. US government systems and US government contractors, particularly those working on sensitive systems, should exclude any Huawei or ZTE equipment or component parts. Additionally, the Committee on Foreign Investments in the United States (CFIUS) must block acquisitions, takeovers, or mergers involving Huawei and ZTE given the threat to U.S. national security interests.

1. U.S. network providers and systems developers are strongly encouraged to seek other vendors for their projects.

1. Unfair trade practices of the Chinese telecommunications sector should be investigated by committees of jurisdiction in U.S. Congress and enforcement agencies in the Executive Branch. Particular attention should be paid to China's continued financial support of key companies.

1. Chinese companies should quickly become more open and transparent. Huawei, in particular, must become more transparent and responsive to U.S. legal obligations.

1. Committees of jurisdiction in Congress should consider potential legislation to better address the risk posed by telecommunications companies with nation-state ties or otherwise not clearly trusted to build critical infrastructure, including increasing information-sharing among private sector entities and expanding a role for the CFIUS process to include purchasing agreements.

"We have to be certain that Chinese telecommunication companies working in the United States can be trusted with access to our critical infrastructure," Chairman Rogers said. "Any bug, beacon, or backdoor put into our critical systems could allow for a catastrophic and devastating domino effect of failures throughout our networks. As this report shows, we have serious concerns about Huawei and ZTE, and their connection to the communist government of China. China is known to be the major perpetrator of cyber espionage, and Huawei and ZTE failed to alleviate serious concerns throughout this important investigation. American businesses should use other vendors."

"It is our responsibility on the Intelligence Committee to protect our country's national security. That is why we launched this investigation in the first place. We depend on our nation's networks for so much of what we do every day. As this report shows, we have serious concerns about Huawei and ZTE, two Chinese telecommunications companies looking to gain market share in the United States, and their connection to the communist government of China. We warn U.S. government agencies and companies considering using Huawei and ZTE equipment in their networks to take into account the affect if could have on our national security," said Ranking Member Ruppersberger.

History of the Investigation

In early 2011, shortly after becoming Chairman and Ranking Member of the House Intelligence Committee, Chairman Rogers and Ranking Member C.A. Dutch Ruppersberger instructed committee staff to conduct a preliminary review of the national security threats posed by Chinese telecom companies doing business in the United States. The preliminary review suggested that the threat to the supply chain constitutes a rising national security concern of the highest priority. Thus, on November 17, 2011, the House Intelligence Committee launched a full investigation, focusing on the two main Chinese telecommunication companies doing business in the United

States, Huawei and ZTE.

The focus of the investigation was to review the history, management, and operations of key Chinese companies seeking to expand into U.S. infrastructure. The investigation reviewed the extent to which these companies have ties to the Chinese government and Chinese Communist Party, or otherwise provide the Chinese government greater opportunities for foreign and economic espionage.

In February and April 2012 HPSCI investigators traveled to China to interview officials at Huawei and ZTE headquarters. Then, in May 2012, several members of the committee, including Ranking Member Ruppersberger, traveled to Hong Kong to meet with senior officials from both Huawei and ZTE. In September 2012 the House Intelligence Committee held a rare open hearing, where officials of both Huawei and ZTE testified before Congress. That hearing marked the first time Chinese executives have testified before the U.S. Congress.

Link to the Full Report:

<http://intelligence.house.gov/sites/intelligence.house.gov/files/documents/Huawei-ZTE%20Investigative%20Report%20%28FINAL%29.pdf>