

Security Fears Kill Chinese Bid in U.S.

di Joann S. Lublin e Shayndi Raice

Sprint Nextel Corp. is excluding Chinese telecommunications-equipment makers Huawei Technologies Ltd. and ZTE Corp. from a contract worth billions of dollars largely because of national security concerns in Washington, according to people familiar with the matter.

The Defense Department and some U.S. lawmakers have been increasingly concerned about the two companies' ties to the Chinese government and military, and the security implications of letting their equipment into critical U.S. infrastructure.

Some officials argue China's military could use Huawei or ZTE equipment to disrupt or intercept American communications.

The Obama administration has also weighed in on the matter. Commerce Secretary Gary Locke called Sprint Chief Executive Dan Hesse this week to discuss concerns about awarding the work to a Chinese firm, but didn't ask Sprint to exclude the Chinese suppliers, according to an administration official familiar with the conversation. Mr. Hesse declined to comment.

The rejection by Sprint is the latest defeat for Chinese companies seeking to break into the big leagues of U.S. phone companies. Huawei and ZTE lost out even though they submitted bids that were lower than those of their three competitors, [Alcatel-Lucent SA](#), [Telefon L.M. Ericsson](#) of Sweden and South Korea's Samsung Electronics Co., said a person familiar with the matter.

Sprint's decision comes amid growing tensions between Washington and Beijing as U.S. officials have expressed frustration over China's trade and currency policies. Next week, the administration is set to tackle some of these contentious issues at the G20 summit in Seoul.

The Defense Department wouldn't discuss Huawei or ZTE, but in a statement said, "DoD is very concerned about China's emerging cyber capabilities and any potential vulnerability within or threat to DoD networks."

Spokespeople for Sprint and ZTE declined to comment. Huawei had no immediate comment. Both Huawei, which was started by a former Chinese military officer, and ZTE, which was founded by state-run companies, have said their equipment doesn't pose a threat to U.S. security and is used by carriers in Europe and parts of Asia.

Although security concerns played a key role in Sprint's decision to knock Huawei and ZTE out of the running, they weren't the only reason, another person familiar with the matter said. Some Sprint executives were also worried about the ability of Chinese companies to execute the required work, this person said.

Sprint, the No. 3 U.S. wireless carrier by subscribers, is looking for suppliers to modernize its existing cellular network. Some of the highest bids came in at about \$8.5 billion, far above Sprint's target range of \$5 billion to \$7 billion, said a third person familiar with the situation. The bids exceeded Sprint's budget, partly due to higher prices for electronics components that are in short supply.

Huawei had worked hard to win the Sprint contract, and sought out a U.S. partner to allay security concerns. It teamed up on its bid with a consulting company founded by a former vice chairman of the U.S. Joint Chiefs of Staff, William Owens. Amerilink Telecom Corp. was set up in Sprint's hometown of Overland Park, Kan., and hired former Sprint executives. It also appointed former congressional and defense officials to its board.

Sprint initially planned to award three suppliers with a piece of the contract. But it is now renegotiating with two finalists, Samsung and Alcatel-Lucent, in the hopes that the companies will submit a lower bid now that they have a larger piece of the work, said one of the people familiar with the matter.

Sprint's rejection of Huawei and ZTE is the latest sign the efforts of U.S. officials to block Chinese gear makers from entering the U.S. are gaining sway.

Earlier this year, U.S. lawmakers inserted a provision in the Senate's National Defense Authorization Act at the request of the Defense Department that would give military agencies new power to force technology vendors to exclude subcontractors or suppliers that the government deems a security risk. While not targeted specifically at Huawei, the provision could affect the company as well as other Chinese suppliers.

In August, eight U.S. senators sent a letter to the administration expressing concern that if a deal with Sprint moved forward, Huawei could gain access to critical U.S. telecom infrastructure and undermine national security. Last month, four U.S. lawmakers sent another letter to the Federal Communications Commission, asking the agency to consider restrictions that would make it harder for Huawei and ZTE to do business in the U.S.

The October letter says Chinese telecom-gear makers are potentially subject to "significant influence by the Chinese military which may create an opportunity for manipulation of switches, routers, or software embedded in American telecommunications network so that communications can be disrupted, intercepted, tampered with, or purposely misrouted."

ZTE said at the time the letter was a mischaracterization of the company and Huawei said it has no current ties to the Chinese government or military.