

Huawei Drops U.S. Deal amid Opposition

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Huawei Technologies Co. reversed course and withdrew its attempt to win U.S. approval for a small but controversial acquisition it completed last summer.

The Committee on Foreign Investment in the United States recommended against the deal to acquire assets and technology from 3Leaf Systems, but the Chinese maker of telecom equipment said as recently as Monday that it would push ahead and seek a yes or no from President Barack Obama, who has the final decision.

In a brief statement, Huawei said the controversy surrounding the issue led it to change its mind.

"This was a difficult decision, however we have decided to accept the recommendation of CFIUS to withdraw our application to acquire specific assets of 3Leaf," the company said. "The significant impact and attention that this transaction has caused were not what we intended."

Huawei's withdrawal relieves the White House of the need to make a call on a deal that has already become an issue in U.S.-Chinese relations. A spokesman for China's Commerce Ministry said Thursday the U.S. needed to make its national-security reviews more transparent.

The Treasury Department, which typically takes the lead on CFIUS issues, declined to comment. Huawei declined to comment beyond the short statement it circulated.

Chinese regulators lashed out at the U.S. on Monday, issuing a statement saying it regrets Huawei's withdrawal of its plan to buy assets from 3Leaf Systems following a recommendation from a U.S. panel. China's Ministry of Commerce said in a statement on its website that it hopes "relevant parties" in the U.S. would "abandon prejudice, avoid adopting protectionist measures and treat properly investments from China and other countries" with a fair and open attitude.

"Some relevant parties in the U.S." have used various reasons such as national security to hinder Chinese firms' trade and investment activities, the statement cited an unnamed spokesman from the ministry as saying. Huawei's plan to buy 3Leaf assets and technology was a "normal commercial move based on its own development needs and market economy rules."

CFIUS reviews U.S. acquisitions by foreign companies that may have national-security implications. It typically reviews deals before they are completed, but Huawei didn't seek approval to buy the 3Leaf assets, saying it didn't think it needed to because it wasn't acquiring the company outright.

When Pentagon officials found out about the deal, they took the unusual step of asking the company to file retroactively for a review.

After examining a transaction, CFIUS makes a recommendation to the president to accept or reject the deal. It is standard practice for companies to withdraw their applications once they get an indication the committee will recommend against a deal. Huawei's original decision earlier this week to press on and seek a ruling by the president was unusual.

It wasn't immediately clear how Huawei might unwind the deal. 3Leaf created technology that allows groups of computers to work together like a more-powerful machine. Huawei paid \$2 million in May to acquire 3Leaf intellectual property, other assets and some staff.

Huawei is the world's second-largest maker of telecom equipment behind Telefon AB L.M. Ericsson, yet it has struggled to establish a presence in the U.S. market. The company has repeatedly denied ties to China's military and has offered to open its technology to third-party inspection, but security concerns persist. Such concerns contributed to the company's failure last year to win part of a big network upgrade by Sprint Nextel Corp.

A handful of U.S. congressmen wrote to the secretaries of Treasury and Commerce on Feb. 10 to call for close scrutiny of the 3Leaf deal, saying that it would likely transfer advanced computing technology to China.