



WRITTEN STATEMENT FOR CHARLES DING

PERMANENT SELECT COMMITTEE ON INTELLIGENCE

U.S. HOUSE OF REPRESENTATIVES

September 13, 2012

Chairman Rogers, Ranking Member Ruppertsberger, and Members of the Committee, my name is Charles Ding. I am a Corporate Senior Vice President of Huawei. We at Huawei hope that its participation on this panel is helpful as you pursue your important mission of addressing issues relating to cyber security.

Huawei's Growth Into A Global Company

I have had the privilege to watch Huawei grow from a small start up to a large, multinational organization. We have enjoyed enormous growth for the past 25 years. While we value innovation and entrepreneurship, most of all, we value integrity.

Huawei is an independent, employee-owned company that operates in more than 140 countries. About 70% of our revenue comes from overseas markets. Thanks to our employees' unflagging efforts and our



customer-centric strategy, Huawei has become the second largest provider of carrier network infrastructure in the world and was ranked 351 in the Fortune Global 500 list in 2011. We are proud that Huawei was recognized by Business Week as the most influential company in 2008 and that we won the Economist's Innovation Award in 2010. Huawei has established business relationships with the majority of the top 50 telecom carriers around the world, including Vodafone, British Telecom, France Telecom, Deutsche Telekom, and Telefónica.

In the beginning, as a start-up company, we focused on an underserved market -- rural areas in China. We were the first equipment vendor to establish a sales and service network that covered over 300 regional networks. By 1998, we were able to expand into urban markets in China. By the end of 2000, our revenue had reached \$1.9 billion, and we employed 17,320 people.

We experienced our most substantial growth between 2000 and 2012. We were able to expand internationally and significantly grow our business. We won our first major European contract in 2005. Our revenue grew from \$1.9 billion in 2000 to \$32.4 billion in 2011. And we have expanded from primarily wire line products into mobile, software, core network, and device product lines.



Because of the hard work of our employees and our customer-centric strategy, Huawei has achieved significant success. Moreover, our success is attributable to four key factors.

(1) The explosive growth in the global telecommunications market in China and globally. For example, from 1990 to 2000, fixed line subscribers grew 15 times and mobile subscribers grew 500 times in China.

(2) We have invested significant resources in R&D and have a large R&D work force in China and India. Huawei employs 65,000 dedicated R&D engineers, the most in the industry.

Today, Huawei is the largest patent holder in China. Over the past decade, Huawei has invested more than \$15 billion in R&D and has filed more than 50,000 patent applications. Huawei also pays for the use of the intellectual property of others and has paid more than \$1.2 billion in royalty fees.

(3) Since 1997, we have relied on advice received from Western consulting firms like IBM and Accenture to reengineer all of our business processes. In fact, in the last five years we have invested over \$400 million in management transformation.

(4) Our shareholding structure allows us to attract and retain talented employees. In 1997, Huawei established an Employee Stock Ownership



Program, or ESOP. We grant stocks to high-performing employees. Each year, Huawei determines the number of shares an employee may obtain, based on that employee's job level and contribution to the company. As of December 2011, we had 65,596 shareholding employees.

The ESOP encourages entrepreneurship and hard work-- the backbone of Huawei's success. The ESOP also has allowed Huawei to obtain a substantial amount of capital funding.

Huawei is entirely owned by its employees. No third party -- including government institutions -- has any ownership interest in Huawei. Huawei's success has not been based on favoritism or subsidization by the Chinese government.

Each shareholding employee who is currently employed at Huawei is entitled both to elect and to be elected as a shareholder representative. Such shareholding employees elect 51 people to serve as representatives of the ESOP. Those 51 representatives in turn elect thirteen people to serve as members of the Board of Directors and five people to serve as members of the Supervisory Board.

The current 51 ESOP representatives were elected in December 2010. Of those 51 representatives, 10 joined Huawei right after they graduated. Two of those representatives (Ren Zhengfei and Wang Kexiang) have served in the military. None of the 51 representatives has held a position

at a government agency. The current members of the Board of Directors and the Supervisory Board were elected by the new 51 ESOP representatives in January 2011. Huawei provided background information as to each current member of the Board of Directors and Supervisory Board in its answers to the June 12 letter request.

These factors have allowed Huawei to become the \$32 billion company it is today.

Cyber Security Is Vitally Important

Huawei recognizes the vital importance of cyber security, which is a complex, global issue. The focus should not be confined only to companies head-quartered in China. Other companies -- Alcatel-Lucent, Nokia Siemens Networks, Ericsson, and Cisco-- have substantial operations in China, and much equipment used in U.S. networks is developed and manufactured in China.

Since cyber security is a global issue that the whole industry has to face, governments and the whole industry should work together to improve cyber security.

Ensuring cyber security is essential for Huawei's customers. It is also good for our business. Huawei intends to continue as a leading world-wide supplier of telecommunications equipment and services. As a global company that earns a large part of its revenue from markets



outside of China, we know that any improper behavior would blemish our reputation, would have an adverse effect in the global market, and ultimately would strike a fatal blow to the company's business operations. Our customers throughout the world trust Huawei. We will never do anything that undermines that trust. It would be immensely foolish for Huawei to risk involvement in national security or economic espionage.

Let me be clear -- Huawei has not and will not jeopardize our global commercial success nor the integrity of our customers' networks for any third party, government or otherwise. Ever.

Huawei has taken substantial steps to improve cyber security. As a crucial company strategy, it has created and implemented a respected end to end global cyber security assurance system. It has hired as its Global Cyber Security Officer John Suffolk, the former Chief Information Officer of the United Kingdom (U.K.) government, who is in charge of Huawei's cyber security strategy and manages and supervises its implementation.

In addressing the requirements of cyber security, we have built best practices into all of our policies and processes. In this way, cyber security is not an afterthought. Instead, it is the way we conduct our daily business - it is part of our DNA.

At Huawei, we adopt the “many eyes” and “many hands” approach to ensure transparency and security. We positively encourage audits, reviews and inspections of all technology vendors, including Huawei, in a fair and non-discriminatory manner. Each audit and review enables each company to challenge its thinking, policies, and procedures, which in turn will enhance its capability, product quality, and product security. At Huawei, we have already gone the extra mile in this respect.

Huawei proposes that governments and industry leaders come together to develop a global framework for cyber security assurance. Huawei would welcome the opportunity to develop a program in coordination with the U.S. government to address cyber security here.

Huawei Is Independent

Like any corporation, Huawei complies in good faith with the laws, rules, and regulations of the governments in the countries where it does business. Thus, Huawei complies with the laws, rules, and regulations of the Chinese government. However, the Chinese government has no influence over Huawei’s daily operations, investment decisions, profit distributions, or staffing. Nor does the PLA. As previously stated, neither the Chinese government nor the PLA has any ownership interest in Huawei.

We manufacture only products consistent with civilian communications standards. Huawei does not engage in customized R&D or production for military purposes. And as already observed, neither the Chinese government nor the PLA is involved in Huawei's business decisions.

As discussed above, Huawei raises significant funds through its ESOP, such that Huawei is primarily self-funded. That said, Huawei supplements its resources with commercial bank loans, subject to market driven loan conditions. All of the terms and conditions of Huawei's bank loans are based on business negotiation and follow market practice, in compliance with Chinese and international financial regulations. Huawei has financing agreements with 10 Chinese banks and 23 international banks. Huawei is a strategic customer of many international banks, including HSBC, Citi, and SCB.

Huawei has an excellent credit record, without any loan default or waiver history. KPMG has been Huawei's independent auditor since 2000. Huawei's financial liabilities are a small fraction of its total assets and have little effect on its business operations.

Customer financing is a common practice across the telecommunications industry. Customers may contact Huawei seeking help in locating financing for their purchases of Huawei's products;

alternatively, financial institutions may contact Huawei seeking to provide credit support for procurement by Huawei's customers. We may then either refer the customer to a financial institution, or refer the financial institution to a customer. The financial institutions will evaluate project risks in accordance with their internal credit policies and approval procedures and make independent decisions whether to extend loans to the customers and on what terms. To the best of Huawei's knowledge, the financial institutions determine the financing plan in accordance with standard loan processes. The financial institutions also independently and directly negotiate the financing agreement terms with the customers.

Huawei In The United States

Huawei has been in the U.S. for 10 years. We have 1700 employees here. Over the last decade, Huawei has been committed to bringing our innovative products and services to U.S. customers, and to enabling U.S. citizens to have the same access to our high-quality communications services as do more than 3 billion people in other parts of the world. For example, we have introduced our world-leading distributed wireless products to the U.S., which can significantly improve network performance and reduce energy consumption. We are fully aware that, in a high-end market like the U.S., we can only win customers' trust and sustain our development by providing high-quality products and services.



We are striving to become a model investor, employer, tax payer, and corporate citizen in the U.S. In 2011 alone, Huawei procured \$6.6 billion of goods and services from US companies. Huawei has invested approximately \$500 million in the U.S. in the last five years.

We are committed to openness, transparency, and cooperation so that people get to know Huawei better. We strive to establish good relationships based on mutual trust with customers, governments at all levels, and other sectors of society. Our goal is to create value for customers and for the broader communities in which we operate.

Although we want to expand our presence in the U.S. and thus create more employment and growth opportunities, we have been hindered by unsubstantiated, non-specific concerns that Huawei poses a security threat. We have respectfully asked HPSCI to provide us with any allegations it has that Huawei has engaged in national security or economic espionage. HPSCI has not responded to this request. If HPSCI has specific allegations that Huawei has engaged in cyber espionage, we ask it again to tell us, so that we will have the opportunity to respond and specifically address any concerns the Committee may have.



Huawei's Response To HPSCI's Requests For Information

We recognize that the Committee has been critical of Huawei's answers to the June 12 letter request. We have two main responses to that criticism.

(1) Prior to the June 12 letter request, Huawei provided the Committee with a wealth of information, including very detailed written information about the company. We also have spoken with the Committee at length, in three different sessions. We welcomed the Committee into Huawei's facilities in China and made our top executives, including our president and CEO, available to talk with it.

(2) Huawei did not fully respond to the June 12, 2012 letter request for several reasons. It was literally impossible, particularly in the three week time frame provided for response, for Huawei to respond completely to the sweeping requests in that letter. For instance, demands for "all documents" regarding numerous subjects from Huawei's worldwide locations were logistically impossible to fulfill. These requests sought hundreds of thousands of documents and required that each document not in English be translated. To respond fully would have been exceedingly burdensome. The requests also sought highly sensitive, proprietary business information, which, we respectfully submit, no responsible company, foreign or domestic, would voluntarily produce.



Huawei truly seeks to cooperate with the Committee. That is why I am here voluntarily to answer your questions. Indeed, I believe that the witnesses here today are the first representatives of major Chinese corporations ever to testify before a congressional committee in the U.S. But Huawei must cooperate in a way that protects its legitimate interests and those of its business partners, just as a similarly situated U.S. based company would protect such interests.

Huawei is committed to the U.S. market, the single largest telecom market in the world. Over the past decade, we diligently invested in the U.S. In the next decade, we hope that Huawei can integrate into the U.S. market. We hope that the U.S. information and communications technology industry will prosper with Huawei's participation. We also hope that the American people can enjoy faster network speed and better user experience by using our world leading technologies. We look forward to a productive discussion about the global issue of cyber security today and in the future.