



Intelligence MEMOS

From: John Gruetzner
To: Canadians Concerned about Relations with China
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Re: **WHAT TO DO ABOUT HUAWEI**

The current public debate about approving Huawei's participation in Canada's 5G telecom networks is binary: approval or rejection.

Either choice carries potential negatives for Canada. There is a constructive and better option: setting equal conditions for all domestic and international companies that want to sell 5G and smartphones in Canada.

This approach balances Canada's relationship with China and the United States but, more importantly, provides Huawei with a path forward based on greater compliance with global norms as a large technology company.

The main arguments for approving Huawei are lower equipment costs, potential industrial policy benefits, provided Canada properly manages Huawei's commitment to research and development, and the diplomatic blowback of alienating China. The key arguments for not approving Huawei are not annoying the US, and the potential security risks raised by some technology specialists that Huawei's technology might create.

A middle road is elusive, to say the least. Last week's UK decision to accept Huawei in a limited role of supplier for non-core, non-government 5G equipment, while continuing to rely on its extensive experience of testing company equipment for potential security threats, created an outcry among many US and UK conservatives. These provisions along with the limit on market share of 35 percent and potential geographic restrictions within the United Kingdom, despite the mainstream media spin, are actually perceived by some industry experts as a polite British no.

The UK's approach can certainly inform Canada's decision, but here I open another avenue for discussion. My premise is that: Huawei is simply too big and potentially subject to harmful pressures by the Chinese government to remain an opaque entity, and Canada's decision should nudge it toward the greater openness normally associated with a public company.

Canada recognizes that 5G is the next step in a fundamental revolution of how information is collected, distributed and managed. It is the portal for the transformational powers of artificial intelligence and big data in general. This suggests that Canada work with as many of the world's leading companies as possible; but these working relationships should be on Canada's terms.

Canada's first condition should stipulate that all companies from non-market economy countries or companies with state-equity participation providing 5G network equipment and handsets within Canada should be publicly traded. This policy enforces greater transparency of ownership and accurate reporting of government subsidy and trade financing. Public companies are not perfect in their commitment to compliance but are generally forced to respond swiftly to ethical or management mistakes to protect shareholder value.

This requirement should not alienate the Chinese government because ZTE Group, TCL-Blackberry, Xiaomi and Lenovo, for example, are all public.

In hindsight, it is a reasonable conjecture that a public Huawei, with an independent board and accompanying legal compliance safeguards, might have been more forthright and transparent about its activities in Iran. Then it might have settled the matter quickly and paid the US fines in a similar manner to Standard Chartered and Unicredit for violating that country's sanctions on Iran.

A second condition for all 5G equipment and service suppliers should be that its country of origin not require the company and its employees to use the equipment sold to foreign companies or governments to support that nation's national intelligence agencies offshore. While China may object to this requirement it is not China-specific and would apply to Apple, Samsung, Nokia and Ericsson, should their home countries pass laws like China's current National Intelligence Law.

The third condition is technical. Huawei, as well as its Chinese and international counterparts, should be subject to an identical testing process and certification, third-party technical security reviews and monitoring and on-going compliance protocols. The Department of Public Safety and Global Affairs Canada is capable of such reviews, which should then require Cabinet approval. Canada should also require all 5G cellphones to be certified for national security purposes before being sold in Canada.

Huawei must also recognize that Canada has no incentive to act until China unfreezes relations, including most obviously the release of those Canadians widely understood to be political prisoners held under inhumane conditions, and the end of the arbitrary suspension of export licences for Canadian canola.

Longer term, a blanket prohibition on Huawei is not in Canada's interest, but by setting equal and high standards of transparency and security for all 5G participants Canada would strike a blow for its own interests in open, fair, compliant and secure international trade.

John Gruetzner has been engaged with China since 1982, working there in a number of capacities. He is head of the fund raising committee for the China Policy Centre being formed in Ottawa.

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