Huawei Technologies Co Ltd

# Huawei can draw little comfort from White House reprieve

Decision to grant licences for three months extends uncertainty for customers


A woman passes a Huawei P30 phone advertisement in Singapore © Reuters

Louise Lucas in Hong Kong YESTERDAY

The White House has thrown Huawei a lifeline.

Less than 24 hours after Google said it would cut off the Chinese smartphone maker from Android, the US granted a three-month reprieve on a ban that has also stopped other US software companies and chipmakers from selling to Huawei.

The so-called temporary general licence "grants operators time to make other arrangements and the [commerce] department space to determine the appropriate long-term measures for Americans and foreign telecommunications providers that currently rely on Huawei equipment for critical services," said US commerce secretary Wilbur Ross.

## Does this help Huawei?

Ren Zhengfei, Huawei's founder, said the reprieve "doesn't mean much" because his company has contingency plans in place.

He is right, said analysts — but not for the reason he gave.

Huawei's HiSilicon unit has been designing its own chips and stockpiling these and other parts. But three months will not be enough for Huawei to reconfigure its supply chain. "It's not really helpful at all," said Rex Wu, analyst at Jefferies in Hong Kong.

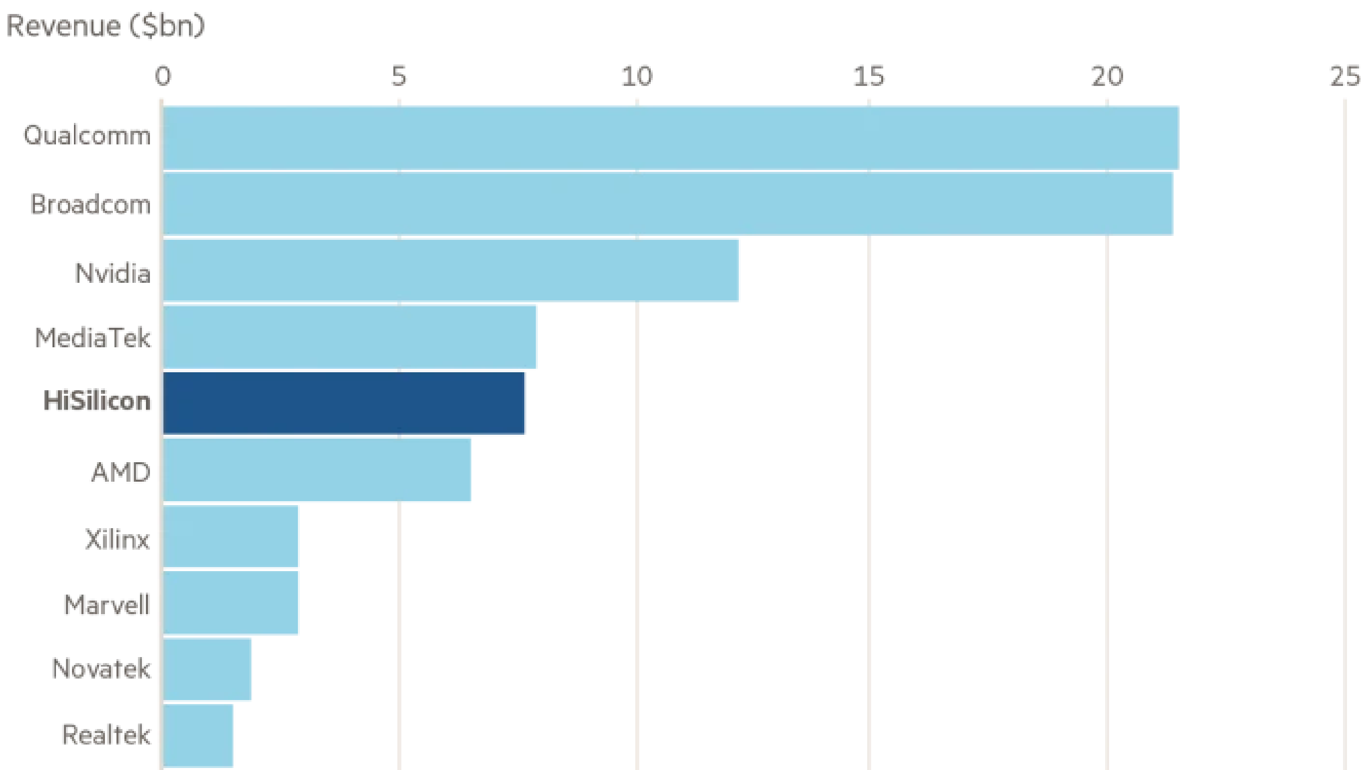
Meanwhile, as Google's move showed, there are crucial elements that cannot be stacked up in a warehouse or built from scratch. A smartphone operating system is one. Electronic design automation (EDA) is another.

EDA tools, made by the likes of Cadence, a US software and system design company, are used to determine whether the chip design works and can be manufactured.

The tools are a sort of black box for designers, said Douglas Fuller, associate professor at City University of Hong Kong, backed by a huge repository of chemical engineering and material science knowledge that is very hard to replicate — which explains why it is dominated by three players, two American and one German.

There are pirated versions, but, said Mr Fuller, "at this point Huawei is making some rather sophisticated chips so they don't want to be flying blind . . . by using pirated ones".

Rapid growth makes HiSilicon fifth-biggest integrated circuit design company in 2018




Sources: company data; FactSet; Bernstein estimates and analysis
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## So who does the reprieve help?

For many analysts and politicians, including Mr Ross, the temporary licence is an olive branch to chipmakers and other suppliers in the US that were caught short by the export ban and are sitting on inventory.

It is also directed at telecom carriers, said Peter Lovelock, director at digital trade and telecoms consulting and research group TRPC. But he added the 90-day window was insufficient time for them to switch from Huawei to new vendors, putting the sector in a difficult position.

While some analysts believe Huawei may have corralled European carriers into lobbying on its behalf, Mr Lovelock sees a more direct recipient of the message.

“The move was in part directed at European governments, for months the target of US diplomatic efforts to encourage key allies and like-minded countries to adopt measures to restrict or completely ban Chinese equipment for their 5G networks,” he said.

“If the US commerce department were to eventually enforce a complete ban on US technology shipments to Huawei, any carrier currently using the company’s equipment would need to radically alter its 5G buildout strategy.”

Finally, it gives non-US companies breathing room to work out the extent to which they are on the hook. At worst, the export ban could catch any company using US capital equipment, research or other resources.

German microprocessor group Infineon has reportedly stopped shipping to Huawei, and other chipmakers including Japan’s Toshiba are assessing whether or not they will follow suit. This illustrates the interconnectedness of global supply chains and factory floors: a German or Japanese company is often dependent on US capital equipment or research and development.

## What are the chances of the temporary licence being extended?

There is no precedent. The first and only other recipient of this type of general licence was ZTE, Huawei’s smaller rival that was similarly hit with an export ban last year.

But ZTE had a clear path to resolving its problems: pay a fine and rejig its board. There is no such template this time.

That is at least partly because Huawei, unlike ZTE, is not being punished for any one thing. It is also on notice for sanction-busting sales to Iran, for which its chief financial officer Meng Wanzhou is under house arrest in Canada and facing extradition to the US.

Huawei has long battled a bigger undercurrent with the US over its alleged use of back doors, espionage and IP theft. The Shenzhen-based company has come to symbolise broader US angst over China’s industrial policies and rising tech prowess. That makes it more difficult to gauge whether or not the licence will be rolled over, potentially buying time for Huawei.

Politics further muddies the waters. Last week's ban was seen by analysts, industry players and politicians in both countries as being directly linked to the ongoing trade talks. The plan to put Huawei on the export blacklist had been ready for some time, but kept on the shelf while the negotiations advanced, and may not have seen the light of day if a deal had been reached.

But people familiar with the talks in Washington say that China's pullback from some previous commitments, which led to the new escalation, emboldened hawks within the administration who were pushing for the Huawei ban.

This week's reprieve, however, reflects the often haphazard policymaking under his administration. The Trump administration did not brief the US technology sector in advance, and only after the fact were companies able to outline the impact and harm that the ban would inflict domestically, prompting the partial rollback.

Yet with the political environment shifting so rapidly in Washington in favour of a more confrontational stance towards Beijing, the reprieve is not expected to last long: the potential for lasting damage is far bigger than it was with ZTE.

*Additional reporting by James Politi in Washington*