

DOW JONES, A NEWS CORP COMPANY

Nikkei 22755.91 -0.01% ▼

Hang Seng 31122.06 1.02% ▲

U.S. 10 Yr 1/32 Yield 2.965% ▲

Crude Oil 70.68 -0.03% ▼

Yen 109.28 -0.10% ▼

THE WALL STREET JOURNAL.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<https://www.wsj.com/articles/caught-between-two-superpowers-the-small-town-cable-guy-1522152000>

BUSINESS

In U.S. Brawl With Huawei, Rural Cable Firms Are an Unlikely Loser

Some rural internet providers rely on telecom gear from China's Huawei, which faces potential new restrictions from FCC, Congress

By Drew FitzGerald and Stu Woo | Photographs by Michael Hanson for The Wall Street Journal

Updated March 27, 2018 2:40 p.m. ET

Here is a potential casualty of the U.S. government's escalating fight against Huawei Technologies Co.: rural phone companies and internet providers that depend on the Chinese giant's gear to connect their customers.

Large wireless providers including AT&T Inc. have long steered clear of Huawei, which has been effectively barred from big U.S. business since a 2012 congressional report alleged the Chinese government could force the company to exploit knowledge of how its equipment is designed to spy or launch cyberattacks—a charge Huawei has denied.

But many regional American providers of wireless, TV and internet services have flocked to Huawei, attracted by what they say are Huawei's cheaper prices, quality products and attentive customer service.

On Monday, the Federal Communications Commission proposed making it harder for these smaller carriers to pay for future purchases of telecom equipment from Huawei and Chinese peers. The rule would restrict companies from drawing on an \$8.5 billion government-run fund that, among other goals, helps connect rural America to the internet. The agency is now seeking public comment on the proposal.



Devon Mitchell and CJ Christensen install a new cable in Hermiston, Ore.

Meanwhile, a congressional bill with some bipartisan support aims to prohibit carriers with any substantial amount of installed Chinese telecom equipment from federal-government contracts.

Huawei, the world's top maker of cellular-tower electronics and a major manufacturer of equipment for cable and internet providers, has been actively courting small-town internet

companies that wanted to replace old-fashioned landlines with high-speed internet connections—no small feat in a country where most rural residents are stuck with dial-up speeds.

The company flew some clients to the company's Shenzhen, China, headquarters, one stop on a nationwide tour that included visits to the Great Wall and ancient Terracotta Army, and delicacies including chocolate-covered duck liver.

“They were hungry to break into the small market, and we like dealing with hungry vendors,” said Jim Kail, chief of LHTC Broadband, a mostly rural internet provider in Pennsylvania with 7,000 customers. “They put a concentrated effort into it.”

Mr. Kail’s company in 2014 bought several hundred thousand dollars worth of optical network equipment—gear that can transmit data hundreds of times faster than a copper telephone line.



Eastern Oregon Telecom uses electronics made by Huawei.

Many of these customers now worry the new heat over Huawei in Washington may rob them of what has so far been an important alternative to Western suppliers. Others worry that if Huawei exits the U.S. completely, it will leave them without the customer and technical support they need to maintain the Huawei hardware they already own.

A Huawei spokesman declined to comment on the FCC proposal. He said the company is employee-owned and that no government has ever asked it to spy on or sabotage another country. Huawei said it poses no greater threat than its competitors, given they all share a global supply chain.

Huawei products make up less than 1% of the equipment in American cellular and landline networks today, according to research firm Dell’Oro Group. A senior FCC official said Monday that the government was concerned that it was “not zero.”

Huawei’s standoff with the U.S. government has been a boon to Sweden’s Ericsson AB and Finland’s Nokia Corp., which dominate the \$30-billion-a-year market for wireless equipment in the U.S. It also shields domestic companies like Silicon Valley’s Cisco Systems Inc., which make electronics such as routers for cable and internet providers.

Joe Franell, the chief executive of Eastern Oregon Telecom, said his company added about 1,000 broadband customers after it took over unused cable lines that another provider had abandoned. He estimated that using new Huawei hardware on the previously offline system saved the company at least \$150,000.

“Our margins are pretty thin,” Mr. Franell said. “If you start dictating what kind of equipment I can use, it tips the scales.” He said he thinks the new legislation making the rounds in Washington is more likely driven by nationalism and protectionism than by real concerns about hacking and spying. “I’m not going to rework my whole business plan based off a rumor or an unsubstantiated allegation,” he said.

Some politicians have raised more specific national-security issues related to Huawei gear in rural networks. Rep. Liz Cheney, the Wyoming Republican, was the original co-sponsor of a House bill to ban the U.S. government—or any of its contractors—from using equipment from Huawei or China’s ZTE Corp. [ZTCOY -15.37%](#) ▼ The bill now has 43 co-sponsors, including four Democrats. Her big concern: Troops at U.S. military bases, which are sprinkled across parts of rural America that are often serviced by small carriers, could be at risk.

“We cannot allow the Chinese government to use entities like Huawei to gain access to our communications networks, including on our military bases,” Ms. Cheney said in a statement.

It is unclear whether small carriers using Huawei equipment directly provide service to U.S. military bases. ZTE representatives didn’t return requests for comment.

Write to Drew FitzGerald at andrew.fitzgerald@wsj.com and Stu Woo at Stu.Woo@wsj.com

Appeared in the March 28, 2018, print edition as ‘Rural Networks Feel Sting of Huawei Curbs.’