

Business

Despite national security concerns, GOP leader McCarthy blocked bipartisan bid to limit China's role in U.S. transit

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House Minority Leader Kevin McCarthy (R-Calif.) blocked a bipartisan attempt to limit Chinese companies from contracting with U.S. transit systems, a move that benefited a Chinese government-backed manufacturer with a plant in his district, according to multiple people familiar with the matter.

His behind-the-scenes intervention came as Congress was trying this year to craft a spending compromise to avert another government shutdown. McCarthy pressed lawmakers to strip out language that could have prevented the company in his district, BYD Motors, from winning federal contracts, and they relented because they feared imperiling the bill.

BYD Motors is a division of BYD Co., a giant Chinese manufacturer. Among other things, it makes electric buses that are often used by local governments. Stella Li, BYD Motors president, is a campaign contributor to McCarthy, and the lawmaker spoke at a ribbon-cutting for BYD's California plant in 2017.

Lawmakers frequently take a stance on legislation that could affect campaign contributors or hometown companies. But McCarthy's intervention was striking because the close ally of President Trump sought to protect Chinese interests at a time when Trump and many lawmakers on Capitol Hill are attempting to curb Beijing's access to U.S. markets, particularly in industries deemed vital to national security. Just last week, Trump put Chinese telecom giant Huawei [on a trade "blacklist"](#) that severely restricts its access to U.S. technology.

McCarthy's move to protect a Chinese company's interests frustrated even some members of his own party because they have warned repeatedly that allowing Chinese-backed firms access to U.S. infrastructure systems could pose a national security risk. Lawmakers of both parties have complained that U.S. tax dollars should not be used to support projects that benefit foreign companies.

"Kevin McCarthy has been championing a Chinese-owned company that is utilizing our tax dollars to gain a foothold in the American automotive industry," said Scott Paul, president of the Alliance for American Manufacturing, a labor-business partnership that has advocated for a tougher approach with China. "This is a company that is clearly championed by the Chinese government, that has ambitions to dominate the global

auto market, and so giving a foothold to it in the American transit market . . . seems to be a really, really risky proposition.”

Matt Sparks, a spokesman for McCarthy, defended the congressman’s actions. He said McCarthy has long advocated for companies in his district, and he denied any connection between McCarthy’s receipt of campaign contributions from BYD and his actions on Capitol Hill.

“McCarthy is proud to support job creation for his constituents and community,” Sparks said.

McCarthy’s work on the transit issue affecting BYD began last year and continued for several months, culminating in a February spending bill that omitted the ban on Chinese-backed companies getting federal transit contracts.

BYD officials initially contacted McCarthy’s office because the Senate had approved such a prohibition, which would have applied to bus or rail manufacturers supported by the Chinese government and prevented them from winning state or local contracts that use Federal Transit Administration dollars, as such contracts often do. Sparks confirmed that McCarthy’s aides listened to the issues BYD raised about the bill.

A House version of the bill, which McCarthy supported, exempted bus manufacturers from the prohibition, according to McCarthy’s office — a key provision that would have protected BYD. Senate negotiators wanted their broader, bipartisan restrictions pushed into the final law, but McCarthy objected, according to three officials, speaking on the condition of anonymity to discuss the private talks.

Ultimately, all of the proposed restrictions were scrapped because the impasse threatened to cause another government shutdown. Supporters of the stricter Senate version said the goal was to safeguard U.S. national security and domestic manufacturing.

“I think we’re right to try to protect America’s national security interests but also protect our domestic producers against that sort of unfair competition,” said Sen. John Cornyn (R-Tex.), an author of the Senate provision.

Trump and his top aides have complained that China unfairly subsidizes large companies in a way that puts American firms at a disadvantage, but there has never been a full accounting of how much U.S. government business those firms reap.

The enterprises are either partially owned by the Chinese government or receive financial support from it, and critics say those direct or indirect subsidies give them an unfair advantage over U.S. manufacturers. The Trump administration has engaged in broad trade negotiations with China that have soured in recent weeks — in part over the issue of China’s extensive network of government-backed enterprises.

Beyond economic concerns, lawmakers from both parties have argued that it is dangerous for Chinese-linked firms to have access to U.S. transit systems because of the potential for espionage or other threats to national

security. Among other things, they have said that in time, China-backed companies could use facial-recognition technology or other means to surveil unsuspecting Americans.

“We really need to wake up. We need to understand what a threat this is and do something about it,” Rep. Daniel Lipinski (D-Ill.) said last Thursday at a House Transportation Committee hearing about public transit and rail sectors. “We can’t just sit here and talk about it and then years from now when it happens say, ‘Well, I remember talking about it.’”

A BYD official who testified Thursday insisted that the company is not controlled by the Chinese government, noting that Warren Buffett’s Berkshire Hathaway owns a stake in the firm.

The official — Zachary Kahn, North America government relations director for BYD Motors — emphasized BYD’s civic ties to the towns of Lancaster and Palmdale in and near McCarthy’s inland Southern California district, including support for the Boy Scouts and the California Poppy Festival. He said BYD employs 775 union members as part of its U.S. workforce, most of whom work at the Lancaster plant.

Fast Company last year [called](#) BYD “The Biggest Electric Vehicle Company You’ve Never Heard Of.” Forbes in 2017 [listed](#) BYD’s billionaire chairman and president, Wang Chuanfu, as one of the richest men in China.

The company has promoted its ties to McCarthy in the past.

At an October 2017 ribbon-cutting to expand its Lancaster plant, McCarthy was seated on the stage next to the billionaire, [according to a photograph posted on BYD’s website](#).

“I am proud that BYD has chosen to expand their facility here in Lancaster,” the website quotes McCarthy as saying. “As BYD continues to develop cutting edge technology that helps transform the transportation industry here in the Antelope Valley and around the country, this investment will help create jobs in our community, keep Lancaster on the forefront of technological advancement, and put emission-free vehicles on our streets.”

One month before the event, BYD’s Li made several political donations that benefited groups tied to McCarthy, according to the Federal Election Commission. She gave \$1,350 to Kevin McCarthy for Congress, \$2,700 to California Victory 2018 and \$1,350 to the Great America Committee.

Li had never given McCarthy or either of the political action committees money before that time, according to the Federal Election Commission.

Frank Girardot, spokesman for BYD Motors, said the donations were made as part of a political fundraising event, and he disputed any impropriety.

“If you’re going to characterize this as being some kind of influence type thing, nothing could be further from the truth,” Girardot said.

The Great America Committee is a political action committee affiliated with Vice President Pence that supported many Republican House candidates in the last campaign cycle. It did not give money to McCarthy, but it did support many of the GOP candidates McCarthy backed in an effort to retain control of the House. California Victory 2018 is a PAC that gives money to California Republicans, with McCarthy being the biggest individual beneficiary last year, according to the Center for Responsive Politics, a nonpartisan, nonprofit organization that studies political donations.

Sparks, the McCarthy spokesman, said the congressman had been familiar with issues related to BYD for several years.

“McCarthy’s awareness of BYD’s proposal and decision to build a plant in Lancaster long preceded this event. In fact, McCarthy met with the mayor of Lancaster to discuss the BYD proposal and tour potential sites back in 2015,” Sparks said. “The BYD investment in the Antelope Valley helps the city of Lancaster — which is in the congressman’s district — work toward its ambitious goal to be a zero-net energy city.”

BYD has faced scrutiny for years. Some Democrats have accused it of manufacturing batteries for its vehicles in China and then shipping the unfinished products to the United States, where they are put in a special casing and labeled in a way that allows them to qualify under “Buy America” restrictions. The Buy America designation is crucial for the company to qualify for certain contracts funded by U.S. taxpayer dollars.

BYD officials have denied accusations that they aren’t properly following the rules, insisting that the company’s buses meet or exceed Buy America requirements.

“BYD stands by its products and its U.S. employees,” Kahn told lawmakers Thursday, adding, “This competitive dynamic supported by BYD’s presence in the U.S. has also driven down costs for transit agencies.”

Winning contracts with state and local governments has been crucial for BYD since it expanded its presence in the United States. Several media reports have projected that the company has received hundreds of millions of dollars in such contracts in recent years.

Last year, for example, the company won one bid to supply the city of Atlanta with electric vehicles and another to provide battery-electric buses for Georgia, [according to BYD’s website](#).

Lawmakers at the House hearing were unimpressed. Rep. Paul Mitchell (R-Mich.) said BYD has received \$338 million in grants from the Chinese government, and three of its five board members are connected to the Chinese government in some way.

Mitchell asked Kahn for details on the terms of the grants and other information about the company’s organization, which Kahn was mostly unable to supply.

“Whether this is technically state-owned or state-influenced, we have a problem here,” Mitchell told him. “What’s been made abundantly clear by the Chinese government is they plan to assume a dominant position in

the world by 2025 in all aspects, including economic. This is a threat to the security of this nation, so let's not dress this up and say that BYD is not state-owned."

House Transportation Committee Chairman Peter A. DeFazio (D-Ore.) complained at the same hearing that BYD sent defective buses to his district, but he also acknowledged the company's political savvy.


"They're smart, they unionized, they put these plants in very strategic places," DeFazio said. "They didn't know Democrats were going to take over the House; they put the plant in Kevin McCarthy's district. I think they would have put it in someone else's district if they'd known Democrats were going to take over the House, but they aren't dumb."

In an interview after the hearing, Kahn was asked whether BYD had chosen to move into Lancaster because it is represented by a powerful member of Congress. He said he wasn't with the company at the time, but his sense was that the local mayor was its biggest supporter.

And Kahn said the company did nothing untoward in approaching McCarthy and other local representatives about the problematic spending bill language.

"We certainly let all of our representatives know when there's legislation that would hurt us, let them know the implications of something like that," Kahn said. "Most transit agencies do use federal funding, hence it would be really damaging to jobs in his district."

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