

CLIENT ALERT

Five Chinese Entities Involved with Supercomputers Placed on Entity List

JUNE 26, 2019

The Bureau of Industry and Security (BIS) announced the addition of four Chinese companies and one Chinese research institute to the BIS Entity List on June 21, 2019. This is the latest action by the administration taking aim at information and communication technology providers with a seeming focus on China.

The addition of these companies comes just over one month after the May 15 signing of E.O. 13873, Securing the Information and Communications Technology and Services Supply Chain, and the May 16 addition of Huawei, a large Chinese phone manufacturer and 5G infrastructure development company. See our prior briefings regarding [BIS action listing Huawei](#) and the related [Temporary General License](#).

The five entities announced today include Sugon and three of its related entities—Higon, Chengdu Haiguang Integrated Circuit, and Chengdu Haiguang Microelectronics Technology. The fifth entity is the Wuxi Jiangnan Institute of Computing Technology (JICT). In addition, BIS modified the entry for the National University of Defense Technology (NUDT) to account for four aliases NUDT has used since its original listing in February of 2015. Collectively, these new entities and NUDT develop supercomputers, computing components, and other technology.

BIS states that Sugon, JICT, and NUDT “are the three entities leading China’s development of exascale high performance computing.” “Exascale computing” refers to computing systems that can execute 10^{18} calculations each second, three orders of magnitude greater than the current “petascale” supercomputer systems. Such computing is linked to the development of nuclear weapons, encryption, missile defense and other military applications.

Sugon is the majority owner of Higon, and Higon is the majority owner of Chengdu Haiguang Integrated Circuit. Higon also owns a “substantial” share of Chengdu Haiguang Microelectronics, according to BIS.

BIS ENTITY LIST IMPLICATION

The Entity List, upon which these entities will be included, “identifies persons reasonably believed to be involved, or to pose a significant risk of being or becoming involved, in activities contrary to the national security or foreign

policy interests of the United States.” Exporters must secure a license from BIS before exporting any item subject to the Export Administration Regulations (EAR). Items subject to the EAR include software, hardware, products with a significant percentage of U.S.-origin products, as well as certain items that are produced outside of the U.S. but are the “direct product” of U.S. technology or software.

The transfer of U.S. technology to an entity identified on the Entity List also requires a license from BIS. The five entities listed in this action have been listed under a policy of “presumption of denial” of a license.

U.S. entities should perform enhanced due diligence both on their direct dealings with these entities and dealings with affiliated or related parties. BIS prohibitions are not limited to direct interactions, and require companies to identify the ultimate end user of any exported products. Entities may look to the [BIS Red Flag Indicators](#) and [Know Your Customer \(KYC\) Guidance](#) for concerning behavior that may indicate a company is dealing with a sanctioned entity. Willful ignorance of a customer’s malfeasance and dealing with sanctioned entities will not offer protection from BIS penalties.

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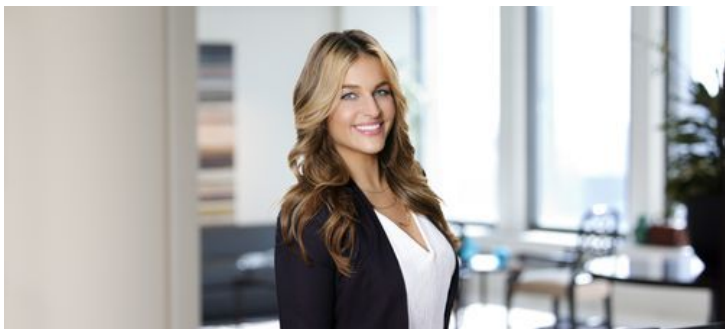
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