

Q&A: What does a deal between TikTok and Oracle mean?

September 14 2020, by Zen Soo



In this July 17, 2020, file photo, a man wearing a shirt promoting TikTok is seen at an Apple store in Beijing, China. TikTok's parent company ByteDance has chosen Oracle over Microsoft as a new American technology partner to help keep the popular video-sharing app operating in the U.S., according to a person familiar with the deal.(AP Photo/Ng Han Guan, File)

ByteDance, the Chinese company that owns the popular video-sharing app TikTok, has chosen Oracle over Microsoft as a new American technology partner to help keep the app operating in the U.S. TikTok confirmed the decision Monday, echoing earlier statements from Oracle and the U.S. treasury secretary.

ByteDance faces a Sept. 20 deadline to sell TikTok to an American company or risk being banned in the U.S. over national security concerns. But a lot remains unclear, including how the social media company would fit inside a business software company like Oracle and whether whatever arrangement the companies reach will be acceptable to the U.S. officials who will need to approve it.

Here are some questions and answers about the deal.

Q. WHAT IS TIKTOK?

A. The app is a home for fun, goofy videos that are easy to make and to watch. That's made it immensely popular, particularly with young people, and U.S. tech giants like Facebook and Snapchat see it as a competitive threat. TikTok says it has 100 million U.S. users and hundreds of millions globally. It has its own influencer culture, enabling people to make a living from posting videos on the service, and hosts ads from major U.S. companies.

ByteDance Ltd., a Chinese company, launched TikTok in 2017, then bought Musical.ly, a video service popular with teens in the U.S. and Europe, and combined the two. A twin service, Douyin, is available for Chinese users.

Q. WHAT CONCERNS U.S. OFFICIALS ABOUT THE APP?

A. TikTok, like most other social networks, collects user data and

moderates what's posted. It grabs people's locations and messages they send one another, for example, and tracks what people watch to discern what kinds of videos they like and how best to target ads to them.

Similar concerns apply to American social networks, but Chinese ownership adds an extra wrinkle because the Chinese government could order companies to help it gather intelligence. In TikTok's case, that's a hypothetical threat, Samm Sacks, a researcher at Yale Law School's Paul Tsai China Center has said.

TikTok says it does not store U.S. user data in China and that it would not give user data to the government. But experts say if the Chinese government wants information, it will get it.

There are also concerns about TikTok censoring videos critical of China, which TikTok denies, or pushing propaganda. Some critics say the company is violating children's privacy laws.

The U.S. has given parent company ByteDance a Sept. 20 deadline to complete a sale of TikTok's U.S. assets to an American company, or risk being banned in the country.

Q: IS ORACLE BUYING TIKTOK, AND WHAT ASSETS ARE INVOLVED?



This Feb. 25, 2020, file photo, shows the icon for TikTok in New York. TikTok's owner has chosen Oracle over Microsoft as its preferred suitor to buy the popular video-sharing app, according to a source familiar with the deal, Sunday, Sept. 13, 2020. (AP Photo/File)

Oracle was among the pool of bidders, including Microsoft and Walmart, to buy TikTok's American operations. Microsoft on Sunday said that ByteDance will not be selling TikTok's U.S. operations to the company. Oracle, in confirming it was the winning bidder Monday, didn't refer to the deal as a sale or acquisition, instead saying it was chosen as TikTok's "trusted technology provider."

It's unclear at this point what assets, if any, Oracle would actually

acquire.

TikTok has found popularity around the world thanks in part to its content-recommendation algorithm, which suggests videos to users based on their viewing history. But the Hong Kong newspaper South China Morning Post reported Sunday, citing an unnamed person, that ByteDance will not sell the algorithm. China has tightened its controls and requires companies to get permission to export such technologies.

"The Chinese government has implied it may block export of TikTok's AI systems, so that might complicate a direct sale," said Tiffany Li, a visiting professor at the Boston University School of Law. "One of TikTok's competitive advantages is its AI-backed video recommendation system."

Q: WHAT IS ORACLE'S RELATIONSHIP TO TIKTOK LIKELY TO BE?

Oracle is known for providing enterprise software including cloud computing services. So it could provide cloud services such as storing TikTok's data in the U.S., or computing services for the app.

"Oracle could be a technology partner, but a sale or divestiture of the US operations for TikTok remains the focus," Wedbush Securities analysts said in an analyst note.

Q: WILL THE TRUMP ADMINISTRATION GO FOR THE ARRANGEMENT?

A: A TikTok-Oracle deal must be approved by the Committee on Foreign Investment in the United States (CFIUS), which vets deals that may have national security implications. U.S. Treasury Secretary Steven Mnuchin told CNBC on Monday that the group will review the proposal

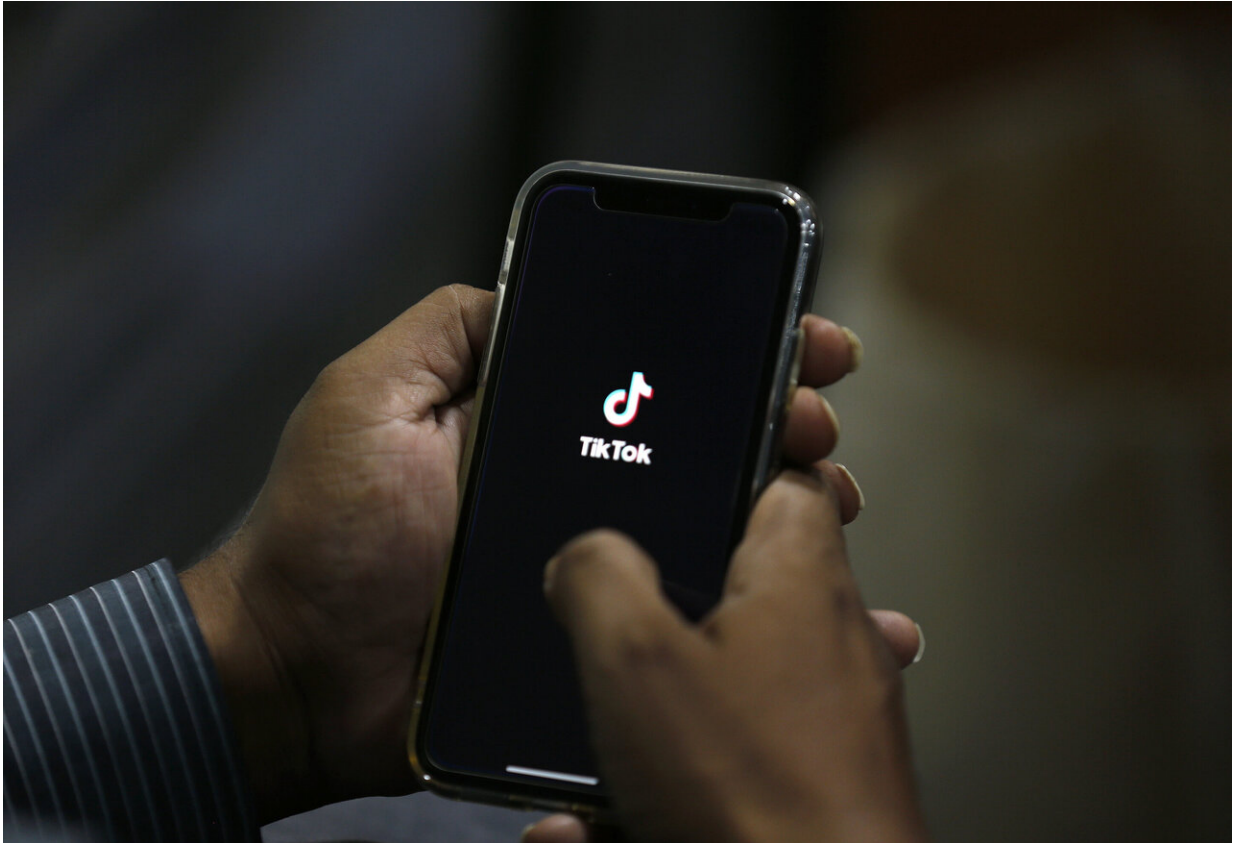
this week and later make a recommendation to President Donald Trump.

CFIUS earlier greenlighted Chinese PC maker Lenovo's purchase of IBM's computer server business in 2014, after concluding the deal did not pose significant security risks. It also cleared SoftBank's acquisition of Sprint in 2013, but only after SoftBank agreed not to use Huawei Technologies and ZTE equipment in the U.S.

If Oracle and TikTok can show they can safeguard user data in the U.S., CFIUS and the Trump administration might accept the arrangement.

TikTok said in a Monday statement that its proposal aims to "resolve the Administration's security concerns" and emphasized the importance of its app to the 100 million users it claims in the U.S.

A Chinese Foreign Ministry official said Monday that it had no comment on Oracle, but described the situation as a "typical government-coerced transaction."



In this July 21, 2020 file photo, a man opens social media app 'TikTok' on his cell phone, in Islamabad, Pakistan. The owner of TikTok has chosen Oracle over Microsoft as the American tech partner that could help keep the popular video-sharing app running in the U.S., according to a source familiar with the deal who was not authorized to speak publicly about it. (AP Photo/Anjum Naveed, File)

Q: HOW MUCH DOES ORACLE'S CLOSENESS TO THE ADMINISTRATION MATTER?

A: Trump hasn't said if he preferred Oracle or Microsoft but in August described Oracle as "a great company" that could handle the sale.

Oracle co-founder Larry Ellison is unusual among tech executives for his

public support of President Donald Trump.

"Oracle's connections with the Trump administration are interesting. It's possible they may be able to negotiate an outcome that allows TikTok to continue operating in the U.S. without a full sale, with ByteDance still retaining something," said Boston University's Li.

Mnuchin said Monday that "we have a lot of confidence in both Microsoft and Oracle," but noted that ByteDance has chosen Oracle.

Q: WHAT MIGHT THIS DEAL MEAN FOR USERS?

If it is finalized and approved by CFIUS, TikTok would be allowed to continue operating in the U.S.

"Trump's executive order that effectively banned TikTok's U.S. business would likely no longer apply, as TikTok would no longer be owned by Bytedance," said Li.

"Executive orders can be revoked or modified at any time," she said.

However, Oracle's plans remain unclear.

"I doubt we'll see the creativity and consumer-friendliness that we might expect with a different owner," Li said.

Paul Haswell, partner at law firm Pinsent Masons, expects Oracle to strive to keep TikTok's users.

"If the app changes or the user experience changes then the users might abandon the platform which completely undermines the value of TikTok and Oracle's acquisition," he said.

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