FBI probes China's ZTE over Iran tech deals: report

Steve Stecklow and Melanie Lee, Reuters

The FBI has opened a criminal investigation into ZTE Corp's sale of banned U.S. computer equipment to Iran, a website reported, as the Chinese telecoms gear maker warned its first half net profit could fall as much as 80 percent.

The federal investigations stem from a Reuters report in March that Shenzhen-based ZTE sold Iran's largest telecoms firm a powerful surveillance system capable of monitoring landline, mobile and Internet communications, the Smoking Gun website reported.

The company's earnings woes appeared unrelated to the investigations in the United States, and Friday's profit warning statement made no mention of the FBI probe.

The March Reuters article also reported that ZTE's 907-page "Packing List" for the $120 million contract, dated July 24, 2011, included hardware and software products from several top U.S. tech companies, including Microsoft Corp, Hewlett-Packard Co, Oracle Corp, Cisco Systems Inc and Dell Inc. Sales of the equipment are prohibited by U.S. sanctions on Iran.

The Smoking Gun reported that the FBI was also investigating ZTE's alleged attempts to cover up the sale and obstruct a Department of Commerce probe.

After the Reuters report in March, ZTE said it would curtail business with Iran.

Meanwhile, ZTE said in a filing to the Shenzhen stock exchange after Asian markets closed that its first half net profit would tumble between 60-80 percent on lower investment gains, foreign currency exchange losses and domestic operator networks postponing their tenders.

The Smoking Gun published on its website excerpts from a confidential FBI affidavit based on a May interview with Ashley Kyle Yablon, the general counsel of ZTE's U.S. subsidiary in Texas.

According to the affidavit, Yablon told two FBI agents that ZTE officials had discussed shredding documents, altering the packing list and denying it was genuine in an effort to subvert a Department of Commerce investigation into ZTE's sales of U.S. equipment to Iran.

The Commerce Department issued a subpoena to ZTE the day after the Reuters report, seeking the Iranian contract and the packing list, according to the affidavit.

Skirting Sanctions

The affidavit stated that Yablon told the FBI that a ZTE attorney had told him the company "was concerned about how the Reuters reporter obtained a copy of the packing list ... because it could no longer ‘hide anything.'" Yablon said he told the attorney "he would not be involved in a cover-up".

Yablon stated he later saw a copy of the Iranian contract that "essentially described how ZTE would evade the U.S. embargo and obtain the U.S.-manufactured components specified in the contract for delivery to" the Iranian firm, Telecommunication Co. of Iran, according to the affidavit.

Yablon also said he was told that ZTE owns "sub companies" that it uses to purchase U.S.-made telecommunications equipment for sale to countries subject to embargoes, the affidavit states.

On Friday, ZTE spokesman David Shu said the company had no immediate comment. Yablon could not be reached for comment. A spokeswoman for the FBI office in Dallas and a Justice Department spokesman in Washington both declined to comment.

Late last year, Nokia Siemens Networks, a venture between Nokia and Siemens, said it would gradually reduce its business in Iran, pressured by tightening international sanctions. The venture was a key supplier to Iranian telecoms operators along with Ericsson and China's Huawei.

The FBI probe presents new troubles for ZTE in the United States, where it has been trying to expand its operations. In addition to the Commerce Department probe into its sales to Iran, ZTE is also under investigation by the U.S. House of Representatives' Intelligence Committee over whether its equipment represents a threat to national security.

ZTE - China's second-largest telecoms equipment maker and the world's fourth-largest mobile device maker with 4.2 percent global market share in the first quarter, according to Gartner - is publicly traded, but its largest shareholder is a Chinese state-owned enterprise.

In Hong Kong, ZTE shares closed 1.5 percent higher at HK$12.50. The stock has almost halved so far this year and had fallen in all of the previous six sessions on worries of weak first-half results and concerns over a dispute between China and the European Union over industry subsidies. Its Shenzhen-listed shares fell 2.3 percent.

"Sentiment will be weakened, but I don't see any material impact on ZTE in terms of earnings," said Hong Kong-based Nomura analyst Huang Leping, referring to the FBI probe and speaking before the company's profit warning.

"ZTE may find it harder to break into the U.S. in its technical equipment division, as (the U.S.) becomes more strict and puts more restrictions on technical equipment

due to security concerns."

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