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Special Report: Chinese firm helps Iran spy on citizens

By Steve Stecklow

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(Reuters) - A Chinese telecommunications equipment company has sold Iran's largest telecom firm a powerful surveillance system capable of monitoring landline, mobile and internet communications, interviews and contract documents show.

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Government-controlled TCI has a near monopoly on Iran's landline telephone services and much of Iran's internet traffic is required to flow through its network.

The ZTE-TCI deal, signed in December 2010, illustrates how despite tightening global sanctions, Iran still manages to obtain sophisticated technology, including systems that can be used to crack down on dissidents.

Human rights groups say they have documented numerous cases in which the Iranian government tracked down and arrested critics by monitoring their telephone calls or internet activities. Iran this month set up a Supreme Council of Cyberspace, headed by President Mahmoud Ahmadinejad, who said it would protect "against internet evils," according to Iranian state television.

Mahmoud Tadjallimehr, a former telecommunications project manager in Iran who has worked for major European and Chinese equipment makers, said the ZTE system supplied to TCI was "country-wide" and was "far more capable of monitoring citizens than I have ever seen in other equipment" sold by other companies to Iran. He said its capabilities included being able "to locate users, intercept their voice, text messaging ... emails, chat conversations or web access."

The ZTE-TCI documents also disclose a backdoor way Iran apparently obtains U.S. technology despite a longtime American ban on non-humanitarian sales to Iran - by purchasing them through a Chinese company.

ZTE's 907-page "Packing List," dated July 24, 2011, includes hardware and software products from some of America's best-known tech companies, including Microsoft Corp, Hewlett-Packard Co, Oracle Corp, Cisco Systems

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companies said they had no knowledge of the TCI deal. Several - including HP, Dell, Cisco and Juniper - said in statements they were launching internal investigations after learning about the contract from Reuters.

Li Erjian, a ZTE spokesman in China, said his company only sells “standard” equipment to Iran. “Our main focus for business in Iran is to provide standard communications and network solutions for commercial use to help operators upgrade their network. “We are a small scale telecommunication equipment supplier in the Iran market. We sell standard equipment in Iran as we do globally,” he wrote in an email.

TCI officials in Tehran either didn’t respond to requests for comment or could not be reached.

The United States, Europe and many Arab countries accuse Iran of attempting to develop nuclear weapons, which Iran denies. But Beijing, along with Moscow, has repeatedly vetoed attempts to strengthen sanctions against Tehran. China is Iran’s largest trading partner with business between the countries surpassing \$45 billion last year, up \$16 billion from 2010, according to Iran’s FARS news agency.

ZTE, China’s second largest telecom equipment maker, is publicly traded but its largest shareholder is a Chinese state-owned enterprise. The fast-growing firm, which says it sells equipment to more than 500 carriers in more than 160 countries, reported annual revenue of \$10.6 billion in 2010.

TCI is owned by the Iranian government and a private consortium with reported ties to Iran’s elite special-forces unit, the Islamic Revolutionary Guards Corps.

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Cambridge, Mass.

Last month, European Union diplomats said the bloc's 27 governments had reached an agreement in principle to target telecommunications equipment that can be used by Iranian authorities for monitoring anti-government dissent. But no final decision has been made and there is no target date for implementing such a ban.

Like most countries, including the United States, Iran requires telephone operators to provide law enforcement authorities with access to communications. Some telecoms equipment makers that previously provided Iran with gear capable of intercepting communications have cut back sales.

After Iran's controversial election in June 2009 sparked the country's biggest demonstrations in decades, Ericsson and Nokia Siemens Networks, a joint venture between Nokia and Siemens, said they would reduce their business there. NSN had provided TCI with a monitoring center capable of intercepting and recording voice calls on its landline and mobile network. Ericsson had sold equipment to Iranian telecoms that included built-in interception capabilities.

Even the giant Chinese telecommunications equipment firm Huawei Technologies said it has curtailed new business in Iran. In August 2009, Huawei and British company Creativity Software beat out ZTE to win a contract to supply Iran's second largest mobile phone carrier, MTN Irancell, with a "location-based services" system, according to a press release from Creativity.

Such systems can be used to track phone users' whereabouts. Last December Huawei said that "due to the increasingly complex situation in Iran, Huawei

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“INTERCEPTION SOLUTION”

ZTE’s pursuit of the surveillance market is no secret. Its subsidiary, ZTE Special Equipment Co., or ZTEsec, specializes in security and surveillance systems and often co-sponsors an international trade show called ISS World where companies peddle their wares to governments and law-enforcement agencies. According to the trade show’s website, a ZTEsec official gave a training seminar in Brazil last July on “ZTEsec Deep Insight Solution - Comprehensive and Intelligent Interception Solution.”

The packing list for ZTE’s TCI contract refers to “Equipment Model: ZXMT,” a system the Chinese firm’s marketing documents refer to as an “integrated monitoring system” and a “turnkey solution for lawful interception” that simultaneously monitors telephone networks and the internet.

Reuters asked project manager Tadjallimehr and a former ZTE network engineer who helped to install the ZXMT system in another country to review the ZTE packing list. Both men said that among the items were parts for a surveillance system that can monitor voice, text messaging and internet communications. The former ZTE employee said the system does not use any U.S.-made parts or software. Both men said the ZXMT system utilizes “deep packet inspection,” a powerful and potentially intrusive technology that can read and analyze “packets” of data that travel across the internet. The technology can be used to track internet users, search for and reconstruct email messages that have been broken up into data packets, block certain types of traffic and even deliver altered web pages to users.

Andrew Lewman, executive director of The Tor Project, which distributes software so that dissidents in places like Iran and China can surf the internet

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“They seem to be rolling it out countrywide and they seem to be willing to experiment with blocking more and more traffic,” said Lewman, the project’s executive director.

Tor, which has nearly 50,000 daily users in Iran, repeatedly has had to tweak its circumvention technology to outfox Iranian censors. Lewman said after using deep packet inspection to isolate and block specific traffic like Google’s Gmail, the Iranian government can then record every online request for the service and trace individual users. “They can figure out the households,” he said.

ZTE markets its monitoring system as low-cost and user-friendly. In May 2008, the firm made a presentation to the government-controlled Iran Telecommunication Research Center about its latest networking products, including the “ZTE Lawful Intercept Solution,” according to Privacy International, a London-based non-profit that advocates the right to privacy and obtained a copy of the presentation.

In a 91-page document called “Talking to the future,” ZTE noted that its ZXMT system was applicable to military and national security agencies. Citing “10 Reasons to Select ZXMT,” it said the system offered “High security and good secrecy” and was “Invisible to the targets.”

“A VERY SERIOUS MATTER”

The ZTE parts list includes items apparently not connected with its surveillance system. Among them are the U.S. products, including HP computer parts and printers, Microsoft Windows software, Cisco switches, Dell flat-screen monitors, Oracle database products and Symantec anti-virus

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violate sanctions “if it exports products requiring a license to a third party with the knowledge that its products will end up in Iran.”

In the case of the U.S. products on the ZTE packing list, many - and possibly all - do not require an export license and the companies say they did not know they were being shipped to Iran. Several said their agreements with foreign companies like ZTE stipulate that their products cannot be distributed to embargoed countries.

For example, an HP spokesperson said, “HP’s distribution contract terms prohibit the sale of HP products into Iran ... As a matter of company policy, HP investigates any credible allegations of breaches of these contractual obligations by our partners or resellers and we are actively examining this situation.”

Cisco said, “Products such as these, which are not subject to individual export licenses, can be purchased from distributors and resold without Cisco’s knowledge or control. We continue to investigate this matter, as any violation of U.S. export controls is a very serious matter.”

ZTE’S contract with TCI is also signed by ZTE’s Iranian subsidiary, ZTE Parsian, and another Chinese company - Beijing 8-Star International Co., which the documents state is responsible for providing certain “relevant third-party equipments.” Reuters did not have access to an annex to the contract that identified the third-party products to be supplied by Beijing 8-Star.

A Reuters reporter recently visited the company’s office in eastern Beijing. Two male workers there described Beijing 8-Star as a trading company with business all over the world. The otherwise sparse office contained several

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A man who answered the phone at Beijing 8-Star declined to answer any questions about the Iranian contract or confirm his identity. “This part of my company’s business is a commercial secret,” he said, adding, “I think on this matter, you’d better not ask me. Because it’s my commercial secret, I don’t wish to tell you.”

Additional reporting by Sui-Lee Wee in Beijing and Marcus George in Dubai; editing by Simon Robinson and Sara Ledwith

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