

How a telecom giant got round sanctions on Iran

Internal documents reveal plans explored by South African firm MTN to bypass the U.S. embargo

BY STEVE STECKLOW

LONDON, AUGUST 30, 2012

A South African telecom giant plotted to procure embargoed U.S. technology products for an Iranian subsidiary through outside vendors to circumvent American sanctions on the Islamic Republic, according to internal documents seen by Reuters.

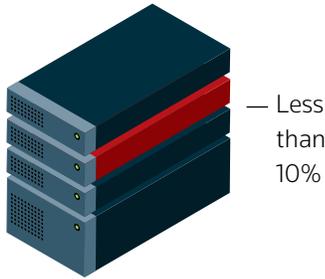
The fresh revelations about MTN Group, buttressed by interviews with people familiar with the procurement, come as the South African multinational faces fights on several fronts over its lucrative but controversial Iranian venture, a fast-growing telecom.

MTN is in talks with the U.S. Treasury in an effort to win permission to repatriate millions of dollars of profit now bottled up in Iran by American sanctions on the Iranian financial system. MTN's chief executive disclosed the talks with U.S. officials this month, saying, "U.S. sanctions should not have unintended consequences for non-U.S. companies." An elite South African police unit is investigating how MTN

CONNECTION CHARGE: MTN provided initial funding and expertise for MTN Irancell, a joint venture with a government-controlled consortium. **REUTERS/MIKE HUTCHINGS**

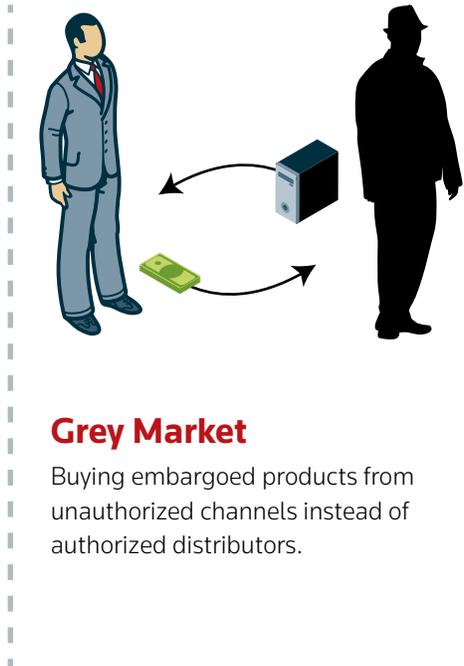
Circumventing sanctions

Three scenarios MTN explored to import embargoed U.S. goods into Iran, according to internal documents



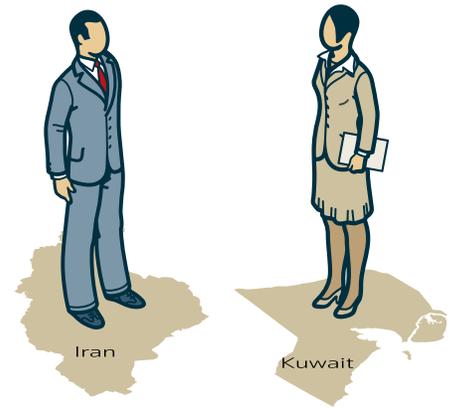
The “de minimis” rule

An exception to sanctions that can allow tech products to be imported legally if less than 10% of the product is of U.S. origin. MTN believed it could apply the rule to a large system, but learned it applied to each individual item.



Grey Market

Buying embargoed products from unauthorized channels instead of authorized distributors.



Outsourcing

Eventually MTN decided to hand over the procurement of many U.S. parts to a Kuwait-based telecom-service provider called Shabakkat, which acquired some items from another company in Dubai.

obtained the Iranian telecom’s licence, following corruption allegations made by a Turkish rival in a U.S. federal lawsuit.

Johannesburg-based MTN Group is Africa’s largest telecom carrier, with operations in more than 20 countries. It owns 49% of MTN Irancell, a joint venture with a consortium controlled by the Iranian government. The South African company provided the initial funding for the venture and oversaw the telecom’s launch in 2006.

Hundreds of pages of internal documents reviewed by Reuters show that MTN employees created presentations for meetings and wrote reports that openly discussed circumventing U.S. sanctions to source American tech equipment for MTN Irancell. The documents also address the potential consequences of getting caught. The sanctions are intended to curb Iran’s nuclear program, which Tehran maintains is peaceful.

The equipment included products from

Sun Microsystems Inc, Oracle Corp, International Business Machines Corp, EMC Corp, Hewlett Packard Co and Cisco Systems Inc, and was used to provide such services as wiretapping, voice mail and text messaging, the documents show.

In a statement, MTN denied any wrongdoing. The U.S. companies have said they were not aware MTN Irancell had acquired their products, and several are investigating the matter. U.S. Treasury officials

declined to comment.

Reuters first reported in June that MTN Irancell had procured U.S. equipment through a network of tech companies in Iran and the Middle East. The article quoted Chris Kilowan, MTN’s top executive in Iran from 2004 to 2007, saying that the South African company was directly involved in obtaining U.S. parts for the Iranian telecom.

The new documents provide a much deeper understanding of the extent of MTN’s procurement of embargoed U.S. goods, exposing new links in the supply chain of products worth millions of dollars. They also give a rare inside look at the thinking of a multinational doing business in Iran and the difficult choices involved. The documents show that MTN was well aware of the U.S. sanctions, wrestled with how to deal with them and ultimately decided to circumvent them by relying on Middle Eastern firms inside and outside Iran.

49%

Proportion of Irancell owned by MTN, which is now trying to repatriate cash from Iran

Source: MTN Irancell



UNDER SCRUTINY: Standard Chartered bank has agreed to pay \$340 million for dealings with Iran and faces further inquiries; the Chinese company ZTE is being investigated by the FBI over Iran. **REUTERS/BOBBY YIP/ TYRONE SIU**

MTN was not alone. In recent months, new evidence has emerged that other foreign companies, including Britain's Standard Chartered bank and China's ZTE Corp, have helped Iran undermine increasingly tougher sanctions. The bank, which agreed to pay \$340 million to New York's bank regulator to settle allegations it hid transactions with Iran, still faces a separate U.S. probe. ZTE is the subject of investigations by the Federal Bureau of Investigation and the Commerce Department after Reuters reported it had supplied U.S. equipment to Iran's largest telecom.

The new MTN documents appear to detail an intentional effort to evade sanctions. For example, a January 2006 PowerPoint presentation prepared for the project steering committee – comprised of then top-level MTN executives – includes a slide titled “Measures adopted to comply with/bypass US embargoes.” It discussed how the company had decided to outsource Irancell's data centre after receiving legal advice.

“In the absence of applicable U.S. consents, it is a less risky route to MTN for Irancell to outsource data centre than it is to purchase restricted products,” the PowerPoint slide says.

The documents also include a lengthy spreadsheet of “3rd Party” equipment dated June 2006 that lists hundreds of U.S. com-

“In the absence of applicable U.S. consents, it is a less risky route to MTN for Irancell to outsource data centre than it is to purchase restricted products.

PowerPoint slide from an internal MTN presentation in 2006

ponents – including servers, routers, storage devices and software – required for a variety of systems.

A delivery schedule also dated June 2006 lists U.S. equipment needed for “value-added services,” including voice mail and a wiretapping system. The schedule states that the equipment would be “Ready to Ship Dubai” that July and August. It estimates it would take two weeks to arrive in the southern Iranian port of Bandar Abbas by “Air or Sea/Road,” and then up to 30 days to clear Iranian customs.

According to a person familiar with the matter, the equipment ultimately arrived by boat. “It all showed up,” this person said.

Reuters reported in June that a Kuwait-based telecom-service provider called Shabakkat was used to procure some U.S. equipment for MTN Irancell. Shabakkat's former country manager in Iran said the products were purchased from a local Iranian company.

But the person familiar with the matter said Shabakkat also sourced U.S. products from a distributor in Dubai called Exit40. The distributor no longer operates.

A Shabakkat executive in Kuwait did not respond to requests for comment. Two former top executives of Exit40 could not be reached for comment.

The documents suggest procuring the U.S. parts often wasn't easy, and the process was plagued by delays. For example, a “High Level Weekly Report” in November 2006 discusses problems sourcing Sun hardware.

“Urgent decision required to source SUN machines through local supplier,” it states. A note in red at the bottom of another PowerPoint slide says: “According to Shabakkat, all SUN HW is at Dubai waiting for Payment.” HW stands for hardware.

The following month, a spreadsheet detailing “Outstanding issues” cites delays in deploying a system called USSD that enables interactive services. “The USSD platform is completely built on SUN hardware – hence until the SUN hardware is delivered by Shabakkat USSD implementation will be delayed,” the spreadsheet says.

Paul Norman, MTN Group's chief human resources and corporate affairs officer, said in a statement to Reuters: “MTN denies that it has ever conspired with suppliers to evade applicable U.S. sanctions on



Iran or had a policy to do so. MTN works with reputable international suppliers. Our equipment is purchased from turnkey vendors and all our vendors are required to comply with U.S. and E.U. sanctions. We have checked vendor compliance procedures and continue to monitor them and we are confident they are robust.”

The Hawks, a South African police unit, is investigating MTN over allegations contained in a federal lawsuit filed in Washington in March by Turkcell, an Istanbul-based rival. The suit alleges that MTN stole the Iranian telecom licence from Turkcell in November 2005 by paying bribes. MTN denies the allegations and has attacked the credibility of former MTN executive Kilowan, who is Turkcell’s key witness in the case. The procurement of banned U.S. products is not a subject of the lawsuit.

According to the internal procurement documents, right from the start MTN was well aware of what it termed “embargo issues” and the inherent risks involved.

A December 2005 PowerPoint presentation marked confidential and emblazoned with MTN’s logo noted that the “Consequences of non compliance” included “Civil and criminal consequences.” The PowerPoint slide added that the U.S. government could blacklist MTN, “which could result in all MTN operations being precluded from sourcing products/services from U.S. based companies in future.”

According to a person familiar with the

matter, MTN was determined that MTN Irancell procure substantial amounts of U.S. equipment: The U.S. products had performed well in its other networks, and the company’s technicians were familiar with them. But MTN soon learned that its major contractors on the project – particularly Nokia – wouldn’t provide the equipment because of the U.S. embargo.

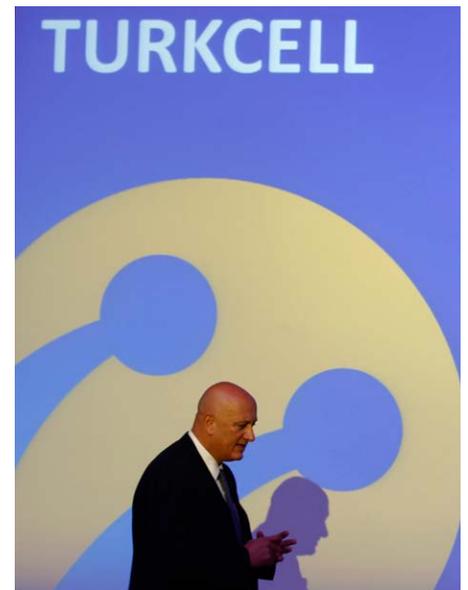
So MTN executives began to explore ways to procure the parts without violating sanctions, the documents show. The company initially explored an exception to the sanctions known as the “de minimis” rule. Under it, tech products can sometimes be legally exported to Iran from a foreign country if the aggregate value of the U.S. parts or technology inside is less than 10%.

According to the person familiar with the matter, MTN believed that if U.S. components comprised less than 10% of a large system, its major contractors could legally procure them. But the company learned that the rule applies to each component, not to an overall system.

“Once they figured it out, they realized the vendors wouldn’t accept that,” this person said. “Now they had a problem.”

According to a weekly report from December 2005, MTN also explored another alternative - obtaining U.S. parts from the so-called “grey market,” or unauthorized distribution channels. The report suggests “obtaining go ahead to procure US embargoed products ... from grey market notwithstand-

ON THE SHOPPING LIST: Products from Hewlett Packard, IBM and Sun Microsystems were among items MTN wanted for its Iranian project. Turkcell, a rival to MTN based in Istanbul, alleges MTN won the licence for Irancell unfairly
REUTERS/DENIS BALIBOUSE/RICK WILKING/ ROBERT GALBRAITH/ MURAD SEZER



ing the adverse consequences to MTN.”

The person familiar with the situation said MTN was under tremendous pressure to launch the Iranian mobile operator as quickly as possible, because it had told shareholders it projected having one million subscribers by the end of 2006. The operator finally launched in October, after months of delays, and is now Iran’s second-

largest wireless carrier by subscribers.

The procurement problems are referenced in numerous internal MTN and MTN Irancell documents. A June 2006 status report discussed delays in the delivery of essential components for value-added services, or VAS.

“The primary challenge in the establishment of the VAS solution is simply that the hardware platforms required are of US origin and therefore fall foul of the US embargo on exports to Iran,” the report says. “This means that innovative mechanisms need to be applied to secure delivery of the hardware platforms.” Another progress report makes reference to an “Order placed last week with Turkey and Iran to circumvent embargo issues.”

Reuters reported in June that some of the U.S. equipment - including at least a half-dozen Sun servers - was sourced local-

ly through Iranian companies. But according to the person familiar with the matter, many other U.S. components were acquired via Dubai by Shabakkat, which was paid about \$30 million to \$40 million to acquire them - about twice their value.

“You had a buyer who was desperate,” the person said, referring to MTN. “They didn’t have any other options.”

Mahmoud Tadjallimehr became a project manager for Nokia on the MTN Irancell project in November 2006. In an interview, he said it was known within the mobile operator that Shabakkat was sourcing U.S. equipment for the project, and he dealt directly with the firm. But he said that one day in discussing a delivery problem, a Shabakkat manager told him, “The issue was not with Shabakkat but with Exit40.” He also said “someone told me that we should never use this name (Exit40) in any

kind of emails or conversations.”

According to archive.org, which archives websites, Exit40’s site in 2006 described the firm as a privately held, “leading independent wholesale distributor of IT products” that was headquartered in Switzerland, with offices in Dubai, Florida, Switzerland and India. The site also included this boast: “Exit40’s procurement executives source hard to find or locally constrained products for customers.”

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SALESPOINT: MTN is Africa’s largest telecom company. REUTERS/ROGAN WARD