

ENFORCEMENT INFORMATION FOR MARCH 7, 2017

Information concerning the civil penalties process can be found in the Office of Foreign Assets Control (OFAC) regulations governing each sanctions program; the Reporting, Procedures, and Penalties Regulations, 31 C.F.R. part 501; and the Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, app. A. These references, as well as recent final civil penalties and enforcement information, can be found on OFAC's website at www.treasury.gov/ofac/enforcement.

ENTITIES – 31 CFR 501.805(d)(1)(i)

Zhongxing Telecommunications Equipment Corporation Settles Potential Civil Liability for Apparent Violations of the Iranian Transactions and Sanctions Regulations: Zhongxing Telecommunications Equipment Corporation, a telecommunications corporation established in the People's Republic of China, and its subsidiaries and affiliates, as well as ZTE Kangxun Telecommunications Ltd. and its subsidiaries and affiliates (collectively referred to hereafter as "ZTE"), have agreed to settle their potential civil liability for 251 apparent violations of the Iranian Transactions and Sanctions Regulations, 31 C.F.R. part 560 (ITSR),¹ in the amount of \$100,871,266.

ZTE's settlement with OFAC is concurrent with a settlement agreement between ZTE and the Department of Commerce's Bureau of Industry and Security, and ZTE's plea agreement (pending court approval) with the Department of Justice's National Security Division and U.S. Attorney's Office for the Northern District of Texas.

From on or about January 2010 to on or about March 2016, ZTE engaged in: (i) the exportation, sale, or supply, directly or indirectly, from the United States of goods to Iran or the Government of Iran; (ii) the reexportation of controlled U.S.-origin goods subject to the Export Administration Regulations from a third-country with knowledge that the goods were intended specifically for Iran or the Government of Iran; and (iii) activity that evaded or avoided, attempted and/or conspired to violate, and/or caused violations of the prohibitions set forth in the ITSR. Specifically, ZTE appears to have engaged in 251 transactions in apparent violation of §§ 560.203, 560.204, and/or 560.205 of the ITSR. The total value of the transactions constituting the apparent violations was \$39,622,972.

OFAC determined that ZTE did not voluntarily self-disclose the apparent violations to OFAC and that the apparent violations constitute an egregious case. Both the base civil monetary penalty and statutory maximum civil monetary penalty amounts for the apparent violations was \$106,180,280.

¹ On October 22, 2012, OFAC changed the heading of 31 C.F.R. part 560 from the Iranian Transactions Regulations to the ITSR, amended the renamed regulations, and reissued them in their entirety. *See* 77 Fed. Reg. 64,664 (Oct. 22, 2012). For the sake of clarity, all references herein to the ITSR shall mean the regulations in 31 C.F.R. part 560 in effect at the time of the activity.

From on or about January 2010 to March 2016, ZTE's highest-level management developed, approved, and implemented a company-wide plan that utilized third-party companies to conceal and facilitate ZTE's illegal business with Iran. ZTE's highest-level management was specifically aware of and considered the legal risks of engaging in such activities prior to signing contracts with Iranian customers and supplying U.S.-origin goods to Iran. Essential to the performance of such contracts was ZTE's procurement of and delivery to Iran of U.S.-origin goods, including goods controlled for anti-terrorism, national security, regional stability, and encryption item purposes. Pursuant to its contracts with Iranian customers, ZTE was required to and did in fact enhance the law enforcement surveillance capabilities and features of Iran's telecommunications facilities and infrastructure.

ZTE's unlawful business activities with Iran were publicly disclosed in a media report in 2012. Shortly thereafter, ZTE learned of the U.S. government's investigation into the company's business activities with Iran. ZTE subsequently communicated to the U.S. government that it had wound down and ceased its Iran-related activities. However, ZTE's highest-level leadership decided to surreptitiously resume its Iran-related business in 2013, which it continued until 2016, when the Department of Commerce suspended the company's export privileges by adding it to the Entity List. Under the direction of its leadership, ZTE deleted evidence and provided the U.S. government with altered information to hide the fact that it had resumed its unlawful business with Iran.

For more information regarding the conduct that led to the apparent violations, [please see the Settlement Agreement between OFAC and ZTE here.](#)

This settlement reflects OFAC's consideration of the following facts and circumstances, pursuant to the General Factors under OFAC's Enforcement Guidelines.

The General Factors that OFAC considered to be aggravating included the following:

- ZTE willfully and recklessly demonstrated disregard for U.S. sanctions requirements in engaging in the egregious behavior that led to the apparent violations of U.S. economic sanctions laws. Various executives and senior executives knew or had reason to know of the conduct that led to the apparent violations and engaged in a long-term pattern of conduct designed to hide and purposefully obfuscate its conduct in order to mislead U.S. government investigators for several years. ZTE's conduct was the result of a widespread pattern or practice involving the coordination of many divisions and departments within the company.
- ZTE had actual knowledge that the conduct giving rise to the apparent violations took place. The conduct was undertaken pursuant to directives and business processes that were illegitimate in nature and specifically designed and implemented to facilitate the violative behavior. ZTE had actual notice from multiple sources that both its initial business with Iran and its later resumption of business with Iran constituted or likely constituted a violation of U.S. economic sanctions laws, including, with respect to the later resumption of business with Iran, being the subject of a federal investigation at the time it decided to resume such activities, transactions, and its practices. ZTE's

management played a key role in authorizing and carrying out the transactions at issue, and ZTE's senior leadership and management appear to have been involved with and possessed actual knowledge of the company's violative patterns and practices.

- ZTE caused significant harm to the integrity of the ITSR and its associated policy objectives by engaging in the supply of a high volume and high value of U.S.-origin goods to Iran and the Government of Iran for several years, including items subject to the Commerce Control List for anti-terrorism, national security, regional stability, and encryption item reasons. ZTE systematically undermined the integrity of the sanctions program objectives, and conferred significant economic benefits to Iran and/or the Government of Iran.
- ZTE is a sophisticated and experienced telecommunications company that has global operations and routinely deals in goods, services, and technology subject to U.S. laws.
- From at least January 2010 to March 2016, ZTE's compliance program was either non-existent or unenforced.

The General Factors that OFAC considered to be mitigating included the following:

- ZTE has not received a penalty notice or Finding of Violation from OFAC in the five years preceding the earliest transaction giving rise to the apparent violations.
- ZTE cooperated with OFAC's investigation by executing three tolling agreements with OFAC for a total of 803 days. Beginning after March 2016, ZTE cooperated with OFAC's investigation by responding to requests for information, making witnesses available for interviews, providing data analytics regarding apparent violations, and submitting documentation associated with apparent violations of U.S. economic sanctions and export control laws committed by the company. ZTE took certain remedial steps in the final stages of the investigation in 2016 and 2017, including implementing an economic sanctions and export controls compliance program

For more information regarding OFAC regulations, please go to: www.treasury.gov/ofac.