

Turkish Banks Under Fire at Home and Under Scrutiny in U.S. Courts

Introductory remarks by Amb. Eric Edelman

Featuring Aykan Erdemir, Adam Klasfeld, and Jodi Vittori

Moderated by Jonathan Schanzer

EDELMAN: Thank you for joining us for today's event from the Foundation for Defense of Democracies. I'm Ambassador Eric Edelman, Senior Advisor at FDD. FDD is a research institute exclusively focused on national security and foreign policy. We are non-partisan and accept no funds from foreign governments.

Today's event takes a close look at Turkish banks and lenders under scrutiny—both at home and in U.S. courts—for illicit or problematic dealings. Turkey's largest public lender Ziraat Bank is under fire by Turkey's opposition for potentially problematic dealings with offshore companies. These transactions are linked to communications giant Turkcell and the country's sovereign wealth fund. My FDD colleague and frequent co-author Aykan Erdemir recently authored a new memo that highlights this case, noting it is part of a larger effort by Turkish President Recep Tayyip Erdogan to gain a stranglehold on the country's most valued assets.

This case and others against state owned Turkish banks come in the wake of the better known Halkbank case the largest effort of which we know to circumvent U.S. sanctions on Iran. In 2018, Halkbank's deputy CEO Mehmet Hakan Atilla was convicted in a Southern District of New York court and sentenced to 32 months prison for his participation in a scheme to violate U.S. economic sanctions. Upon returning to Turkey, Atilla, like other Turkish officials who were complicit in these sanctions evasion schemes, not only enjoyed impunity, but was rewarded by Erdogan, who appointed him as CEO of Istanbul's stock exchange.

The Atilla case was linked to a wider Halkbank investigation. According to the U.S. Department of Justice, Turkey used Halkbank and other institutions in Turkey to move more than \$20 billion on behalf of Iran— at the height of the U.S. effort to curb Tehran's illicit nuclear program with sanctions. The case against the bank itself is scheduled to resume in May – with significant ramifications for Turkey if the bank is found guilty.

Today's event will provide more context and detail about these cases, as well as highlight the implications for U.S. national security and ensuring those complicit in sanctions evasion are held accountable. The conversation is hosted by FDD's Turkey Program, of which I'm honored to serve as chair, and FDD's Center on Economic and Financial Power.

We'll hear from three of the experts who closely monitor Turkey's financial dealings. I encourage you to read their biographies on the event website, but here is a quick introduction: My colleague Aykan Erdemir is senior director of FDD's Turkey program and a former member of the Turkish Parliament. Adam Klasfeld is Law&Crime's senior investigative reporter and editor. He has spent more than a decade on the legal beat and is responsible for some of the very best coverage of these cases. Jodi Vittori is a nonresident scholar at the Carnegie Endowment for International Peace. She is an expert on the linkages of corruption, state fragility, illicit finance, and U.S. national security.

For more information on FDD's body of work, I encourage you to visit the website [FDD.org](https://www.fdd.org), and to follow FDD's commentary on Twitter @FDD. I am now pleased to turn the floor over to today's moderator and my colleague and friend Jonathan Schanzer, Senior Vice President for Research at FDD. Jon previously served as a terrorism finance analyst at the Treasury Department and was part of the FDD team that covered the "gas-for-gold" scheme in Turkey's banks, and was asked to serve as expert witnesses for the prosecution in the Southern District Halkbank trial against Atilla. Jon, over to you.

SCHANZER: Thank you, Eric, and thank you for your leadership in FDD's Turkey Program. I want to thank all of you today for joining us for this special discussion. I'm Jonathan Schanzer, Senior Vice President for Research at the Foundation for Defense of Democracies. You've heard Eric start us off with some excellent context for today's discussion. So, without further ado, I'm going to jump right in and start asking questions of our panelists.

Aykan Erdemir, let me start with you. You have a new report out today about Ziraat Bank and some of the curious transactions that are being discussed right now back in Turkey. You've noted that they could have some serious ramifications for Turkey, some of these questionable transactions. Can you explain a little bit about what is happening right now, what you're tracking, and what it all means for Turkey's banking sector?

ERDEMIR: Sure. Turkey has been home to multiple questionable deals concerning public lenders, but this one is even bigger with those standards. So since early January, we have seen a scandal unfolding that involves Turkey's largest public lender, Ziraat Bank, Turkey's Sovereign Wealth Fund, as well as the country's largest telecommunications giant, Turkcell. And the scandal involves a \$1.6 billion non-performing loan issued by Ziraat to a British Virgin Island-based offshore company, as well as conflicts of interest among all these three institutions. And ultimately, what this entails is Turkey's Sovereign Wealth Fund injected a \$3 billion into Turkey's public lenders in money it didn't have and it only was able to attain after selling those very same public lenders debt securities. And then this cash injection helped Ziraat Bank's \$1.6 billion non-performing loan disappear so that the Erdoğan government could control majority seats on Turkcell's board of directors.

And what makes these chains of transactions really bizarre is that one individual, who happens to be Ziraat's CEO, also sits on both Turkcell as well as Turkey Wealth Fund's boards. So, both the lender and the borrower happened to be the same person, and this is, in terms of corporate governance, in terms of multiple conflicts of interest, really a textbook case of how not to run public lenders, how not to run sovereign wealth funds, how not to run publicly traded corporations. And ultimately, the gist of the story is that through these complex questionable deals, Erdoğan has come to take control of Turkey's largest telecommunications company, which will give him further power to control media, communications, as well as digital data flow in Turkey.

SCHANZER: And as you note in the report, Erdoğan has really spent the last 10 years consolidating power by acquiring the assets of the secular opposition, as well as other competitors in the political realm. And the more power he gains, the harder, of course, it will be to dislodge him, and that, of course, is grave cause for concern. But let me ask you as a follow-up. You and I have seen Ziraat pop up in the headlines here in the United States. In other words, this is a bank that is no stranger to controversy. It was kind of an odd story back then, but perhaps just inform our readers why Ziraat was on the radar of American banks and the American judicial system.

ERDEMIR: Now, Ziraat first came to the attention of U.S. Federal Reserve at the height of Iran's attempts to evade U.S. sanctions. In 2014, there was a deal between the Federal Reserve and Ziraat for the Turkish public lender to provide within 60 days a written audit concerning anti-money-laundering measures, as well as customer-due-diligence measures. And back then, there were reports in Turkish media that Ziraat's New York branch, the only branch in the U.S., was being probed for certain dollar-clearing transactions. And again, as a reminder, this was the height of Tehran's sanctions-evasion activity through Turkey.

And then during the 2017 Southern District of New York case against the deputy CEO of Halkbank, Mehmet Hakan Atilla, state's witness and Iranian Turkish ringleader, Reza Zarrab, said that he heard from Turkey's then economy minister that Ziraat Bank was one of the two banks, alongside Halkbank, that Erdoğan designated to move Iranian funds. And Ziraat back then denied this claim, but just weeks after the November 2017 testimony of Reza Zarrab, we see Ziraat exiting U.S., shuttering its New York branch, and basically ending the bank's subjection to U.S. jurisdiction.

And then came the Venezuela chapter because Turkey, it has been a major jurisdiction the Maduro regime used to evade U.S. sanctions. And Ziraat was again, according to *Bloomberg*, the bank the Maduro regime used for its

international transactions. And only when U.S. Treasury sanctioned Maduro's Turkey-based sanctions-evasion and corruption network, Ziraat, fearing U.S. sanctions, ended its relationship with the Venezuelan Central Bank. And this was, again, widely reported in the media. So, Ziraat is no different than other Turkish public lenders, which frequently come into the crosshairs of U.S. regulators and courts, and I think this trend will continue.

SCHANZER: All right. Thank you, Aykan. Jodi, let me turn to you. We just heard a little bit about a Southern District case that we'll turn to shortly with Adam, but there was another recent case at the Southern District that involves Halkbank, another public lender. And it was a very curious case, I think, for those watching. You want to just maybe explain what happened here and why many would claim that this was a miscarriage of justice here in the United States.

VITTORI: Certainly. Thank you so much for having me here today. There are two simultaneous cases going on with Halkbank, and I know Adam's going to explain most of it. But one is, just briefly, this indictment brought by the Southern District of New York against a majority state-owned bank in 2019 called Halkbank by then U.S. Attorney Geoffrey Berman on six counts. On conspiracy to defraud the U.S., conspiracy to violate the International Economic Power Act, bank fraud, money laundering, and so forth. That case is continuing.

But the other that came out on the 16th of February, so a little over a week ago, U.S. District Judge Denise Cote agreed to dismiss a case against Halkbank put out by 876 plaintiffs who had sued as victims or related to victims of a "overseas terrorist attack committed by Iran." Halkbank had requested that this case be dismissed to be handled by a Turkish court, and Judge Cote agreed to do that. As part of the agreement, Halkbank has agreed to be tried in those Turkish courts and to waive any statute of limitations.

And this was, frankly, a shocking decision by the judge. It's very hard to see how these plaintiffs are going to get a fair trial in Turkey, and let me give you a little bit of history of why that's the case and kind of the broader context of why that's the case. One is just the lack of judicial independence that we see in Turkey itself. In December 2020, Transparency International Report noted that Turkey is considered a criminally captured state due to high levels of impunity for senior leaders in the government and tailor-made laws that enable corrupt leaders and their cronies to remain in power and tilt the system in their favor by excessive means.

Likewise, in 2020, the World Justice Project ranked Turkey 107 out of 128 countries that it ranked overall for the quality or lack thereof of its justice and rule of law program. It was actually ranked 14th out of 14 countries in Eastern and Central Europe. And so, it ranks down there with countries like Uzbekistan and Russia on the quality and independence of its judiciary and its rule of law. As a matter of fact, constraints on government powers, it was ranked 124th out of 128. So just in that regard, it would have been highly problematic that the plaintiffs would have had a fair trial for the hearing of their case in Turkey itself.

But it gets much worse as we go down to the history of Halkbank itself because this case so goes to the center of Erdoğan and his family and the key elites that actually run Turkey that makes this even more of a question in Turkey itself. And this case starts to break in 2012, 2013 through 2014, where an entire cargo plane full of gold bars ends up landing at the wrong airport due to fog. We assume the appropriate airport would have had the appropriate customs officials ready to go, but because of the airport they land at, large plane full of gold bars shows up. Police get involved. Investigators get involved.

Eventually, it becomes this case where 50 individuals at the highest ranks of the government and their relatives are arrested, including the sons of three key cabinet members at the time. In the process, there are recordings that are

leaked of now President Erdoğan and his son Bilal discussing that they need to empty the safe of cash, and Bilal needs to go to another country to launder the funds that are assumed to be associated with these 50 arrests and the gold bars and everything else that comes out at the time.

And this is right after the Gezi Park protest in Turkey. It's a very shaky time for the Erdoğan regime. There are a lot of calls for his resignation and such at the time. Somehow, he managed to overcome it. He sacks the investigators, throws some of the individuals in prison, transfers others, and so forth. This is really where he takes control of the judiciary on behalf of himself and his cronies. Many of the last vestiges of an independent investigation by police, the last vestiges of rule of law really disappear.

And so, we've got this Halkbank case that was one of the key banks, as just noted by Aykan, involved in this larger scandal of Iranian sanctions and other criminal activity involved besides just Iranian sanctions that go up according to these phone leaks to Erdoğan, to his son, to senior ministers, his son-in-law, all sorts of characters involved. So, in theory, a judicial system in a criminally captured state is supposed to give a fair trial to plaintiffs involved in – The Erdoğan family itself, essentially, is what it would be prosecuting in this case. So how they're going to get a fair trial out of this is just incredibly hard to see, and it's very hard to understand why this was allowed to be moved to Turkey.

SCHANZER: Yeah, I have to say, it was certainly a head-scratcher in the idea that you'd see a fair trial. Based on everything that you've just described, I think, very accurately about the environment there and the lack of independence of the judiciary, I think, is real cause for concern. And by the way, just we should note that Aykan Erdemir, FDD's Senior Director for Turkey Program, has been subject to some of these measures taken by the Erdoğan government. I don't know, Aykan, if you want to speak for just a second about your own personal experiences in the lack of judicial review.

ERDEMIR: So, for those of you who might assume that there could be some opportunity to hold Halkbank accountable in Turkey, I think you should take a look at what the Erdoğan government has done to individuals based in the U.S., including me. So, in my case, because of my writing and talks on the Halkbank case, all my assets in Turkey have been confiscated. But in addition to me, actually, actually the prosecutors and the judge involved in the Halkbank case in New York have been criminalized and smeared as terrorists – again by the Turkish media, Turkey's pro-government media.

And two expert witnesses tapped in by the Southern District one is Jon Schanzer, and the other one is Mark Dubowitz, FDD's CEO. We have seen that they have also been criminalized. So, this is a government that goes out of its way to criminalize even individuals, prosecutors, judges, expert witnesses, and analysts based in the U.S. to basically bury the case. You can imagine what they would be willing to do back at home in Turkey to cover up the case. So, for the victims of Iranian terrorism, any chance of getting justice in a Turkish court concerning the Halkbank case, I think that would be miraculous at best.

SCHANZER: Okay. Well, Adam, let me turn to you and your very professional-looking microphone. So, you've done a lot of work on the Halkbank case. You followed it for years now out of the Southern District. Not long ago, we watched a courtroom drama involving the number two at Halkbank on trial for sanctions evasion. We've heard little snippets about it so far from Jodi and from Aykan, but maybe just in a minute or two, explain what happened here and why this case is so important and why it's so explosive.

KLASFELD: Right. Well, part of it has to do with exactly what Jodi was talking about. It's a kind of reckoning over the 2013 corruption scandal in Turkey that as soon as Reza Zarrab was arrested in Florida, reportedly on route to Disney

World, but it's a little more complicated than that, he was also going to scuba dive, but you have this person, Reza Zarrab, who's kind of – He's described as the Turkish Gatsby kind of swashbuckling gold trader and the guy who spearheaded a multi-billion dollar money laundering scheme. So as a story, just speaking as a journalist, this gold trader who is funneling billions of dollars in Iranian laundered loot, that was a large story in its own right, but in covering the case, it became clear because of that 2013 corruption scandal and the censorship of that case, it was a reckoning over that corruption scandal, and it was important to millions of Turks who'd followed this case closely when it came to a head with the trial of Hakan Atilla back in late 2017.

A lot of my coverage of the case, at the time, I was working for *Courthouse News*, and I was also live tweeting the case on Twitter. In 2014, there was a major decision in Turkey's highest court, the Constitutional Court, that Erdoğan essentially wanted to ban Twitter and maintain tight control of information that way. That effort failed, and it became kind of this free forum for information, or relatively free. So, it became through that case a kind of reckoning over this five-year old smothered corruption scandal, and it has continued ever since.

Now, on the flip side of that, there's what's happening on the U.S. side of the equation. This case started with the Obama administration. It moved on to the Trump administration, and it is now going to the Biden administration. On top of trying to control coverage of the case, the Turkish government has also tried to exert political pressure to make it go away. So, it has become a very important case for both freedom of information and judicial independence. The fact that the case survived, the fact that Reza Zarrab turned state witness, Hakan Atilla was tried and convicted, and despite reported efforts by former President Trump to kill the case, the failure of those efforts became a kind of testament to the lasting independence of the U.S. judiciary. That is continuing. There were several reports of this pressure from the White House to try to kill the case and that the Southern District of New York resisted that. That's why there still remains an upcoming criminal trial against Halkbank, and it will continue.

SCHANZER: All right. Well, we'll talk about what's coming up shortly, but just suffice it to say that that Halkbank case involving Atilla and what was revealed was rather remarkable. It was the largest sanctions of evasion scheme in modern history, according to the FBI and DOJ officials that were involved in the investigation at the time, really remarkable, \$20 billion at the height of the Iranian effort to circumvent sanctions, and here are the Turks, helping them.

So, I think that that was remarkable in and of itself, and, of course, then what we saw during the Trump era, where we actually saw the intervention of the president's personal lawyer, Rudy Giuliani, former mayor of New York, trying to intervene on behalf of the Turks as well, which was extremely curious, to put it mildly. There's a lot more that I think we could say about it, but maybe we'll leave that for another discussion for another time.

But Aykan, let me just get back to you, because I do want to look at the kind of environment that Turkey has created for those that were involved in this kind of activity, that were involved in the gas for gold scheme. So, we talked about Mehmet Hakan Atilla, the number two of Halkbank. He was arrested and tried in the United States. He was sentenced to 32 months in jail, and he's released. He goes back to Turkey as a criminal who was prosecuted here in the United States. What happens to him when he goes home?

AYKAN: That's really a very interesting part of the story, because you would expect someone who is convicted for sanctions evasion, for money laundering, for fraud, for conspiracy to be a toxic character in the finance world, especially in the international finance world. So, after serving 28 months of his 32-month sentence, in July 2019, Atilla landed in Istanbul. Who greets him? Erdoğan's son-in-law and Turkey's then Minister of Economy and Treasury, Berat Albayrak. He

gives him a warm welcome, but the warm welcome is not simply the hug, but shortly after, on October 21st in 2019, we see Albayrak appointing Atilla as the CEO of Istanbul's stock exchange, namely Borsa Istanbul.

This sent, immediately, shockwaves in the finance world, and it took the European Bank for Reconstruction and Development only nine days to announce that they were going to sell their 10% share in Istanbul's stock exchange. Although they did not explicate why, everyone knows. They didn't want to be the only major international partner in a business, in a stock exchange, that has, as CEO, a convicted sanctions buster, money launderer, someone who was involved in fraud.

This is not the exception, actually. Atilla is the rule of how Erdoğan rewards all of Iran's sanctions evaders in Turkey. Turkey's EU minister, who did receive bribes and facilitated Iran's sanctions evasion, Egeman Bağış, just one month before Atilla became the CEO of Istanbul's stock exchange, was rewarded with a cushy appointment as Turkey's Ambassador to Prague. So, he still represents Turkey in the Czech Republic as Turkish Ambassador, his first ever-ambassadorial appointment, and everyone knows that is just to reward him.

In case you're wondering, Turkey's former Economy Minister, Zafer Caglayan, who, according to Zarrab and his detailed Excel files, received over \$50 million in bribes, including in euros, dollars, Turkish liras, expensive Swiss watches, pianos. He had a long list of bribes that he received, and what happened to him? He was politically rehabilitated. He became an AKP Party delegate in March 2018. Basically, Erdoğan put a medal on every single senior figure who was involved. To this day, not a single AKP official, not a single Erdoğan crony has been tried and convicted for his role in the biggest corruption probe and in the biggest sanctions evasion scheme that Turkey has ever witnessed.

SCHANZER: Okay. So that is great context. Jodi, let me just circle back to you. So, we were speaking earlier about this very strange court case, where victims of Iran-backed terrorist groups were trying to sue for damages against Ziraat in the Southern District. All of a sudden, they are rebuffed. They are told that they have to go to Turkey if they want to pursue this court case. Now we hear about what happens to the financial institutions and individuals that have been closely associated with the Erdoğan government in Iran, and we see how they benefited from this. So, how do you understand what happened in the Southern District? I mean, how are we to interpret that ruling, and what sort of message are we sending to others that may look for justice against this current regime in Turkey? I mean, what are the messages here that we take away from this?

VITTORI: Like I said, the court case is a very strange one as to why the judge would enable this to go to Turkey, and it's unclear why she made that decision. The fact of what happened to Atilla is unusual if we were dealing with a state that was a relatively functioning democracy and embedded in the rule of law. But for a criminally captured state, it's really not that unusual. Keeping those key patronage networks, the crony networks in power are going to be increasingly important for Erdoğan as he goes forward. As he gets less and less popular, he's going to have to keep those key elites on his side.

So, that part, unfortunately, what happened with Atilla and the financial ramifications for the larger Turkish populace with how shaky the markets became is not unusual, and it's going to be interesting to see how Erdoğan responds to that, because there's a lot of international pressures on this oil for gold scheme, beyond what Erdoğan has any control of, frankly, going on in the world as we speak. One of those is what's going on with the gold side of the oil for gold deal, and that's what happens in Dubai, where a lot of this gold went through. Last summer, The Economist came out and said that Dubai is probably the biggest hole in the international anti-money laundering regime. Gold was a very big part of it. The role of Dubai in gold probably has not gotten enough attention in this situation. I did some back of the

envelope estimates, and it could be that as much as half to two-thirds of the gold during some of these years and time periods that was coming into Dubai was coming just from this sanctions-busting network.

So, because Dubai has been the major area for conflict gold to be able to hit the international system, where places like Miami and Switzerland and such have pardoned their systems to that to some extent, Dubai was threatened with not being allowed to sell gold in the international gold markets anymore if they didn't clean up their act. That happened in December, so just a couple months ago. So that may limit what Erdoğan can do as he looks for new dealers for his oil for gold. We're assuming, based on how he operated when the U.S. Fed came to him and said, "Hey, you've got this Iranian sanctions-busting thing," and he doubled down and then they've kept doubling down again, how he's going to double down again in the future where some of his main facilitators aren't going to be as available to them anymore.

Turkey's in the pressure for other things, of course, the lack of rule of law, the human rights record, their role in Syria right now, their role in the Armenia-Azerbaijan war, their role in Libya, and most importantly, the S-400 sales from Russia. Turkey is an important NATO ally. It was placed in NATO originally as a bastion against what was in the Soviet Union, now with Russia, and that S-400 sale, the strategic missile system or missile defense system, really puts at a loss of where does NATO go from here with Turkey in it? It's going to be a very tough decision time for Erdoğan, and it's going to be interesting to see whether the international community, most notably the United States, doubles down and pushes Erdoğan to reform and move back to a more democratic system, uses Halkbank as a way to move that forward, or if it retrenches and allows him to continue to degrade the rule of law and become even more criminally captured as we go forward.

SCHANZER: Yeah, that was quite a laundry list that you just gave of all the things that Turkey's been up to and why it's been cause for concern here in the United States and with our NATO allies. I would, by the way, just add that illegal drilling off of the exclusive economic zone of Cyprus is another area to watch. Turkey's support for Hamas, another area to watch. Then, of course, there were the sort of sins of the past, Turkey's sort of blind eye to ISIS activity in particular, the human trafficking of fighters that came into Turkey and found their way to the southeastern border to go and join ISIS. So, there's been a litany of problems that the United States has been wrestling with as it relates to this problematic NATO ally, and all of those things will be important to watch.

But certainly, it's hard to understand how any judge here in the United States would be willing to transfer a case as serious as the one that we just heard under the current circumstances. It is difficult to fathom. But Adam, let me just turn to you. You had kind of teased this before that Halkbank is not out of the woods here, right? We had the Atilla case, and that's closed. We had Reza Zarrab, the kind of ringleader of the gas for gold case, who, as we understand it, he's never been sentenced. So, that means that he's probably still a state's witness for the Department of Justice, which means they're still gleaned information right now about what he did with Halkbank back in the day. Right now, Halkbank is about to enter into the meat of a massive court case. Tell us a little bit about what's forthcoming.

KLASFELD: So, Halkbank has been under indictments since around the time when former President Trump green-lighted Turkey's incursion into Syria. So, it has been pending since that time. And ever since that court case started, it first started with Turkey, with Halkbank refusing to essentially acknowledge the jurisdiction of the court. There's been extensive litigation every time they kind of lodged a pre-trial objection, it got shot down, they try it on appeal and they lose the appeal. So, there's definitely a perception of things trying to drag it out as long as possible, tried to delay the trial, and that phenomenon has only been amplified in the time of the coronavirus, as you can imagine. Everything in the courts is running a little bit slowly. And so, we have, since that time, it's another round of appeals. There's going to be a hearing coming up in March and that will set the stage for a trial that's currently scheduled in May.

But, once this continues and we're – to put in perspective, Reza Zarrab was arrested in the United States in 2016, we are approaching the half-decade mark of it. And so, there's a lot of anticipation building in Turkey and in the United States to have this final reckoning over this multi-billion-dollar money laundering scheme, and this case in particular, part of what made the indictment so explosive was that it includes an allegation implicating Erdoğan's son-in-law Berat Albayrak into the scheme where, as you mentioned, Zarrab turned state's witness. His cooperation agreement is public. There is no reason to believe that his cooperation has ended, or paused in any way. He's obligated to testify for the government whenever they need it. And I think any close watcher of the case expects that he will figure again if this case goes to trial, if there's no settlement.

And so this has been something that has been building anticipation, and I'm sure that many eyes both in Turkey and the United States will be focused on it when it comes to trial in May, particularly because of all of these reports of political interference from both the Turkish side of things and everything that's been reported in the *New York Times*, Trump's former National Security Advisor, John Bolton making a point to say that “doing favors for dictators that he likes” was one of the quotes from Bolton's memoir. So, this is building anticipation for what should be a pretty closely watched May trial.

SCHANZER: Absolutely. I mean the implications are huge. Obviously, there's no way the bank can settle because it would almost certainly be an admission of guilt for Erdoğan and his inner circle. And it also does seem like all of the influence peddling that we saw, or at least efforts at influencing influence peddling by the Turkish government, it feels like it's run its course, right? I mean, it certainly looked like the high watermark was the Trump administration, but even before that, we saw a lot of effort put forth by the Turkish government to woo Barack Obama during the Arab Spring and perhaps taking advantage of the Iran Nuclear Deal of 2015. And so, this does appear to be kind of reaching an end, and that coincides with the trial. So, some real drama I had, but so, Aykan let me just turn to you for a moment on this.

What would be the ramifications of a guilty verdict for Halkbank? In other words, let's just say that they're finally found guilty and let's say there's a fine that is imposed. There's the financial component of this. It would likely be the largest fine in history because the largest up until now is BNP Paribas that was about \$9 billion for roughly around the same amount of illicit finance. So, you could even go double that, let's say, which is something that would be a death knell to the bank. So that would be one aspect of this, but how would this play out domestically in Turkey?

ERDEMIR: Yes, there would be multiple ramifications, both political and financial. To begin with, this undercuts Erdoğan's argument back home, that there is no case here that this is just a conspiracy and that the Turkish courts have already dismissed it. But I think when independent courts in the United States reaffirm that there was a massive sanctions evasion case for the second time following the Attila trial and issue the fine, I think it will make it clear, yet again, to the Turkish public, that there was a set of illicit dealings, and illegal transactions here. So, that's the first ramification. The second one of course will be financial. This will possibly not only bring down Turkey's second largest public lender, Halkbank, but when you think about how all these public lenders are connected to one another and then to Turkey's wealth fund, it could really be – It could have a domino effect bringing the entire financial system down.

So, that's the financial ramification, but there's another part of the story here. And that is of the three large Turkish public lenders, Halkbank is the only publicly traded one. And that will have major consequences because Erdoğan basically through his clout over the board has prevented this bank from cutting a deal with U.S. authorities and Jon, as you have raised this multiple times, this is quite a rare occurrence, right? Any global financial institution that gets into trouble with U.S. law enforcement will look for ways to settle the case out of court so that this scandal goes away so that they can pay the fine and continue with business as usual. Whereas here we see Halkbank, as Adam nicely pointed out,

using every trick in the book, trying to scuttle the case. Now, what has been the cost? Halkbank's shares hit its maximum back in 2013, when it was allegedly involved in all these sanctions evasion transactions.

So, when we take a look at the same shares as of the end of 2020, we see that the bank shares lost 95% of its nominal value in U.S. dollar terms. This turned out to be one of the worst investments Turkish citizens could have made. And one could argue that Erdoğan is responsible for it, that if the bank did try the case, if it settled out of court, and accepted responsibility, and moved forward, shareholders would not have suffered such a drastic loss. And one could argue that further loss is on its way. And ultimately, from a political point of view, I think Erdoğan and his inner circle's main fear is, again, not about their reputation or is not about the loss people, or the Turkish state suffers.

It's ultimately about personal survival instinct. And they know that once this case moves forward, and if there's a conviction, that'll open the way for further indictments against Erdoğan's sanctions evasion network, against Iran sanctions evasion network in Turkey. And since Erdoğan failed to extract a non-prosecution agreement as reported by U.S. investigative journalists through the Trump administration, he and his cronies are now basically vulnerable to additional indictments, additional U.S. court proceedings. And that of course is a big fear that I would argue team Erdoğan has because they were really looking forward to extracting from the Southern district a non-prosecution agreement, which they would then see as basically a get out of jail free card.

SCHANZER: I was muted there. Sorry about that. A couple of things that you raised there that I think are just worth noting mean one is the potential for this Halkbank case to really undermine the trust in the Turkish banking system among Turks. And I think that that is a scary thing to think about given the kind of ups and downs of the Turkish economy of late. I think a second issue will be the lack of trust in publicly held companies from Turkey. In other words, when they file for a listing on the New York Stock Exchange or NASDAQ, or what have you, it's going to be hard to trust these companies after the influence that we've seen Erdoğan exert over Halkbank.

And then lastly, I think something to watch, at least from my perspective is this issue of contagion that Turkey's economy is so integrated into Europe and other economies around the world, that if you begin to see things shake, as a result of Halkbank and the banking sector begin to falter, and the trust in Turkish, publicly held companies, you can just imagine what a divestment might look like and how this might really have a global impact. And this all stems from an inexplicable decision on the part of the Turkish strong man to get in bed with Iran at exactly the wrong moment. And then to refuse to accept responsibility. I mean, it is sort of an unforced error of a magnitude that is really hard to fathom when you think about what the ramifications may be.

Adam, let me turn to you for just a moment and ask you about the ramifications here in the United States. I mean, so obviously you're reporting on this and you don't want to suppose that you know how this is going to end up, but we do know that the Department of Justice has stuck to its guns from the beginning. They appear to have a pretty significant amount of evidence, damning evidence, against Halkbank and perhaps others. There could be other unsealed indictments that could be additional surprises along the way. What do you think all of this means here in the United States for the U.S.-Turkey relationship or really even the credibility of the Department of Justice? How do you see all this? You're looking at it from kind of a bird's eye view.

KLASFELD: Right. And we've been talking a lot about how this is playing out within the judicial branch. It's important to kind of recall that this is, and also the executive of course, because it's a criminal prosecution, but it's playing out at all three branches of our government. And I'll tell you why. There's currently an investigation that has been open for years by Senator Ron Wyden of Oregon. He is now the Chair of the Senate Finance Committee. And he has been

looking into allegations of political interference in the case. And, you mentioned something during your last question; you had mentioned that the Erdoğan regime has been trying to influence every administration. And that's absolutely true when they were trying to influence a case in its early stages, President Biden was then Vice President Biden and they tried to pressure him then. And so, this case sort of became an icon of many things, even beyond the immediate stakes of the money-laundering scheme.

For many people in Turkey, it became a symbol of press freedom. A criminal prosecution that was smothered at home where the information was tightly controlled. And it's also been a test, as you just mentioned, of judicial independence of prosecutorial independence. The Southern District has stuck to its guns and sort of lived up to its reputation. The prosecutors there call themselves the "Sovereign District of New York" and sometimes make justice calls on that with a little bit of a frustration that they are so sovereign, but that sovereignty has meant that the criminal case continued. It meant that there is now congressional scrutiny that people will see it to fruition, to its natural conclusion, whatever that conclusion may be. And so that test both for the freedom of this information to become public and for the judicial branch of the U.S. government to give this reckoning to this case that has been tightly controlled, and suppressed from its origins in Turkey in 2013. I think those are the stakes involved, both for the U.S. reputation for judicial independence and the stakes for press freedom globally.

SCHANZER: Yeah, it's been quite a saga and it will be fascinating to watch this come full circle. It sounds like somebody ought to write a book about this. I don't know what you think about that, Adam? Jodi, let me turn to you for just maybe to broaden this out for a minute. As I think we, we near a close here for our conversation. So, we looked at the ramifications for Turkey. We looked at the ramifications for the United States. I think there are some other things to just think about what all this means for the fight against illicit finance, rule of law, the international rules-based order, if we can call it that. Maybe just, if you don't mind, let's just kind of discuss how all this impacts these conceptual challenges that we all continue to wrestle with here in the international arena.

VITTORI: Certainly. It's Halkbank and the case that continues, as Adam notes, is going to be really key to moving forward on the international front, and in particular with President Biden's foreign policy statements when he was on the campaign trail and how those are actually implemented. Of course, one of the key ones has been what to do with the JCPOA, and we have this interesting case that has both advantages and disadvantages for the Biden administration going forward. We have this massive money laundering scandal that it involves the key protagonist in the JCPOA, that's Iran, and how they were able to get around sanctions and make them hurt not quite so badly for key elites in the country, in cahoots with a key NATO ally, that's Turkey, and linked to one of America's most important economic and defense allies in the Middle East, that's United Arab Emirates. So, how he deals with that going forward is going to be incredibly important.

It highlights other foreign policy issues as well. As Adam mentioned, there's a lot of concerns about the conflicts of interest involved in how U.S. foreign policy in relation to Turkey, in relation to Syria as it pertains to Turkey, was made regarding the Trump administration and Erdoğan, that they had a very personal relationship. *The New York Times* has pointed out that the Trump administration made at least \$2.6 million between 2015 and 2018 off of business in Turkey overall. It's unclear if that influenced the Trump administration's goals in the region, but there certainly have been a high level of concerns and a number of red flags related to that.

The independence of the U.S. judiciary going forward, the Biden administration bringing in a more coherent foreign policy process will be very important to our NATO allies in the region. Having U.S. foreign policy in places as important as Syria, be suspected of being made or perceived as being made based on improper influence and how that can lead to

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Moderated by Jonathan Schanzer

things like the U.S. pulling troops out of Syria and how that allowed Russia and its mercenaries, Wagner, to move into that vacuum and Iran move into the vacuum. That's not going to be comforting for U.S. foreign policy. So, that's going to be one issue is, how do we use this case to prove that U.S. foreign policy is in a more deliberate manner now, that's made thoughtfully and with expertise and so forth.

I think the other is the role of anti-corruption and organized crime in U.S. foreign policy and the importance of that. And, Ambassador Edelman brought this up this summer in a *Foreign Affairs* article, that corruption is being used as a pillar of foreign policy by many governments, including the Turkish government. It was specifically one of the cases in that *Foreign Affairs* article. The Biden administration has promised to make anti-corruption a pillar of its foreign policy. And we see with the great work of those like Adam and the work on the FinCEN files just how embedded organized crime has been coming into the United States and into our allies. Last year in Britain, there was a big report in Britain on the House of Lords and how Russian influence is coming into Britain through illicit financial flows and corruption and so forth, the red flags for corruption. We see that in the case with Turkey here.

It's going to be very important for the United States to clean its own house and then become a moral leader moving forward in standing new norms and mores and so forth in the international community. One that stood out in the FinCEN files is we have this massive case with Halkbank, but FinCEN only has about 400 analysts to try to analyze all the suspicious activity reports of the international financial system. And we're the linchpin of the international financial system. Australia has more analysts that look at illicit financial flows than the United States does. Other intel agencies have more analysts by a lot, and they're not dealing with the entire financial system.

So, it's very important that we get our own act in order, both domestically, we pass beneficial ownership legislation, making this a priority for the U.S. government, expanding it in the National Security Council, making DOD pay attention, making it more relevant to Department of State. And also increasing our ability to track and find these things going through international financial system. If we want to stop sanctions busting, we have to work harder at being able to find those sorts of things when they pass in dollar amount through our own system. We have to be able to respond effectively to that and respond to it earlier, whether this case, whether they started doing this in 2011 or in 2008, depending on different reports, either way, we should have been able to deal with this in a much earlier manner, both with the ability to find it and the ability to respond to it much more quickly before it got to this point.

SCHANZER: Yeah. And I think you raise an interesting point about finding it earlier. I mean, it does raise obvious questions about what the Trump administration decided to ignore, where it wanted to look the other way. I think the genesis of this case submits the Iran Nuclear Deal raised obviously a lot of questions about whether there was a decision to look the other way early on as a potential benefit to Iran as it looked to rehabilitate its finances amidst a deluge of U.S. sanctions related to the nuclear file and beyond. And of course, we're heading back into a new era of nuclear negotiations with Iran, one where we'll hope that Turkey is not involved.

I would also probably just note as we near conclusion here that I think the U.S. has some very difficult decisions ahead as it relates to Turkey. There's the question of whether it still remains a valued NATO partner. I think we've listed a number of reasons why we wouldn't probably consider it to be a valued partner, but there are also questions about whether all of the support for the bad actors that we've seen, whether it's Hamas or Al-Qaeda or terrorist groups in Libya and the acquisition of the S-400, there are all these things that I think raised questions about whether it should be designated in some other fashion as a state sponsor of terrorism or some other punitive measure, given the amount of illicit activity we have seen Turkey involved in over the years. Of course, there are real ramifications for doing it, but there are ramifications for not.

And this gets right back to the heart of your point, Jodi, of trying to put our house in order. And I think we see a lot of strategic confusion over the last several administrations, and we can only hope that we start to get some clarity here.

I want to just ask all of you if you would like to just give us maybe one-minute closing remarks, kind of parting shots, if you will, about things that we should be watching or thinking about with respect to this troubling portfolio that we've discussed today. Adam, if you'd like, the floor is yours. Try to take 60 seconds or so to just maybe reinforce your most important points.

KLASFELD: Well, the points that I kept hammering throughout this Q&A, what I found personally moving about this case and kind of unexpectedly so was, as Jodi mentioned, as I think everyone has mentioned, Aykan and you, Jonathan, is since the origins of this case back in Turkey in 2013, it's been so heavily suppressed. What was moving to me as a journalist was the fact of the response to reporting on this case put me in touch with folks who have paced heavy retribution just for getting the word out. And as we continue to think about issues of press freedom, of judicial independence and what that means at the end of a very long era where a lot of these concepts have been under attack, not only internationally, but domestically, the case against Halkbank offers an opportunity to reflect on the importance of what happens when a press is free and when a judiciary is independent and what happens when the reverse is true.

SCHANZER: Great points. And of course, the broader question of what America can or should be doing, what its role in the world is, particularly as we see isolationist trends begin to take hold. Is it still an American value to push for those things I think is a fair question to ask? I certainly hope so, but I guess we'll have to wait and see. Jodi your final thoughts?

VITTORI: My final thoughts would be for too long; the United States has not paid attention to the key national security issues of illicit financial flows or an organized crime. And I think this case really brings that to the fore. I would like to see the administration and Congress going forward with providing the resources and the authorities and just the prioritization that these be paid attention to, both in this specific case. The Erdoğan regime is not going to suddenly clean up its act just because Halkbank has been indicted and goes to court. Iran is not going to stop skirting sanctions just because they got caught going through Turkey. So, looking ahead to where they're going to be acting and how that reinforces the regime and what we can do about it and the bigger picture of why it's important as a country, both our domestic politics and internationally our status in the world in focusing and prioritizing these issues.

SCHANZER: Yeah. And your points about cutting off or trying to fight those illicit flows, it's a challenge. From my time at the Treasury, we always acknowledged the fact that you were never going to stop it, that all you could do was to just try to encumber it as much as possible and force these actors to pay a higher price. And I think maybe what you're getting at here is that the high price has maybe not been paid or at least not enough yet. And that'll be something that we'll obviously continue to watch. Aykan is our resident scholar and Senior Director of our Turkey program. You get the last word among our panelists before I wrap things up.

ERDEMIR: So, I think there are two take home messages here. One is appeasement doesn't work and the other one is isolationism doesn't work. So, when it comes to Turkey, appeasement has seemed to bring out the worst in Erdoğan. He doubled down on sanctions evasion. Every time Washington started taking things slowly, his Iran sanctions evasion turned into evading Venezuela sanctions. That then turned into basically violating CAATSA and purchasing the S-400 air defense system from Russia. So basically, the Erdoğan government is in bed with all the major adversaries of the United States and NATO. So, if appeasement worked, Erdoğan would have been back into the fold by now.

And, we know that from past experience, the only times Erdoğan took a step back is when the U.S. finally took action with either global Magnitsky sanctions, with punitive tariffs, or now we'll watch and see with CAATSA sanctions. So, that's an important message, that appeasement has brought out the worst in Erdoğan and will continue to bring out the worst. And the only way forward, and this is I think an important message also for the European Union that shies away even from introducing symbolic sanctions against Erdoğan, to think about.

The second issue is isolationism. Every time U.S. signaled that it is about to withdraw from the Middle East, politically, militarily, we have seen, again, Erdoğan escalate its worst kind of behavior. And at the same time, we have also seen that the vacuum has been filled by Iran, Russia, as well as Turkey's Islamist proxies. So, if you don't want Erdoğan's transgressions to exacerbate, I think definitely when it comes to Turkey and the Middle East, we should give up appeasement strategies as well as isolationism and start an engagement that's based on values and principles.

SCHANZER: Yeah. I think both strong messages. Appeasement, I can't remember when that last worked, and nor can I remember when isolationism was a brilliant strategy and here we are seeing elements of both and Turkey has absolutely exploited that. I want to thank all three of you for being on today's panel. I also want to remind our audience that we have a new report out by FDD's Aykan Erdemir. It's *Turkey's Ziraat Bank Under Scrutiny*, and it does talk quite a bit about the recent scandal that has erupted in Turkey and what the ramifications are. Some that we've talked about today. So anyway, I'd like to thank our panelists very much for joining us. I want to thank you our audience for joining us as well. And for more information on FDD and our latest analysis from our Turkey Program or from our Center on Economic and Financial Power, we encourage you to visit [FDD.org](https://www.fdd.org). Please do so early and often. And we can't wait to see you on our next event. Thank you.