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## Turkey-U.S. Relations Overshadowed by the Reza Zarrab Sanctions Evasion Case

Karol Wasilewski

*The trial in the U.S. of a Turkish banker charged with helping Iran evade American sanctions has heard testimony from Reza Zarrab, a gold trader who pleaded guilty to helping the banker and became the prosecution's star witness. The trial is criticised by Turkish politicians who apparently are afraid it will reveal their role in the operation. The trial will boost anti-Western rhetoric in Turkey and will deepen the crisis in Turkish-American relations. Because of Turkish state lender Halkbank's supposed participation in the dealings, it may also affect Turkey's economy. The prolonged difficulties in Turkey-U.S. relations constitute a challenge to NATO unity.*

Turkey-U.S. relations are in deep crisis. It stems mainly from two fundamental issues. The first is that the Americans have been supporting the Syrian Democratic Forces, dominated by the Kurdish Democratic Union Party (PYD). Turkey regards the PYD as the Syrian branch of the Kurdistan Workers' Party (PKK), considered a terrorist organisation by Turkey, the U.S., and the EU. The second reason is there has been no progress in Turkey's request for extradition of Fethullah Gülen, a Muslim scholar who lives in the U.S. whom Turkish authorities accuse of masterminding the failed coup in June 2016. The problems in the bilateral relations will intensify with the trial of the Turkish banker, Mehmet Hakan Atilla, in a New York court.

**The Case.** Zarrab was implicated in a Turkish corruption scandal in 2013. Among other things, he was accused of bribing then-Minister of Economic Affairs Zafer Çağlayan. The scandal was quashed by Turkish authorities, who claimed it was crafted by Gülen Movement (Hizmet) members in the police and judiciary. Zarrab spent only two months in jail before being released. However, the corruption scandal also had an international dimension. The businessman took part in an "oil for gold" scheme. Turkey would deposit cash intended to pay Iran for oil and gas in state bank Halkbank (Turkey's fifth-largest bank by total assets). It was then exchanged for gold. This is how Iran got a helping hand in evading the American sanctions. When, in 2013, the U.S. restricted gold exchanges, Zarrab officially redirected his activities to food and medicine. In reality, he used them as a cover for continuing activity aimed at evading the sanctions.

Zarrab's activity became the subject of an investigation in the U.S., and then in March 2016, on a visit to the country, he was arrested by the FBI. Since then, the list of defendants has broadened to include Çağlayan and two former top managers of Halkbank—Süleyman Aslan and Atilla (who was arrested in the U.S. in March 2017). In the indictment, which was made public in September 2017, they have been charged with banking fraud, money laundering, and violating the sanctions regime, among others. Moreover, the prosecutor has claimed that top-ranking Turkish officials took part in the scheme. In November, Zarrab's case turned. The trader decided to cooperate with the prosecution and pleaded guilty to several crimes. His testimony began on 29 November and he implicated mainly Aslan and Çağlayan, to whom he had supposedly given numerous bribes (he claimed the former minister had accepted bribes of around \$60 million). He also stated that he had heard from Çağlayan that the procedure for evading the sanctions had been approved by Prime Minister Recep Tayyip Erdoğan himself. Excerpts of the testimony have been

published by American media. In Turkey, the trial has been reported to a much lesser extent, with information about the testimony found mainly on social media.

**Turkey's Reaction.** Since Zarrab's arrest in the U.S., Turkish politicians have been trying to free him. Talks on that matter started in the last months of the Barack Obama administration. When the U.S. government changed, Rudolph Giuliani—Donald Trump's advisor during the presidential campaign—became involved in the case. He supposedly mediated between the U.S. and Turkish administration to find a diplomatic way out of the problem. When those efforts were not successful, the Turks began to blame "remaining parts of the Obama administration" for the failures. They claim the holdovers are keeping President Trump from achieving his political goals, including an improvement in Turkish-American relations.

That rhetoric became even more vocal after it was announced that Zarrab would cooperate with the prosecution. Turkish decision-makers, among them Minister of Justice Bekir Bozdağ, began to claim that the trader had been pressured to testify against Turkey. They also argue that the trial is just an instrument to overthrow the Turkish government and stop Turkey's economic development. According to the Turkish politicians, the trial was inspired by Gülen supporters in the U.S. They cite supposed links between the judge, Richard Berman, and Hizmet (in 2014, he allegedly took part in a conference organised by the association tied to the movement) and similarities between the charges and evidence from the Turkish corruption scandal.

**Consequences and Conclusions.** Turkish politicians have been trying to diminish the fallout of Zarrab's testimony. Their attempts to build a link between the trial and the Gülen Movement, as well as presenting the case as a conspiracy against Turkey, are proof of that. Therefore, one can expect more anti-Western rhetoric and conspiracy theories. If successful, this tactic will help Erdoğan curb the scandal's consequences on Turkey's internal political scene. The dismal U.S. approval rate in Turkey speaks for this thesis—according to a survey made by the Pew Research Center, 72% of Turks consider the U.S. the biggest threat to Turkey's security.

Both the trial in the U.S. and Turkish politicians' reactions to it probably will deepen the crisis in Turkish-American relations. Two factors especially point to that: first, Turkey's president has a political interest in maintaining the worse state of relations since it will make it easier for him to demonstrate to his constituency that the trial is just an instrument to overthrow him; second, the accusations against Turkey appearing in the trial may result in pressure from American society on decision-makers. This may complicate the Trump administration's moves to calm tensions in relations with Turkey. At the same time, the Turks will continue to blame holdovers from the Obama administration for the problems in Turkish-U.S. relations for as long as possible. This tactic will enable them to change their policy when the cost of the fallout in relations with the U.S. becomes too high to continue.

The trial may also hurt the Turkish economy. It has already started to influence some investors, with the Turkish lira (TRY) dropping against the U.S. dollar. For example, just during Zarrab's testimony, the lira dropped by more than 1%, coming close to TRY 4 to \$1, the lowest level since 1991. Yet, the consequences for the economy may be even more serious if the charges against Halkbank or other Turkish banks are proven true. Entities in the past who committed similar breaches of sanctions and pleaded guilty, were hit with negotiated penalties from the U.S. Treasury Department (e.g., BNP Paribas, which paid a record of nearly \$9 billion for sanctions violations). However, investors observing Turkish politicians' comments about the case have expressed fears that Halkbank will be unwilling to cooperate and may refuse to pay the penalty. That would expose Turkey's banking sector to sanctions (the most severe may include restrictions on their access to SWIFT, probably the most important financial transfer system in the world). The potential losses for the Turkish economy from such sanctions is hard to measure, but one can assume that the sanctions threat itself should push Turkish politicians from exerting excessive pressure on Halkbank, because the potential for an economic crisis would constitute a huge problem before the next parliamentary and presidential elections, scheduled for November 2019.

The bad state of affairs in Turkish-American relations also impairs NATO unity. Zarrab's testimony may intensify the discussion in the U.S. Congress about Turkey's loyalty as an ally, already an issue because of rumours that Turkey wants to buy Russian S-400 air and missile defence systems, which could compromise NATO systems.<sup>1</sup> This may result in pressure on Trump to curb defence cooperation with Turkey and could include demands to limit sales of F-35 aircraft or even sectoral sanctions on Turkey (in October, the U.S. set restrictions on Almaz-Antey, the S-400 manufacturer). It is unlikely these would be implemented but their mere suggestion could result in more criticism from Turkey of the U.S. and NATO.

The difficulties in its relations with the U.S. may prompt Turkey to take a more conciliatory approach towards the EU. Signs that the Turkish government is trying to find a compromise with the EU on a visa-free regime may be an indication of that.

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<sup>1</sup> K. Wasilewski, "Turkey's Purchase of the S-400 System: Prospects and Consequences," *PISM Bulletin*, no. 81 (1021), 1 September 2017, [www.pism.pl](http://www.pism.pl).