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Enhanced due diligence is
a must to mitigate AML
exposure in Turkey



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The laundering of funds generated from the sale of drugs continues to be a major threat, not least due to the frequent nexus between drug cartels and terrorist organizations. The recent money laundering investigation into HSBC's Mexican operations¹ is a case in point and highlights how financial institutions, despite significant efforts undertaken during past decades, continue to be exposed to the risk of drug cartels laundering money. Turkey, given its major role in facilitating the transfer of illegal drugs to Western European markets, faces significant AML/CFT risks. Because of this risk, it is important to undertake enhanced due diligence when dealing with Turkish clients as part of an effective money laundering mitigation strategy.

A booming economy

Turkey is the world's 17th largest economy and continues to experience significant economic growth. It is also an important and active geopolitical player in the Middle East, by helping ensure that no security threats emerge from neighboring countries such as Iraq and Syria and also from terrorist organizations such as the Kurdistan Workers' Party (PKK). Turkey's geostrategic position also makes it attractive to drug trafficking organizations which use the country as a turntable for dispatching drugs, mostly heroin, to European markets. Turkey's financial intelligence unit (FIU) claims that Turkey continues to serve as a transit route for drug traffickers smuggling an estimated \$5 billion worth of illegal drugs yearly.

Given this background, it is clear why organizations striving to combat money laundering were alarmed when the Turkish government launched an "Amnesty Program for Certain Unrecorded Assets" designed to bolster foreign direct investment from November 2008 to September 2009. As reported in the monthly publication *Executive Magazine*, the Financial Action Task Force (FATF)

and the European Union (EU) were critical of the program due to its 'no questions asked' approach and the risk of abuse of the program for money laundering purposes, thereby defeating the purpose of attracting sustainable financial sources.²

Although Turkey's economic and political development have been generally viewed positively, criticism regarding the country's stance toward combating money laundering and terrorism, in particular the latter, continue to challenge the country's relevant institutions. In fact, Turkey is the only European country to have been blacklisted by the FATF as one of the "Countries Not Committed to an Action Plan: High-risk and non-cooperative."

Turkey's efforts to combat money laundering

Although Turkey does not currently meet international AML standards, it appears to have made a stronger commitment to closing the gaps in its AML and CFT regime particularly in 2008, 2011 and 2012.

The most recent FATF Mutual Evaluation Report³ dates back to 2007 and therefore does not include an evaluation of the most recent developments and efforts undertaken by Turkey, so the main developments are summarized briefly below.

- In September 2008, the Turkish Ministry of Finance passed a directive to tighten Turkish anti-money laundering legislation. "The Directive on the Harmonization Program Regarding Responsibilities Related to the Prevention of the Laundering of Criminal Proceeds and the Financing of Terrorism," requiring all financial institutions to improve the monitoring of financial transactions through the adoption of standardized procedures and an increase in staff training. The directive also mandates the institutions to estab-

lish specialized departments to ensure that the appropriate procedures are being followed.

- Most recently in 2011, the Turkish newspaper, *Hurriyet Daily* reported that the Turkish FIU (Financial Crimes Investigation Board — MASAK) was working toward broadening international cooperation to combat money laundering and the financing of terrorism.⁴ According to the article, MASAK cooperates with Indonesia, Portugal, Sweden, Mongolia, Afghanistan, Georgia, Albania, Syria, Romania, Croatia, Macedonia, South Korea, Bosnia Herzegovina, Japan, Ukraine, Norway, Jordan, Senegal, Luxembourg, Britain, Canada, Monaco, Finland and Belarus. MASAK was also in talks with Germany and the United States.
- In March 2012, *Today's Zaman* reported that Ankara signed a memorandum of understanding with the United States to exchange intelligence to dry up the terrorist Kurdistan Workers' Party's (PKK's) financial resources. MASAK would be aided by the relevant U.S. authorities to tighten its grip over the ways the terrorist group makes money to procure arms to be used in its violent campaign in the country.

Turkey views the listing as unfair because MASAK has made significant strides in combating the financing of terrorists and money laundering. Turkey, through MASAK, has signed a number of bilateral agreements with a number of other countries.

Kurdistan Workers' Party (PKK)

The Kurdistan Workers' Party, which is commonly known as PKK, is listed as a terrorist organization by Turkey, the EU, Australia and the United States amongst others. It has been fighting an armed struggle against the Turkish state for an autonomous Kurdistan and greater cultural and political rights for the Kurds in Turkey. Turkey labeled

¹ <http://www.bbc.co.uk/news/world-latin-america-18993476>

² <http://www.executive-magazine.com/getarticle.php?article=12140>

³ <http://www.fatf-gafi.org/countries/s-t/turkey/documents/name,1786,en.html>

⁴ <http://www.hurriyetdailynews.com/default.aspx?pageid=438&n=turkey-seeks-wider-cooperation-against-money-laundering-2011-10-11>

the organization as an ethnic secessionist organization that uses terrorism and the threat of force against both civilian and military targets for the purpose of achieving its political goal.⁵

According to the web site of the Australian government,⁶ the PKK was formally established by Abdullah Ocalan in 1978. The organization adopted a communist ideology, but from its inception was primarily committed to the creation of an independent Kurdish state in south-eastern Turkey. After the end of Cold War, the PKK increasingly emphasized its role as a Kurdish nationalist movement. At times the group has sought to increase its popularity by exploiting the religious sentiment of the Kurdish community, but the organization was and remains predominantly secular.

The PKK acquires the largest amount of its funding from drug trafficking, which some commentators have claimed garnered as much as 500 million Euros (800 million U.S. dollars) for the organization in 2008. At different times, the PKK has reportedly controlled up to 80 percent of the European illicit drug market. In June 2008, in recognition of its involvement in these activities, the U.S. State Department added the PKK to its list of major international drug-dealers under the Foreign Narcotics Kingpin Designation Act. Other criminal activities that contribute to the PKK's finances include: human trafficking, money laundering and prostitution rackets. Revenue is also raised by collecting 'taxes' — through voluntary means or coercion — from Kurdish diaspora communities around the world. In 2007, the group reportedly raised approximately 12 to 15 million dollars in Europe alone through commercial activities (including semi-legitimate activities) and donations. Sales of publications, grants, aid campaigns and revenues obtained from 'special nights' organized by PKK branches in Europe also contribute to the group's coffers.⁷

The PKK is also known as: Freedom and Democratic Congress of Kurdistan, HPG, KADEK, KG, KHK, Kongra Gel, Kongra Gele Kurdistan, Kurdish Freedom Falcons, Kurdish Liberation Hawks, Kurdistan Freedom and Democracy Congress, Kurdistan Freedom Brigade, Kurdistan Freedom Hawks, Kurdistan Halk Kongresi, Kurdistan Labor Party, Kurdistan Ozgurluk Sahinleri, Kurdistan Peoples Congress, New PKK, Partiya Karkeren Kurdistan, Peoples Congress of Kurdistan, People's Defence Force, TAK, Teyrbazên Azadiya Kurdistan.

Halkbank's links to Iran

It is worth noting that although Turkey's banks, apart from the state-owned Halkbank, have stopped doing business with Iran amid tightening sanctions from the United States and the European Union as reported in the *Wall Street Journal* in February 2012. Halkbank's main business with Tehran, the report said, is handling payments from Turkey's sole refiner, Tupras, which is owned by the country's largest conglomerate, Koc Holding. The article further claims, that Halkbank has also handled business for Indian refiners unable to pay Tehran for imported oil through their own banking system for fear of angering the United States. A *Wall Street Journal* profile of the bank, known as People's Bank, details the negligible nature of the Iran business, which contributed less than 1 percent of the bank's fourth-quarter profits.⁸

Enhanced due diligence required

The UK regulatory Financial Services Authority (FSA) "advises all financial institutions and other persons regulated for anti-money laundering purposes to consider applying increased scrutiny to transactions" associated with Turkey amongst

others, including by conducting enhanced due diligence and ongoing monitoring."⁹ It is also important within this context to assess the links and nature of relationships between companies and individuals across borders and set within the political context of an increasingly powerful geopolitical player in the Middle East and North Africa (MENA) region.

Conclusion

The FATF has acknowledged high levels of political commitment on the part of the Turkish government toward addressing strategic AML/CFT deficiencies. Despite these continuous efforts however, Turkey remains on the FATF's list of countries that have not made sufficient progress in addressing deficiencies identified. The FATF has been more critical of Turkey's efforts to combat terrorism and has suggested that Turkey should focus on adequately criminalizing terrorist financing and implementing an adequate legal framework for identifying and freezing terrorist assets.

Beyond this, the activities of the PKK terrorist organization, in particular in the context of the current Syrian conflict,¹⁰ as well as the fact that around 80 percent of the heroin dispatched to Europe passes through Turkey from Afghanistan, combined with the weaknesses in the country's AML/CFT regime, underline the high money laundering risks to which institutions undertaking business in Turkey can potentially be exposed to, and make it clear that undertaking enhanced due diligence is the only way to mitigate the risk of being used as a conduit for criminal or terrorist activities.¹¹ **A**

Jennifer Hanley-Giersch, CAMS, managing director, Business Risk Research Limited, Berlin Germany, jennifer.hanley@business-risk-research.com

⁵ http://travel.state.gov/travel/cis_pa_tw/cis/cis_1046.html

⁶ <http://www.nationalsecurity.gov.au/agd/www/nationalsecurity.nsf/AllDocs/28B052FC3CCE4009CA2570DF000FB458?OpenDocument>

⁷ <http://www.nationalsecurity.gov.au/agd/www/nationalsecurity.nsf/AllDocs/28B052FC3CCE4009CA2570DF000FB458?OpenDocument>

⁸ <http://blogs.wsj.com/corruption-currents/2012/02/21/state-owned-turkish-bank-continues-iran-deals/>

⁹ http://www.hm-treasury.gov.uk/d/financial_sector_advisory_mar2012.pdf

¹⁰ <http://www.reuters.com/article/2012/07/27/us-turkey-syria-idUSBRE86Q11Y20120727>

¹¹ http://www.huffingtonpost.co.uk/2011/07/31/turkeys-membership-of-eu_n_914466.html