

TURKEY



A worker in a gold smelter in Istanbul in 2009. A review of police investigative records, as well as interviews with currency and precious metals dealers, offer colourful new details of how what police call a “crime organisation” allegedly helped Iran exploit a loophole in the West’s sanctions regime.

REUTERS/OSMAN ORSAL

Police allege an audacious, multi-billion-dollar scheme, involving bribery and suspect food shipments, helped Iran.

Iran’s Turkish connection

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MARKET: Tourists stroll through the Grand Bazaar in Istanbul. Turkish police believe that until recently, the area around the market sat at the centre of the alleged bribery scheme. **REUTERS/MURAD SEZER**

ISTANBUL, APRIL 29, 2014

In this city's Grand Bazaar, sellers along labyrinthine passageways hawk carpets, jewellery and souvenir knick-knacks to tourists.

Turkish police believe that until recently, the area around the market also sat at the centre of an audacious, multi-billion-dollar scheme involving bribery and suspect food shipments to Iran.

To date, no one has been charged. But a recently leaked police report – which contains allegations of payments to top Turkish government officials including cash stuffed into shoeboxes – has added fuel to a growing corruption scandal that has shaken the highest levels of Turkey's political establishment.

A review by Reuters of the report's 299 pages, as well as interviews with currency and precious metals dealers, offer colourful new details of how what police call a "crime organisation" allegedly helped Iran exploit a loophole in the West's sanctions regime that for a time allowed the Islamic Republic to purchase gold with oil and gas revenues.

While the gold trade was then legal, the police report alleges the purported crime network bribed officials in part so it could maintain control of the lucrative business.



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Then, when the West last July prohibited the gold trade as a sanctions violation, the police report alleges the network concocted records of shipments of food at preposterous volumes and prices to continue giving Iran access to foreign currency.

The police report – which includes transcripts of wiretapped conversations and surveillance photographs – was prepared for prosecutors. Reuters confirmed its authenticity with Ekrem Aydiner, the current chief prosecutor in charge of the case.

Turkey's Prime Minister, Tayyip Erdogan, has called the police investigation a foreign-orchestrated plot without legal merit. In recent months, Turkey's judiciary removed several prosecutors from the case. That has raised questions about whether

Turkish law enforcement authorities will continue to pursue it. Aydiner said the matter remains under active investigation.

In many ways the plot described in the police report resembles a made-for-TV crime series: A cop who is thought to have tipped off tax authorities finds himself transferred to a distant outpost by the Black Sea, a plane that arrives from Ghana carrying 1.5 tonnes of gold with no clear owner, and millions of dollars in payoffs to various officials to block rivals and gain valuable favours such as fast-track Turkish citizenship for members of the purported crime network and their families.

The report presents a wealthy young businessman of Iranian descent named Reza Zarrab as the ringleader. Zarrab grew up in Turkey, holds citizenship, resides in a manor on the Bosphorus and goes by the Turkish name Riza Sarraf. He is well known on Istanbul's celebrity circuit, and is married to Turkish pop star Ebru Gundes, who is a judge on a popular television talent show. Following her husband's detention in December – he was released from jail two months later without being charged – she tearfully told viewers, “God willing, I hope these dark days will pass quickly.”

When Reuters reporters recently visited his residence, they were greeted by about a half-dozen security guards who said he was out of town. His attorney, Seyda Yildirim, later declined to comment.

In an interview published on April 19 with Sabah, a Turkish newspaper, Zarrab said, “The trade I do is completely legal.” He later said in an interview on Turkish television that he had helped to reduce the country's current account deficit.

GOLD RUSH

The police report states that its investigation found evidence of bribery, fraud and gold smuggling. Although not central to the police investigation, the West's economic sanctions on Iran provide the backdrop of the alleged scheme.

“The trade I do is completely legal.”

Reza Zarrab

in a Turkish newspaper



POWER COUPLE: Businessman Reza Zarrab, here with his Turkish wife, singer Ebru Gundes, in February 2013. Zarrab was detained in December but later released. **REUTERS/HURRIYET DAILY**

As financial sanctions tightened in 2012, both Turkey and Iran had pressing needs: Turkey required oil and gas for its fast-growing economy, while Iran desperately needed hard currency to pay for new automobiles and other foreign imports.

Under the sanctions – imposed by Washington and Brussels to contain Iran's nuclear ambitions – Turkey was permitted to purchase oil and gas from its neighbour. But it was required to pay in Turkish lira, a currency that is of limited value for buying goods on international markets. All payments were to be deposited in an Iranian bank account at Turkey's state-controlled Halkbank.

In 2012, Turkey purchased from Iran more than \$10 billion worth of oil and gas, according to Reuters' calculations based on data from Turkey's energy market regulation board and Turkish officials.

One commodity that Iran was permitted to purchase with its money was gold. A veritable Turkish gold rush ensued with bullion shipped to Iran in everything from couriers' rucksacks to airplane cargo holds.

Turkish gold exports to Iran exploded from one tonne in 2011 to 125.8 tonnes in 2012, worth \$6.5 billion, according to the Turkish statistical institute. Another 85 tonnes, worth \$4.6 billion, were exported that year to the United Arab Emirates, a known transshipment point to Iran.

The police report alleges that Zarrab and a network of companies he controlled were running much of the gold trade with Iran, sometimes via Dubai. “It is understood that, to overcome sanctions and move money to Iran, Riza Sarraf used Turkey as a stepping stone,” the report states.

To keep the business running smoothly, the report alleges, Zarrab's network paid bribes to Zafer Caglayan, Turkey's economy minister; Muammer Guler, the interior minister; Egemen Bagis, the European Union Affairs minister; and Suleyman Aslan, Halkbank's chief executive.

All three ministers, who have since either resigned or been dropped from the cabinet, have denied wrongdoing; none have been charged. Caglayan declined to comment; Guler could not be reached for comment. Lawyers for Bagis and Aslan did not return calls seeking comment.

Halkbank has denied violating any domestic or international laws. A spokesperson declined to answer questions but did say the bank is not under any investigation by Turkey's police or judiciary.

According to the police report, many of the payoffs were allegedly picked up in a building on a row of jewellery dealers near the Grand Bazaar. Police also tracked the shipment of a Swiss watch the network

allegedly gave to Caglayan, the economy minister, that cost about \$340,000. Bagis, the EU Affairs minister, at one point allegedly received \$500,000 cash delivered in a chocolate box, along with a silver plate. In an intercepted phone conversation about the plate, the report quotes Zarrab as telling an associate, "Don't make it too expensive."

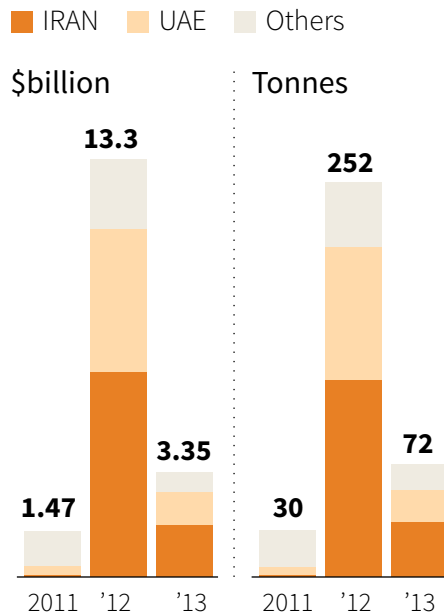
The report alleges that Aslan, the former head of Halkbank, and Caglayan received a percentage of the Iranian money transfers, resulting in bribes that totalled tens of millions of dollars. In December, police raided Aslan's house and seized \$4.5 million stuffed in shoeboxes, according to local media reports. Aslan told police the cash was a charitable donation from various businessmen to build an Islamic school, the media reports said.

The police report alleges the bribes bought the network perks such as reduced commissions from Halkbank for money transfers, authorisation to drive along highway emergency lanes and assistance in preventing rivals from participating in the lucrative trade. One Istanbul gold and currency trader told Reuters, "I went to the bank about 18 months ago and tried to open an account, saying I wanted to sell goods to Iran and that I was going to pay via Halkbank. But they did not let me. There has been unfair competition in terms of using this bank."

The bribes also secured the network police protection, the report alleges. Suspecting at one point that a local police officer had initiated a tax audit of some of Zarrab's companies, the interior minister arranged to have the officer transferred to Zonguldak, a Black Sea coastal town about 200 miles (320 km) east of Istanbul, the report alleges. According to the report, a wiretap allegedly picked up Guler telling Zarrab that "we have sent him into exile."

The network also allegedly received special assistance when, in January 2013, a plane carrying 1.5 tonnes of gold bullion arrived at Istanbul's Ataturk airport

Turkey's gold exports



Source: Turkish statistical institute

from Ghana without proper paperwork. The report cites wiretapped phone calls between Zarrab and Caglayan's office allegedly showing that Caglayan intervened at Zarrab's request to prevent customs officers from seizing the shipment. The cargo was held up for days, but ultimately released.

The circumstances surrounding the Ghanaian gold shipment remain murky. An Iranian billionaire businessman named Babak Zanjani, who is accused by the United States and European Union of violating sanctions on Iranian oil, recently posted a statement on the website of his

\$6.5 billion

Turkish gold exports to Iran in 2012

Source: Turkish statistical institute

company, Sorinet Group, stating he was the original purchaser of the gold from Ghana. "This type of trade was completely legal," he wrote.

Yet Zanjani boasted last year in an interview with Aseman, an Iranian magazine, of violating sanctions. "This is my work - sanctions-busting operations," he was quoted as saying. He is in jail in Tehran on charges of owing the government more than \$2.7 billion from oil sales; he denies any wrongdoing.

In the website posting, Zanjani said he had met Zarrab "a few times" but that they had not done any business together. Zarrab said in the television interview earlier this month he had met Zanjani twice, but "I am neither friends nor partners with him."

FAKE FOOD

Washington closed the gold loophole last July. In the television interview, Zarrab said he stopped trading gold and "shifted to food and medicine," which were still permitted. In a four-month period, he said, that trade totalled about \$1.6 billion.

But the police report alleges that some of the food shipments never actually took place, but consisted of counterfeit invoices submitted to Halkbank that should have raised plenty of red flags at the bank.

The documentation included bills of lading that purportedly showed that cargoes "of 150,000 tonnes were being carried in vessels with a capacity of 5,000 tonnes," the report alleges.

In another case, the report includes an alleged copy of an invoice for a shipment to Iran of about five tonnes of raw brown sugar. The cost? A whopping \$250 a pound, more than a hundred times the market rate.

The report also quotes from a wiretapped conversation with Zarrab in which an associate allegedly tells him about the food shipment records, "The documents we are giving are wrong. I mean, they are documents that do not exist in reality."

Following their investigation, the police



TURKISH LIRA: Iran turned to gold imports because the lira is of limited value for buying goods on international markets. REUTERS/MURAD SEZER

staged a series of raids and detained dozens of suspects in December. Later that month, one of the prosecutors on the probe was removed from the case. He accused police of refusing to comply with his orders to detain even more suspects. “Suspects have been allowed to take precautions, flee and tamper with the evidence,” the prosecutor, Muammer Akkas, said in a statement to Turkish media. Reached by Reuters this month, he declined to comment.

Aydiner, the new chief prosecutor on the case, said the detentions were just a precaution and that no suspects have been formally charged. “Of course, they are still under investigation,” he said.

Shortly after the December raids, two of the ministers who allegedly accepted bribes – Economy Minister Caglayan and

Interior Minister Guler – resigned; Bagis, the EU Affairs minister, was replaced in a cabinet reshuffle.

Aslan, the chief executive of Halkbank, left his job in February. He was recently named to the board of directors of a larger, state-owned bank.

As part of a preliminary deal struck in November between Western powers and Iran, Tehran promised to scale back its nuclear development programme in exchange for the suspension of certain economic sanctions. The deal, which took effect in January and is to last until July, includes allowing Iran to resume some gold trading.

But there’s no evidence that Turkey is benefiting. Some Istanbul traders say they are too jittery to sell gold to Iran. Gold exports have plummeted.

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