



April 4, 2022

Carlos Torres Vila
Chairman, BBVA
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Plaza de San Nicolas, 4, 48005 – Bilbao
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By email: customersupportgm@bbva.com

Re: BBVA and Turkey

Dear Mr. Vila:

I am writing on behalf of the Turkish Democracy Project (“TDP”), a non-partisan, non-profit international policy organization formed in opposition to the Turkish government’s authoritarianism, its oppression of the Turkish people, and its malign and destabilizing international activities. I write to convey TDP’s concerns regarding BBVA’s business interests in Turkey.

According to reports, BBVA has used the proceeds from the recent sale of its retail banking business to increase its investments in Turkey.¹ We write to inquire about the current state of BBVA’s business relationship with the Turkish government and the current ruling Justice and Development Party (AKP). Due to the extremely high risk of corruption and infiltration of the state, we ask that all business activity in Turkey be subject to a full forensic investigation and eventual termination should that activity fail to withhold BBVA’s high ethical and anti-corruption standards.

There are legal, reputational, and financial risks to doing business with the Turkish government, or companies that are aligned with the ruling AK Party. Last year, Turkey was placed on the Financial Action Task Force’s Grey List, which indicates that all companies who wish to do business in Turkey risk involvement in money laundering, terrorist financing, and other acts of international financial crime due to its poor regulatory systems and its degraded rule of law.

We urge BBVA to examine all future associations in Turkey to ensure it does not engage with corrupt Turkish companies and government bodies. Beyond the moral implications of providing services to companies that enable environmental blight and provide support to corrupt authoritarian regimes, there are grave legal, financial, political, and reputational risks associated with doing business with AKP-aligned companies. These risks are enumerated below.

Impairment of Corporate Reputation

¹ Bloomberg, “[BBVA Plans to Hire About 400 Bankers for Investment Banking Unit](#),” 2/10/2022.

There are long-term reputational risks to doing business with a country that is becoming increasingly notorious for grave human rights abuses at home and abroad, for its support for violent extremism, as well as its foreign aggression. This risk is higher when the business in question is directly connected to one of Turkey's most corrupt sectors.

Helmed by an authoritarian and repressive President, Turkey has threatened its regional neighbors, supported extremist groups, deployed men and material in support of conflicts in the Middle East as well as Europe, persecuted ethnic minorities, devastated the free press, jailed and killed political opponents, eroded democratic institutions, and spread corruption throughout Turkey's institutions.

In addition, Turkey under Erdoğan has occupied large swathes of northern Syria, while committing wide-scale ethnic cleansing of Kurds, Yazidis, and other minorities over the past few years. In the wake of the 2016 coup attempt, Erdoğan's government became the world's number one jailer of journalists, closing down several media outlets, newspapers, radio stations, TV channels, publishing houses, and news agencies. Most recently, the AKP has attempted to shut down the second largest opposition political party in the country, the Kurdish-led People's Democratic Party ("HDP"). In 2021, Freedom House officially declared Turkey "not free."²

These incidents are not merely anti-democratic missteps, but constitute an increasingly dangerous pattern of democratic backsliding, as the events of the last decade demonstrate. It is thus not surprising that a growing portion of the corporate world is taking steps to divest and distance itself from Ankara due to such concerns.

In 2020, Volkswagen put a permanent stop to its multi-billion-dollar plans to build an auto factory near Izmir. The company had delayed plans one year earlier in response to Turkey's invasion of Northern Syria.³ Notably, Volkswagen's spokesmen were careful to point out that the decision to delay was made despite the fact that "the investment continues to make sense from a business point of view."⁴ Volkswagen's decision was instead motivated by domestic outrage surrounding Turkey's widely-denounced invasion of Northern Syria. Bernd Osterloh of Volkswagen made clear that "as long as Turkey tries to achieve its political goals with war and violence," the company's supervisory board would not agree to the deal: "Volkswagen can and must be moral."

² Freedom House, "[Freedom in the World 2021: Turkey is not Free.](#)"

³ Handelsblatt, "[Turkish car lobby puts pressure on VW to build the new Passat plant.](#)"

⁴ *Ibid.*



Demonstrators in front of the Volkswagen Showroom protesting construction of the factory

Turkey's use of its drone technology to commit atrocities and destabilize the region has already prompted several companies—including Garmin, Viasat, Beringer Aero, and Trimble Incorporated—to release statements indicating that they will no longer provide parts to Turkish drone manufacturers, given the public outrage around these human rights violations.



Protestors Outside of Garmin International in Olathe, Kansas, Nov 6, 2020

Garmin, which saw protests outside of its Kansas factory in November 2020, stated that it would ensure that its independent contractors were no longer “selling Garmin products to Baykar...[or]...any other persons or companies they have reason to suspect are engaged in nefarious activities.”⁵

Carlsbad, CA-based company Viasat has issued a statement and vowed to ensure it is not supplying drone parts to the Turkish military industrial complex, condemning the use of force against civilians and labeling the events in Artsakh as “terrorism” and “genocide.”⁶

Political entities have likewise condemned Turkey’s behavior. This year the California State Senate passed a bipartisan bill that would allow state employee retirement funds to opt out of any and all investment vehicles owned by the Republic of Turkey.⁷ This move was in part a response to Turkey’s denial of the Armenian genocide. Lawmakers affirmed their desire to “send a strong message to the Republic of Turkey that California does not support its ongoing and aggressive denial of the Armenian Genocide and its unprovoked attacks on Artsakh.”⁸ Canada likewise has issued an export ban to Baykar Makina, Turkey’s drone maker.

Such actions will proliferate as the international community becomes increasingly aware of Turkey’s reprehensible behavior. European governments as well as the Biden administration have similarly taken a hard line in this respect, with an increasing emphasis on human rights concerns. Companies must follow suit, or risk alienating customers and shareholders. Inevitably, when civic-minded shareholders, pension funds, university foundations, and public interest groups learn that a company continues to do business with Turkey, share value will suffer and the ability to access public debt and equity markets will disappear.

Corruption Risk

Doing business in Turkey means doing business with Erdoğan’s Justice and Development Party (“AKP”). Under the AKP, Turkey has undergone a steady erosion of its already fragile democracy into an authoritarian system, where almost no branch of government or sector of the economy is fully independent of the executive branch.⁹ Erdoğan’s closest associates control large portions of the construction, energy, communications, financial services, and media sectors. This AKP-built system of kleptocracy ensures that the best business opportunities go to the most loyal members of Erdoğan’s party, or those with familial connections, and that any illegal activity or tax evasion will go unreported and unpunished.

Beyond the reputational risks that come with doing business with a party that has systematically denied rights to its citizens and eroded democratic structures, the party’s system

⁵ The Armenian Mirror-Spectator, “[Garmin Takes Action Against Use of Its Products in Bayraktar Drones](#),” 11/10/2020.

⁶ Fox 5, “[North County Company stops sending drone tech to Turkey after protests](#),” 10/23/2020.

⁷ Press Release from the Office of Senator Portantino, “[Senators Portantino and Wilk Introduce Bill Allowing Local Agencies to Divest From the Republic of Turkey](#),” 02/16/2021.

⁸ *Ibid.*

⁹ Koru, Selim. Foreign Policy Research Institute. “[The Institutional Structure of ‘New Turkey’](#),” 02/23/2021.

of kleptocracy and cronyism means that there is scant penalty in Turkey for AKP-supported businesses who engage in illegal activity, misrepresent their finances, or renege on contracts. Erdoğan consolidates power by keeping his closest associates' businesses—known as Turkey's "zombie companies"—afloat by awarding billions of dollars in government tenders.¹⁰

During the AKP's 20-year reign, it has altered the Public Procurement Law 192 times.¹¹ This has allowed Erdoğan's closest allies to receive an overwhelming percentage of government tenders: a CHP report states that the government has issued 330.5 billion liras (approx. 38.4 billion USD) worth of tenders, and 50% of those were won by the same 20 companies—24% of those went to the "gang of five."¹² Collectively, the group have won public tenders worth more than Turkey's entire 2020 budget.¹³

The Turkish financial sector has also been involved in several corruption scandals. President Erdoğan and his government were not only directly implicated and involved in the Halkbank scheme, they also rewarded its architect, Mehmet Hakan Atilla, upon his return from prison: Berat Albayrak, Erdoğan's son-in-law as well as Finance and Treasury Minister at the time, appointed Atilla as CEO of the Istanbul stock exchange.¹⁴ This is just one high profile example of a practice that is rampant throughout Turkey's government: namely the reward, even encouragement, of illegal activity so long as it furthers the AKP's political aims.

The U.S. Department of Justice has directly implicated President Erdoğan in the Halkbank scheme, and the case for the prosecution highlighted the government's complicity in its indictment. In 2019, it noted:

In addition to benefiting the Government of Iran by evading restrictions on the use of oil proceeds, the gold scheme would also benefit the Government of Turkey: By converting the otherwise-restricted Iranian oil proceeds at HALKBANK, the defendant, into gold and exporting that gold, the scheme would artificially inflate Turkey's export statistics, making its economy appear stronger than it in fact was.¹⁵

Not only has the government of Turkey implicated itself at the highest levels in what The Atlantic has called "the biggest sanctions-evasion scheme in recent history,"¹⁶ it has also used this sanction evasion and others like it to mislead investors.¹⁷

¹⁰ Al-Monitor, "[How Turkey's 'zombie' companies keep afloat](#)," 09/25/2020

¹¹ BirGun, "[Kamu Hale Kanunu 192. Kez Değiştiriliyor](#)," 04/30/2021

¹² *Ibid.*

¹³ Bianet, "[Public tenders won by pro-government companies exceed Turkey's 2020 budget](#)," 09/08/2020

¹⁴ Financial Times, "[Turkey picks former jailed banker to head Istanbul stock exchange](#)," 10/21/2019.

¹⁵ U.S. Department of Justice Press Release, "[Turkish Bank Charged in Manhattan Federal Court for Its Participation in a Multibillion-Dollar Iranian Sanctions Evasion Scheme](#)," 10/15/2019.

¹⁶ The Atlantic, "[The Biggest Sanctions-Evasion Scheme in Recent History](#)," 1/4/2018.

¹⁷ U.S. Department of Justice Press Release, "[Turkish Bank Charged in Manhattan Federal Court for Its Participation in a Multibillion-Dollar Iranian Sanctions Evasion Scheme](#)," 10/15/2019.

Turkey is among the top 5 declining countries on Transparency International's Corruption Perception Index since 2012, ranking last among European Union countries and third to last among OECD countries in 2020.¹⁸ Any contracts carried out in Turkey will require a disproportionate, if not practically impossible, amount of due diligence in order to both ensure that any return on investment analyses is correct—there is little incentive for Turkish companies to report their financial information accurately—and to ensure that any companies involved in business ventures in Turkey have not participated in any form of illegal activity such as sanctions evasion, money laundering, or financing of extremism.

Investing in Turkey's energy and construction sectors—and likely doing business with one of the most corrupt governments in the region and the world—leaves BBVA vulnerable to severe corruption risk.¹⁹

Banking Risk

Companies doing business with Turkey risk entanglement with multiple corrupt Turkish banks and financial institutions that engage in illicit international finance, such as sanctions busting schemes with Iran and Venezuela. At best, Turkey has a weak legal framework in place to properly investigate, convict, and/or freeze the assets of money launderers and financial criminals. Investigations into money laundering and sanctions evasion schemes are routinely blocked.²⁰ At worst, the Turkish government rewards and benefits from schemes to evade U.S.-imposed sanctions and finance terrorism.

In 2021, the Financial Action Task Force (“FATF”) added Turkey to its “gray” monitoring list of jurisdictions deemed incapable of tackling money laundering²¹ and concluded it that “serious shortcomings” persist in Turkey's attempts to monitor and enforce its own Anti-Money Laundering and Combating the Financing of Terrorism (“AML/CTF”) laws.²² FATF warned Turkey that it faces significant money laundering risks from drug trafficking, migrant smuggling, human trafficking, and fuel smuggling.

Disregarding the FATF's warning that Turkey needed to “swiftly improve” the implementation of its anti-corruption laws, President Erdoğan's government has done little to address these issues in the past three years. Instead, it rewards sanctions evaders.²³ As a result, the FATF has placed Turkey on its grey list alongside Pakistan.²⁴ This move will lead to a decline in foreign investment in Turkey, which has been grey listed before. Despite international warnings and U.S. prosecution, Turkey has persistently failed to regulate its banks over the past decade, further highlighting the extensive business risks associated with the Turkish banking industry.

¹⁸ Transparency.org, [“Country Data, Turkey.”](#)

¹⁹ World Population Review, [“Most Corrupt Countries 2021.”](#)

²⁰ See, e.g., Reuters, [“Turkey dismisses corruption case that has dogged PM Erdoğan,”](#) 05/02/2014.

²¹ Bloomberg, [“Turkey Added to Global Money Laundering Watchdog's ‘Gray List’,”](#) 10/21/2021.

²² Financial Action Task Force, [“Turkey's measures to combat money laundering and terrorist financing,”](#) 12/16/2019.

²³ Foundation for Defense of Democracies, [“Erdoğan Continues to Reward Iran Sanctions Evaders,”](#) 10/31/2019.

²⁴ Reuters, [“Finance watchdog ‘grey lists’ Turkey in threat to investment,”](#) 10/21/2021.

Among the most egregious violator of banking standards is Halkbank, one of Turkey's largest banks, whose biggest shareholder is the Turkish government. In 2013, an investigation into Halkbank implicated the bank in a fraud of global proportions. Halkbank has helped Iran evade strict U.S. sanctions by smuggling at least \$20 billion in oil revenues from 2010 to 2015 alone. In 2018, deputy head of Halkbank Mehmet Hakan Atilla was convicted of evasion of U.S. sanctions. The United States Department of Justice is now criminally prosecuting Halkbank for money-laundering and sanctions busting.²⁵ On May 5, 2021, Atilla was denied export privileges by the U.S. Department of Commerce, signaling that the United States will not grant impunity for sanctions busting or money laundering.²⁶

News reports implicate several other Turkish Banks that could be subject to similar future scrutiny. Aktif Bank was implicated at an early stage of the Turkish-Iranian gold scheme.²⁷ Aktif Bank has also been accused of money laundering on a grand scale in order to serve a number of disreputable customers, including the scandal-ridden German company Wirecard and businesses in Afghanistan with suspected ties to the Taliban.²⁸ Many of these transactions occurred under the watch of President Erdoğan's son-in-law, Berat Albayrak, who was CEO of Calik Holding, at the time.²⁹ Three more Turkish banks—Arap Turk Bank, Vakif Bank, and Ziraat Bank, Turkey's largest and state-owned bank—were also implicated in the Halkbank scheme.³⁰

The most recent Turkish institution to come under fire for illicit finance is the state-owned Ziraat Bank. In 2014, the U.S. Federal Reserve launched a probe into the Bank's New York branch on suspicion of sanctions evasion. In 2017 the U.S. Department of Justice investigated it in relation to the Halkbank case. In January 2021, evidence emerged that the Turkish Sovereign Wealth Fund—state owned and headed by Erdoğan—used Ziraat Bank to disappear a nonperforming loan that had been used to purchase Turkcell, Turkey's largest mobile phone operator.³¹

The illicit actions of Halkbank, Ziraat, and other major Turkish banks are not isolated incidents but the inevitable systemic corollary of a financial system that fails to prosecute criminals or confront corruption, leaving many of Turkey's financial institutions vulnerable to criminal activity. Indeed, the system often rewards such criminal behavior. Clearly, doing business with any Turkish bank puts companies at high risk.

Lack of Central Bank Independence

²⁵ U.S. Department of Justice Press Release, "[Turkish Bank Charged in Manhattan Federal Court for Its Participation in a Multibillion-Dollar Iranian Sanctions Evasion Scheme](#)," 10/15/2019.

²⁶ Bureau of Industry and Security, "[Order Denying Export Privileges](#)," 05/05/2021.

²⁷ Ahval News, "[Turkey's Aktif Bank facilitated money transfers for Taliban, porn industry – report](#)," 09/21/2020.

²⁸ Deutsche Welle, "[FinCEN Files: How Turkey's Aktif Bank helped Wirecard and the porn industry](#)," 09/21/2020.

²⁹ Ahval News, "[Turkey's Aktif Bank facilitated money transfers for Taliban, porn industry – report](#)," 09/21/2020.

³⁰ IranWatch, "[Major Turkish Bank Prosecuted in Unprecedented Iran Sanctions Evasion Case](#)," 03/31/2020.

³¹ Foundation for Defense of Democracies, "[Turkey's State-Owned Bank Probed by the New York Fed](#)," 09/15/2014.

Turkey's central bank is not independent of its government. President Erdoğan has fired four central bank governors in the last five years in a misguided and failed attempt to keep interest rates arbitrarily low.

This entanglement between the executive branch and the country's central bank is fundamentally damaging to the Turkish economy, and the instability it yields is enough to discourage investors on the basis of central bank failed governance alone. Nordea Group's Global Chief Strategist has tweeted that Nordea will "NEVER turn bullish on TRY [the lira] as long as Erdoğan is effectively running the central bank."³²

Erdoğan's involvement with Turkey's Central Bank is unprecedented. He has transformed the institution into an instrument he uses to advance his political goals and consolidate his power, in the belief that lower interest rates will appeal to his base of supporters. His experiment has failed, however, to the grave detriment of the lira and the Turkish people.

Erdoğan's most recent major change at the Central Bank—the sudden dismissal of central bank head Naci Ağbal—caused the lira to plunge by 15%.³³ The Wall Street Journal's editorial board pointed to this decision as evidence that investors were wrong to think that "Mr Erdoğan had finally seen the light on economic policy," stating instead that he is in fact "Turkey's biggest economic problem."³⁴ Most recently, Erdoğan ousted yet another major policy maker at the Central Bank on May 25, marking the fourth such dismissal since March 2021.³⁵

Currency Volatility and Unstable Investment Climate

The combination of politically-motivated moves at the Central Bank, as well as Turkey's growing deficit and its lack of foreign currency reserves, has contributed to its September 2020 downgrading by Moody's to a B2 score with a negative outlook.³⁶ Potential investors can expect little to no stability or predictability with regard to Turkey's monetary policy while President Erdoğan remains in power.

In January 2021, the International Monetary Fund ("IMF") published a report on Turkey indicating that the apparent growth in GDP was in reality the result of policies that exacerbated the Turkish economy's pre-existing vulnerabilities—namely inflation and lira depreciation.³⁷ In fact, as of November 2021, the lira has depreciated 23 percent.³⁸ Meanwhile, inflation in the country is at 20 percent and Erdoğan's mismanagement has led to a decline in foreign direct

³² Larsen, Andreas Steno, "We will NEVER turn bullish on TRY as long as Erdoğan is effectively running the central bank, and the renewed TRY-bulgence is by the way a bigger issue for EUR than the USD." *Twitter*, 21 March 2021, <https://twitter.com/AndreasSteno/status/1373657871406227458>.

³³ BBC, "[Turkish lira falls 15% after bank governor sacked](#)," 03/22/2021.

³⁴ Wall Street Journal Editorial Board, "[Erdoğan Tanks the Turkish Lira](#)," 03/23/2021

³⁵ CNBC, "[Turkey's Erdoğan fires central bank deputy governor in the fourth ousting since March](#)," 05/25/2021.

³⁶ S&P Global, "[Moody's downgrades Turkey to B2, warns of 'severe' balance of payments crisis](#)," 09/11/2020.

³⁷ International Monetary Fund, "[Turkey: Staff Concluding Statement of the 2021 Article IV Mission](#)," 01/25/2021.

³⁸ Yahoo Finance, "[Turkish lira drops to new all-time low after rates slashed](#)," October 22, 2021.

investment.³⁹ In fact, just before the FATF's announcement, the chief economist of London-based investment bank tweeted that "Turkey has become an irrelevance to global emerging market investors," citing that it comprises just 0.2% of the Global Emerging Market MSCI equity index.⁴⁰ MSCI has in fact considered removing Turkey from its emerging market index and instead classifying it as a "frontier" or "standalone" market.⁴¹

Ultimately, the volatility of Turkey's currency is a direct reflection of both Erdoğan's political control of the Central Bank as well as his overall mismanagement of economic policy. The Turkish lira has been subject to a dramatic decline in value over the past decade, leading to an unstable and unpredictable business environment. This decline has severely threatened Turkey's status as an emerging market. Companies that decide to engage in business with Turkey cannot guarantee the long-term value of their investments. Doing business in dollars or euros, especially in an authoritarian country, provides little guarantee of return on that investment. Finally, businesses that depend on government favors and government-sanctioned corruption for their financial viability will inevitably be unreliable partners in a politically volatile climate.

Conclusion

Serious legal, financial, and reputational risks associated with Turkey's construction sector will continue until and unless Erdoğan's government fundamentally alters its behavior, both at home and abroad. Until that time, no prudent and responsible company should be doing business with major Turkish construction firms and government bodies.

In view of the foregoing, please clarify BBVA's status, policy, and intentions with respect to its involvement with construction projects in Turkey. Please let us hear from you within 14 (fourteen) days of receipt of this letter.

Thank you for your attention to this matter.

Yours truly,



Ambassador Mark D. Wallace
CEO
Turkish Democracy Project

³⁹ Aykan Erdemir, Foundation for the Defense of Democracies, "[Turkey Lands on Anti-Money Laundering Watchlist—Again](#)," October 22, 2021.

⁴⁰ Robertson, Charlie, "[Turkey has become an irrelevance to global emerging market investors....](#)" *Twitter*, October 21, 2021.

⁴¹ Reuters, "[Embarrassing potential ouster from MSCI index could bruise Turkish markets](#)," June 25, 2020.

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