

Turkey Facing Sanctions Threats; Enhanced Due Diligence Recommended

As US relations with Turkey fray, we assess that US legislators will work to impose sanctions on Turkish defense companies and financial institutions that support their involvement in weapons systems purchases from America's adversaries. These efforts will face an uphill climb in Washington because the White House and the Republican-controlled Senate have signaled a limited appetite for sanctions that will have a substantive effect on Ankara. However, US firms should exercise extra due diligence in case Turkish defense firms are included on the Bureau of Industry and Security (BIS) Entity List or if the United States or the EU sanction Turkey under other programs.

Background

In September 2017, Turkey [signed](#) a \$2.5 billion agreement to purchase the S-400 missile system from Russia. Ankara chose the S-400 over the Patriot surface-to-air missile system produced by US-based Raytheon, [claiming](#) that the S-400 had more "advanced technical features than its rivals, with a better price and shorter delivery time." However, Turkey's S-400 purchase brings up multiple security concerns for the United States and the NATO alliance, which prompted Turkey's [removal](#) from the F-35 Joint Strike Fighter (JSF) program last year.

- Before the S-400 purchase, Turkey was scheduled to receive the F-35 aircraft, but the S-400 is incompatible with NATO's air defense system and poses a security risk to the alliance. If operated together, the S-400's radar would [observe](#) the F-35's flight profile, providing insight into its vulnerabilities. In addition, Turkey's S-400 purchase comes with five years of Russian technical support, providing ample opportunity for Russian intelligence to observe and rogue technicians to sabotage NATO systems.
- Without access to the JSF program, Turkey must develop its own combat aircraft or find a foreign supplier willing and able to produce it despite US sanctions. Possible replacements include the Russian Su-35 and Su-57 aircraft, which Turkish President Erdogan [mentioned](#) in an offhand public comment to Russian President Putin last year.
- Turkey's purchase of the S-400 missile system is also part of Ankara's strategy to bolster domestic weapons production and gain independence from foreign military suppliers. In negotiations for the Patriot air defense system, the United States was unwilling to transfer missile technology and agree to Ankara's joint production demands that would eventually allow Turkey to build its own missile system. Russia's willingness to share technology led Turkey to purchase the S-400 and [announce](#) a "joint project for procurement and production of the enhanced S-500 system" with Russia in early 2020.

Designation Efforts

US lawmakers have made numerous efforts to sanction Turkey, both for its incursion into Syria in 2019 and for the purchase of weapons systems from Russia. Although proposed sanctions on Turkey have rallied strong support in the House of Representatives, the measures have not fared as well in the US Senate and are unlikely to have support from the White House. Congress in October 2019 held its [first-ever full-chamber vote](#) to condemn as

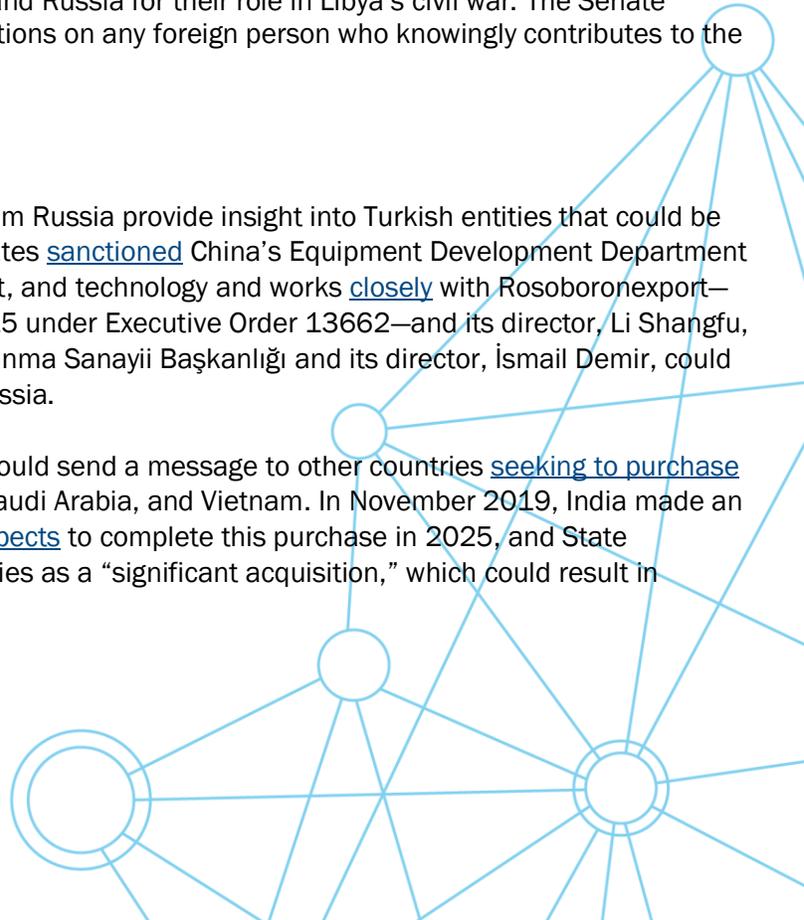
“genocide” the mass murder of 1.5 million Armenians by the Ottoman Turks, showing its willingness to confront Ankara and defy the White House after President Trump removed sanctions against Turkey for its invasion of Syria, citing a ceasefire negotiated by Vice President Pence. The Senate passed a similar bill with bipartisan support.

- The [Protect Against Conflict by Turkey Act](#) (PACT), which calls for sanctions—including travel bans and asset freezes—against Turkey for its incursion into Syria, passed the House by a vote of 403-16 in October 2019. PACT also bars US weapons sales to Turkey, [sanctions](#) foreign companies that send military equipment to the country, and requires the executive branch to designate Turkey’s S-400 purchase as a “significant transaction” with the Russian arms industry, automatically [subjecting](#) it to sanctions under the 2017 Countering America’s Adversaries through Sanctions Act (CAATSA).
- The “Promoting American National Security and Preventing the Resurgence of ISIS Act of 2019” was introduced in December 2019 by the Senate Foreign Relations Committee. The bill faced [criticism](#) from Rand Paul, who claimed that the Trump administration opposed the measure because it would weaken the President’s authority and could complicate negotiations with Erdogan on the S-400 purchase and the Syrian conflict. Skopos Labs [gives the bill](#) a 3 percent chance of passage.
- In July 2020, the House passed [an amendment to the National Defense Authorization Act](#) to sanction Turkey for its purchase of the S-400 by a vote of 295-125. The US House [bill](#), “Countering Russia’s Export of Arms Act,” mandates that President Trump designate Turkey under five of twelve CAATSA sanctions within 30 days of the bill’s passage.
- Both the Senate and the House of Representatives introduced separate versions of the Libya Stabilization Act. The House [proposal](#) imposes sanctions on Turkey and Russia for their role in Libya’s civil war. The Senate [version](#) mandates the White House to impose sanctions on any foreign person who knowingly contributes to the violence in Libya.

Possible Outcomes

Sanctions against China in 2018 for its S-400 purchase from Russia provide insight into Turkish entities that could be similarly designated for the same purchase. The United States [sanctioned](#) China’s Equipment Development Department (EDD), a military branch that oversees weapons, equipment, and technology and works [closely](#) with Rosoboronexport—Russia’s main arms exporter, which was designated in 2015 under Executive Order 13662—and its director, Li Shangfu, in 2018. Turkey’s main defense procurement agency, Savunma Sanayii Başkanlığı and its director, İsmail Demir, could also be designated for the “significant transaction” with Russia.

CAATSA sanctions against Turkey for the S-400 purchase could send a message to other countries [seeking to purchase the S-400](#), including Algeria, Egypt, Iraq, Morocco, Qatar, Saudi Arabia, and Vietnam. In November 2019, India made an \$800 million down payment on the S-400 system. India [expects](#) to complete this purchase in 2025, and State Department officials said last year that the purchase qualifies as a “significant acquisition,” which could result in CAATSA designations.



If Turkey is not sanctioned under CAATSA, US firms should still exercise enhanced due diligence when considering Turkish companies as business partners or clients. Ankara has co-production agreements for the S-400 and plans to develop an S-500 system with Russia, making Turkish defense firms susceptible to military end-use designations by BIS. In addition, US lawmakers from both sides of the aisle have noted other reasons to sanction Turkey, including for human rights violations under the Global Magnitsky Act. Several [US senators](#) have [labeled](#) Erdogan as authoritarian, particularly for his treatment of the Kurds, a US ally in the fight against ISIS. Turkey also faces the threat of sanctions from the EU for its maritime drilling activities near the coast of Cyprus—a disputed area with Greece—and for potentially [violating the UN arms embargo](#) on Libya. EU sanctions also face an uphill battle because they require unanimous support from EU members, and Germany, which holds the rotating EU Council presidency, along with Italy, Slovakia, and Luxembourg have [called](#) for a more conciliatory approach.

If your organization believes that possible sanctions against Turkey might impact its business, please contact us for assistance in analysis and possible remediation. FiveBy offers risk intelligence expertise to our clients to help them avoid violating OFAC sanctions. Email Jeff Williams, jeffw@fiveby.com to set up a discussion.

