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Russia and Turkey
What does their partnership mean for the EU?

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The complex relationship between Russia and Turkey is not easy to label. On the one hand, the two countries have been historical rivals and, arguably, their interests still clash in the Caucasus, Central Asia and the Middle East. On the other hand, economic ties, particularly concerning energy, have grown over the past two decades to inextricably bind the two. It is also about the personalities in power. Critics liken the illiberal ways of President Tayyip Erdogan – including the conspiracy mind-set of blaming dissent at home on foreign meddling – to those of Vladimir Putin.[1] Turkey's strained relations with its Western partners, an outcome of the stalled EU accession negotiations and the authoritarianism creeping into its domestic politics, have, no doubt, nudged it closer to Russia. Turkey, a pivotal NATO ally, has kept by and large out of the Ukraine crisis, refusing to join the US and EU sanctions. What is more, Putin used his visit to Ankara in early December 2014 to rebuff the EU by scrapping the South Stream gas pipeline and launch an alternative link to Turkey – "Turkish Stream".

Yet what we are witnessing looks more like a marriage of convenience than a fundamental realignment or the emergence of an "axis of the excluded".[2] Ankara and Moscow continue to diverge on a host of issues, from Syria, where each backs the opposing side, to the annexation of Crimea, as solidarity with the Tatar community's plight runs high in Turkish society (even if Erdogan shies away from confronting Putin directly and merely gives lip service to this issue). Keen to avoid a heads-on collision with Russia, Turkey has nonetheless developed and strengthened trade, investment and infrastructure links to Azerbaijan and pro-Western Georgia. Armenia is also in its spotlight; a renewed effort at a rapprochement with Ankara, as in 2009, could in theory provide a lifeline and balance Russia's overwhelming influence. More importantly, Turkey is a leading promoter of the so-called Southern Gas Corridor, essential for diversifying supply to Europe away from Moscow's Gazprom. For its part, Russia has been doing its best to contain Turkey's influence in both the Caucasus and the Middle East, often in partnership with Iran.

This Policy Brief argues that ties between Russia and Turkey are driven by pragmatism – or even naked opportunism. *Realpolitik* conditions flexibility. Areas of overlapping interest are insulated from contentious dossiers such as the war in Syria. All in all, Turkey remains ensconced in the long-standing alliance with the West, yet opts for unilateralism to secure what it sees as national interest. This presents Russia with opportunities; it courts Turkey to gain breathing space amidst tightening Western sanctions and an economic downturn. Energy interdependence has provided the glue pulling Moscow and Ankara together. Yet in-depth examination shows interests are actually diverging. The argument advanced here is that EU should make the most of this divergence to anchor Turkey to its initiatives and policies.

BACKGROUND

The nature of the Russian-Turkish rapprochement

Remarkably, Russia and Turkey have succeeded in developing a very constructive relationship across a variety of policy areas. They were imperial rivals and adversaries throughout the Cold War period, but the two have learned, often the hard way, to coexist and advance common interests, even in such sensitive fields as defence.

To be sure, there have been occasional frictions in the 1990s and beyond, in Cyprus, Bosnia or Central Asia. But overall the trajectory has been positive. The cosy relationship displayed by Putin and Erdogan is rooted in growing economic interdependence. At present, Russia is Turkey's second most significant trading partner, while Turkey comes after Germany as a market for Russian natural gas.

Economic cooperation goes beyond energy. Turkish construction businesses have been harvesting lucrative deals across Russia. According to reports, the 2014 Winter Olympics at Sochi alone brought in projects worth USD 1.6bn, providing employment for 15.000 Turkish workers over two years.[3] Russian tourist numbers in Turkey's sea resorts and Istanbul have skyrocketed, especially since visas were lifted in 2011. A number of Russian Federation citizens own property or have settled in Turkey.[4] The two governments aim to increase turnover from USD 35bn to 100bn by the end of the decade. Cooperation is embedded in an institutional setup: a High-Level Cooperation Council, involving the two governments, is in operation since 2010.

For the Kremlin, Turkey also remains essential for Russia's security and geopolitical interests. Holding the keys to the Black Sea, Turkey is a signatory of and guarantor for the Montreux Convention (1936), which governs the status of the Straits and limits the access of non-littoral countries, notably the US and other NATO allies. Russia appreciates Turkey's stance in favour of the *status quo*. In the wake of the war in Georgia (August 2008) Ankara refused to grant permission to US hospital ships. Instead Turkey pursued conciliation by launching the so-called Caucasus Stability and Cooperation Platform, a multilateral diplomatic device intended to reduce tensions. Amidst the crisis, Erdogan rushed to Moscow to meet President Dmitry Medvedev. His refusal to side with Georgia, a friendly country and US ally, proved to the Kremlin that the new Turkey was prepared to act independently, just like it did 2003 when the Grand National Assembly refused to authorise US troops to invade Iraq from Turkish soil. The neutrality in the ongoing conflict in Eastern Ukraine and its subdued response to Crimea's annexation indicate that good relations with Russia come first for Turkey. It also illustrates the gap with the EU and US, even though violence in Syria and Iraq has clearly shown the costs of divergence from Western allies.

Like many EU members, Turkey believes that engaging rather than containing Russia serves best its commercial and security interests. It is a choice made long before the AKP came to power in 2002. Starting from the 1990s Turkey advanced initiatives such as the Black Sea Economic Cooperation Organisation (BSEC) and Back Sea Naval Force (BLACKSEAFOR) as instruments of engagement – keeping NATO at arm's length from the neighbourhood.[5] While the Ukraine crisis tests engagement, it does not feature high on the Turkish foreign agenda which is focused on issues like Syria, ISIS and the Kurdish question. What is more, Turkey's leadership believes it can accrue economic but also strategic benefits. At the end of the day, the choice for accommodating Russia in the Black Sea region is driven by Ankara's assessment that it is in a weaker position *vis-à-vis* its mighty northern neighbour. Where it has bargaining chips, however, e.g. in the critical area of energy, Turkey plays an intricate game of simultaneously cooperating with Russia and profiting from its vulnerability

STATE OF PLAY

From South Stream to Turkish Stream

Russia has come to value Turkey's friendship. That became obvious when Vladimir Putin, on a state visit to Ankara last December casted Turkey as an alternative transit route for OAO Gazprom's deliveries to the EU. The blame for the untimely death of the South Stream pipeline went to the European Commission and Bulgaria. Turkey, not bound by the EU's rules on third-party access to transportation grids (the Third Energy Package), would provide while collecting transit fees and improving security of supply. Gazprom and BOTAS, Turkey's government-owned gas operator, signed a Memorandum of Understanding (MoU) for a new pipeline running through Turkish territory. According to Moscow, "Turkish Stream", named so on Erdogan's personal insistence, would redirect up to 40% of westbound gas exports away from Ukraine's grid. To dispel speculations this was only a bluff, Alexei Miller, Gazprom CEO, told the media in Moscow that the Turkish option, with an estimate cost of USD 10bn, was the only one at hand. He advised EU governments to start building the infrastructure from Turkey's borders with Greece onwards. An intergovernmental agreement (IGA) is to be signed by mid-2015, with gas reaching Turkey by December 2016.

Clearly, both parties gain from the deal. Even if Turkey does not replace Ukraine any time soon as principal transit route, it remains a hugely important market for Gazprom in its own right. Its booming economy consumed 47.5 bcm of gas in 2013, with Gazprom accounting for 26.7 bcm or roughly 60% of that figure.[6] It has the fastest rising demand in OECD with consumption potentially reaching 70 bcm by 2023. Between 1990 and 2012, power generation from natural gas rose tenfold and the upward trend is projected to go on at least until 2030.[7] Since the 2003 launch of Blue Stream Turkey has become Gazprom's second largest export destination after Germany. It makes commercial sense to lock in soaring demand by Turkish industries and households, even if access to the retail market is cut off and BOTAS and several small private companies are the customers.

For its part, Turkey is keen to extract concessions. In December, Putin promised a 6% discount on the gas price (currently a little over USD 400 per 1.000 cubic meters). Turkey however is pushing for 15%, having already received a 4% break in January 2013. Energy Minister Taner Yıldız demands an additional 3.5 bcm of deliveries via Blue Stream. Turkey knows Gazprom is currently facing pressure from subcontractors and suppliers involved in South Stream. A far-reaching offer is a precondition for talks on the engineering, technical and financial specifics of Turkish Stream.[8] The MoU is a statement of intent, falling far short of a final blueprint. The future Intergovernmental Agreement (IGA) will also leave lots of issues open. We are yet to see how much ground Moscow will give.[9] It is worth remembering that redirecting volumes away from Ukraine is liable to legal challenges by a number of countries in Central and Eastern Europe, which all have long-term transiting agreements.

PROSPECTS

Turkey's ambitions in energy

Before jumping to conclusions, one should put grand projects such as Turkish Stream in wider context. Turkey has been working to reduce dependence on Russian (as well as Iranian) gas in a variety of ways. Firstly, through diversifying gas sources; 2015 will see the start of construction works for the Transanatolian Pipeline (TANAP) which should be completed in 2018. Owned by Azerbaijan's SOCAR (58%), BOTAS (30%) and British Petroleum (12%) it would upgrade the existing link between the Caspian and Erzurum in Eastern Turkey and extend it all the way to the border with Greece, with an initial yearly capacity of 16 bcm. The project will boost SOCAR, which already undercuts Gazprom's price on the Turkish market. The Azeris target the lucrative EU market, via the projected Transadriatic Pipeline (TAP), which should come on-stream in 2019. Turkey will receive up to 10 bcm a year of fresh volumes (a bit under one-fifth of its current consumption). Ankara's long-term ambition is to graduate from a large consumer into an indispensable transit country or even a trading hub.[10]

Turkey's second priority is to bring down natural gas share in the energy mix. Its first nuclear station at Akkuyu, near Mersin, is expected to start operations in 2020. The USD 20bn project, financed and carried out by Rosatom, will strengthen ties with Russia, which supplies the technology and the fuel, but will also displace significant gas volumes.[11] In February 2013, Erdogan and Japan's Shinzo Abe signed a deal for a second nuclear power station close to the Black Sea's port of Sinop to be built by Mitsubishi along with France's Areva. Turkey has doubled its wing and geothermal capacity over the past ten years, and has set a 30% renewables target for 2023.[12] Coal is also on the rise. Turkey is in talks with China and others on developing the Afsin-Elbistan field holding 45% of its lignite reserves.[13] The project will decrease imports of coal, including from Russia, the No 2 supplier. The declining role of gas in the energy mix, particularly in electricity generation, will reconfigure relations between Ankara and Moscow.

What can the EU do?

EU has no leverage to make Erdogan join the sanctions against Russia but it can do a lot to partner with Turkey on energy security. As its Energy Union is starting to take shape, Europe should involve the Turkish government, e.g. through an institutionalised dialogue. As energy consumers, the EU and Turkey share an interest in the stability of supply and lower prices, including through the completion of the Southern Gas Corridor.

In fairness, that is easier said than done. Turkey will not push for full alignment with the *acquis* anytime soon. The energy chapter in the accession talks has been blocked by Cyprus since December 2009. Ankara declines to join the EU-sponsored Energy Community as a full member, like the Western Balkans along with Ukraine and Moldova. The "unbundling" of BOTAS will proceed at a slow pace, as the government would like to cultivate its own national champions and keep prices for end consumers affordable.

Interconnectivity is another matter. The EU can do more to upgrade gas and electricity links with Turkey. A good example is the interconnector with Bulgaria, still in the planning stage. Coupled with the new links to Romania and Serbia it can pipe gas from Azerbaijan and, in the future, Northern Iraq, Iran and even the Eastern Mediterranean and Turkmenistan to markets in Central Europe. This could be part of a larger EU-sponsored endeavour to intensify cooperation at the regional level. Experts are discussing plans for a Southeast European Grid to upgrade interconnections of electricity networks and help Turkey and its neighbours tap into renewable resources.[14] In the long-run, such initiatives will reduce the share of gas in Turkey's energy mix, in line with declared preferences, and improve its carbon footprint.

In case the Energy Union is granted powers *vis-à-vis* the long-term contracts with Gazprom, Turkey (as well as the Western Balkans) should be brought into the process, one way or another. Paying a premium, it will be one of the greatest beneficiaries from a convergence of gas prices across Europe.

In the short term, the EU has to keep calm. The cool-headed reaction of top EU officials, such as Energy Commissioner Maros Sefcovic to Alexei Miller's statements that deliveries through Ukraine are ending in 2019 is warranted.[15] However, there is an element of truth in Gazprom's bombast. Ankara and Moscow will go on developing their energy ties and more Russian gas will be bound for the Turkish market, with all the political implications that entails. This should be reason enough for the EU to redouble its efforts to make a common cause with Turkey.

In turn, a failure by the EU to bring Turkey on board is sure to strengthen Russia's hand by delaying diversification of gas supplies, offsetting incentives to advance interconnectivity, undermining regional cooperation and deepening the gap between Ankara and Brussels. What is now essentially a marriage of convenience between Russians and Turks might mature into an affair of the heart.

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1 For a comparison, zooming in on similarities but also differences, see Dimitar Bechev, 'Erdogan and Putin: unalike likeness, *openDemocracy*, 22 November 2014, www.opendemocracy.net/dimitar-bechev/erdog-and-putin-unalike-likeness, all links retrieved 25 January 2015.

2 Fiona Hill and Ömer Taspınar, "Turkey and Russia: Axis of the Excluded?", *Survival*, vol. 48 no. 1 (Spring 2006), pp. 81-92, www.brookings.edu/research/articles/2006/03/spring-turkey-hill

3 Fatih Özbay, "Sochi 22nd Winter Olympic and Turkey", Caspian Strategy Institute, 19 February 2014, www.hazar.org/blogdetail/blog/sochi_22nd_winter_olympics_and_turkey_616.aspx

4 According to Vladimir Ivanovskii, Russian Ambassador to Turkey (2007-13), the rough number of permanent residents coming from the Russian Federation is 50.000; www.mid.ru/ns_publ.nsf/cb8e241d18a8904ec3256fc7002ddc0e/a26c797ba51042d2c32576800031670a?OpenDocument

5 Suat Kiniklioglu, An Anatomy of Russian-Turkish Relations, The Brooking Institutions and Sabancı University, 2007, www.brookings.edu/~/media/events/2006/5/23turkey/20060523sabanci_3a.pdf

6 Turkish Stream's first leg is projected to deliver 1.575 bcm a year.

7 Gulmira Rzayeva, Natural Gas in the Turkish Domestic Energy Market, Policies and Challenges, Oxford Energy Studies Institute, February 2014. www.oxfordenergy.org/wpcms/wp-content/uploads/2014/02/NG-82.pdf

8 Stanley Reed and Sebnem Arsu, Russia Presses Ahead with Plan for Gas Pipeline to Turkey, *New York Times*, 21 January 2015, www.nytimes.com/2015/01/22/business/international/russia-presses-ahead-with-plan-for-gas-pipeline-to-turkey.html

9 According to its own figures, the company saw a 40% decline in earnings in the first nine months of 2014. http://rbth.co.uk/business/2015/02/02/gazprom_declares_alarming_slump_in_revenues_as_debt_burden_rises_43339.html

10 Azerbaijan claims that by 2030, it can produce up to 35 bcm per annum from a range of fields and step up exports via Turkey.

11 Turkish Electricity Trade and Contract Corporation (TETAS) has undertaken to buy 70% of the electricity until 2030 at a fixed price of USD 0.1235 per KWh. See www.world-nuclear.org/info/Country-Profiles/Countries-T-Z/Turkey/

12 Turkey has lots of room for savings through energy efficiency measures too.

13 Orhan Coskun, Turkey, China in Talks on $10-12 billion Energy Investment: Minister, *Reuters*, 5 May 2014, www.reuters.com/article/2014/05/05/us-turkey-china-energy-idUSBREA4404J20140505

14 Increased cross-border electricity transfer capacity can improve security of supply and help balance the intermittency of the renewables generation in both Turkey and its EU neighbours. Julian Popov, Bringing South East Europe's Energy Markets Together, Balkan Insight, www.balkaninsight.com/en/article/bringing-south-east-europe-s-energy-markets-together

15 Interview with the *Wall Street Journal* dated 22 January 2015. www.wsj.com/articles/eu-official-plays-down-practicality-of-proposed-russia-turkey-pipeline-1421951735

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