

“Russia and Turkey in Global Perspective” Seminar Series

Workshop Report: Economic, Environmental, and Energy Ties Between Russia and Turkey

19 April 2024, Kadir Has University

I. Abstract:

As part of the “Russia and Turkey in Global Perspective” seminar series, organised by the Global Academy in partnership with the Heinrich-Böll-Stiftung Türkiye Office, the second workshop was held at Kadir Has University on March 19, 2024. This project aims to bring analysts, academics, and policymakers together to tease out a nuanced and fuller understanding of current Russian-Turkish relations. More broadly, the workshop series encourages foreign policy debate in Turkey.

The central theme for the second workshop was “Economic, Environmental, and Energy Ties Between Russia and Turkey”, which brought together three speakers and a group of experts who contributed to the roundtable discussion. This report highlights the main arguments and subjects raised during the event.

II. Participants:

Moderator:

Assoc. Prof. Onur İşçi, Kadir Has University

Speakers:

Oksana Antonenko, European University Institute, Schuman Centre for Advanced Studies

Rana Hoffman, Koç Holding

Dr. Mühdan Sağlam, Gazete Duvar

Discussants: A group of 23 scholars, researchers, retired ambassadors, and journalists working on Russia-Turkey relations from Marmara, Kadir Has, İstanbul Bilgi, Bologna Universities, European University Institute as well as the Heinrich-Böll-Stiftung Türkiye Office, and media.

III. Highlights:

Associate Professor Onur İşçi, the moderator, started the workshop with a brief analysis of the economic and energy ties between Turkey and Russia. Building on Prof. İşçi’s speech, the three panellists focused on the economic, energy, and environmental dimensions of Turkey-

Russia relations and the effects of global dynamics on these relations. Overall, the meeting consisted of two parts: three presentations followed by a recess for a casual conversation among attendees and a second, longer part for a roundtable discussion. The roundtable discussion looked beyond economic and energy ties, emphasising the financial and energy-based interdependence between Turkey and Russia, the symmetrical/asymmetrical nature of this interdependence, the effects of the European Union and the United States on this interdependence, and the effects of economic sanctions against Russia on Turkey-Russia trade volume.

The first panellist, **Ms. Oksana Antonenko of the European University Institute**, weighed in on the Turkish-Russian economic relations with an eye on the “Western sanctions”. Ms. Antonenko underlined the Russian economic situation, Western sanctions towards Russia, the financial ties between Russia and Turkey, and Russian economic dependency on Turkey.

She began her remarks by saying that the good relations between Moscow and Ankara depended on the close ties of the political leaders of each country and continued with the Russian economic situation after the collapse of the Soviet Union. During the Yeltsin period, the Russian economy was in a bad situation. After Putin was elected President of the Russian Federation, Russia revived its economy by building economic relations with various states.

At the same time, Putin had a strategic view of the Black Sea region, and he saw the emergence of a new Turkey under Erdoğan as a potential trade partner and started to improve economic relations with it via the Blue Stream Pipeline, nuclear cooperation, and Turkish construction companies. In the beginning, Russia and Turkey had equally dependent relations. However, after the Plane Crisis in 2015 and the 2016 Failed Coup Attempt in Turkey, the Russian economy rose, and the Russian middle class expanded. Many strategic projects like TurkStream and Akkuyu Nuclear Power Plant were geopolitically driven.

However, after the Russia-Ukraine War started in 2022, Moscow has become more dependent on Ankara due to the sanctions and isolation towards it. On the one hand, Turkish investors have always been there for the Russian Federation. On the other hand, Russia still exports gas to Europe (despite the sanctions), and it needs to import many goods from Europe. Russia continues to import goods from Europe through Turkey and the Caucasus. Therefore, Turkey facilitates trade between Russia and Europe.

Moreover, Russians in Turkey are a big community, with many Russian accounts in Turkish banks. As a result, if Turkey is continuously distancing itself from the West and the European Union (EU) goes on to apply sanctions toward Russia, the economic ties between Ankara and Moscow will strengthen.

The second discussant, **Ms. Rana Hoffman of Koç Holding**, spoke about (1) US and EU sanctions against Russia; (2) Turkey’s official position regarding those sanctions; (3) global

trade connections, especially among the EU, the US, Russia; and (4) how sanctions on the ground play out differently for big Turkish companies involved in these global trade routes, giving examples based on her experience at Koç.

Ms. Hoffman argued that, regarding the controversy regarding Turkey's compliance/evasion vis-à-vis Western sanctions, officially, Turkey has not implemented any sanctions against Russia. She also argued that Ankara has no legal obligations to apply or comply with the US, the EU, and the United Kingdom (UK) sanctions. That said, Ms. Hoffman offered an intriguing, different picture of non-state actors (like Koç Holding) involved in trade relations with the West and Russia and that in order to continue doing business with the West and to have access to international finance, the private sector cannot afford to be in breach of sanctions.

She argued that on the other hand, the US and G7 do not wish to completely stop trade of Russian crude oil, but to lower Russia's income through it with the 'price cap' because Washington knows that Moscow's crude oil need to continue to flow. This is a bit different than the US sanctions against Iran. Ms Hoffman said that for big enterprises like Koç Holding, it is not possible to evade sanctions simply because the risks (their assets in and relations with Western countries) are too high. From a legal perspective, she showed how and why sanctions compliance is a complex process, referring to Western states' Price Cap applied on Russian oil through tightly controlling their logistical (shipping) and insurance companies that limit Russia's ability to profit from their ample oil supply.

The third discussant, **Dr. Mühdan Sağlam of Gazete Duvar**, looked at the issue from a broader historical perspective. After examining the history of energy relations between Russia and Turkey, she highlighted the main points related to sanctions towards Russia and their influence on Turkish-Russian economic relations. She concluded her remarks by mentioning the dependency in the relations.

To begin with, she pointed out the energy relations between the Soviet Union and Turkey. According to her, pragmatism was the main driver in energy relations, and they had fragile economic ties. While establishing economic relations, the Soviet Union and Turkey did not want to intervene in each other's domestic affairs. They improved the construction sector. The refineries in İzmir Aliğa, Mersin, Batman, Bursa Orhaneli, and Çanakkale Çam were built in connection with these energy relations. The two actors traded via the local currency at that time. Those refineries were the industrial complexes built during the 1980s. Furthermore, the Mersin Akkuyu Power Plant began to be discussed as early as 1973. Dr. Sağlam stated that pragmatism and balancing the Western camp were the driving factors in the relations between the Soviet Union and Turkey, even though Turkey was part of it.

After the collapse of the Soviet Union during the 1990s, Turkey started buying natural gas from Russia using foreign currency. The Russia-Ukraine War influenced the economic relations between Ankara and Moscow. The sanctions against Moscow helped Turkey increase its trade

volume with Russia. On the other hand, the US share of LNG (Liquefied Natural Gas) is rising in Turkey's energy market. However, Turkey still prefers to buy Russian oil.

In conclusion, Dr. Sağlam claimed that Turkey heavily depends on Russia, especially regarding nuclear energy. The bigger picture shows an asymmetrical interdependency between Russia and Turkey. Turkey needs Russian oil, natural gas, and atomic energy.

After a recess, the second part of the workshop started again with **Prof. İşçi's** remarks, in which he directed the discussion towards the asymmetry in the economic, especially energy, relations between Russia and Turkey and compared Turkey's current position to the past. He questioned the effect of the Russia-Ukraine War on the asymmetry level of these economic relations. At the same time, he asked *what would happen if Turkey were less dependent on Russia regarding energy and what the consequences would be.*

Ms. Antonenko replied to the first question of Prof. İşçi. She said Recep Tayyip Erdoğan, the President of the Republic of Turkey, signed too many contracts to diversify Turkey's energy resources. Turkey has other options. That's why Russia is vitally interested in Turkey's imports; Russia has no choice other than Turkey. At the same time, she emphasised the importance of price. According to her, the cost of Russian natural gas is no longer acceptable for Turkey since Turkey has alternatives, especially regarding LNG.

One of the discussants claimed that Turkey is trying to develop its energy resources but cannot replace them with Russian energy. In other words, Russian energy is crucial in Turkey's energy market. On the other hand, Turkey is turning slightly from Russia to Europe because of the economic situation in Turkey, especially after the elections. Turkey depends on the West's foreign direct investments (FDIs).

Prof. Aydın underlined the ideological and geopolitical dimensions of the relations between Turkey and Russia. According to him, in the past, Turkey wanted to create an alternative to the West, and it was Russia. At present, the geopolitical parameters continue to influence the relations. The balancing policy of Turkey requires rapprochement with Russia. Turkey never implemented an economy-based foreign policy, and the economy does not underline today's close ties with Russia. One of the discussants agreed with Prof. Aydın and pointed out that Turkey and Russia would find a way to become interdependent against the West.

Furthermore, some participants detailed the technicalities of energy relations. They emphasised the difference between heavy and light oil and claimed that Turkey depends on Russia's heavy oil. Russian natural gas can be reduced in Turkey's energy market, but regarding electricity, nuclear power plants are significant, and the dependence on nuclear power plants is dangerous for Turkey.

One of the discussants noted the relationship between Turkey's EU membership and the sanctions. Concerning her, Turkey is not choosing the EU's foreign and security policy. Turkey has to comply with the sanctions but made a strategic decision. However, Turkey has a short

interest in becoming an EU member. Unless it complies with the sanctions against Russia, Turkey cannot be an EU member. Based on that point, **Ms. Hoffman** said that Turkey's private sector cannot survive by evading sanctions. The private sector does not prefer to trade with someone with a presence in Russia. It means violating the sanctions, and no company wants to do this due to retaliation from the US. In other words, it is technically possible, but big companies do not want to take that risk.

Accordingly, **Ms. Antonenko** is suspicious that EU companies are enforcing sanctions against Russia. Due to the Russia-Ukraine War, Russia has to cooperate with Turkey to ship the oil and gas to Europe. One of the participants partly supported Ms Antonenko's claim and emphasised that Gazprom is using Turkey as a transit country. The EU continues to buy Russian LNG and gas, and there are no objections to this trade.

Dr. Sağlam does not confirm the argument of Ms. Antonenko and claims that natural gas is a geopolitical tool more than economic one, unlike oil. Despite a significant decline in Gazprom's share of the EU natural gas market, Russia has alternatives and continues to sell LNG and oil to France, Spain, and Belgium. Those European countries say they are going on to buy Russian oil because they need it. They are doing it via ship transfer in the Mediterranean. Turkey is not a supernova in this equation. It is not ready to be a hub, and it is just a transit country. Also, there is no certainty in the trade of currency.

In response, a participant stated that China is an important actor in replacing Turkey. Russia demands sanction evasion from Turkey, but Turkey resists. Putin and Erdoğan will always find a way to sustain these relations politically. While the ties between the US and Turkey and the EU and Turkey are institution-based, the relations between Russia and Turkey are individual or leader-based.

Ms. Antonenko counter-argued that Russian LNG is not sanctioned so that the European states can buy it without problems. Since there is no pipeline from Western Siberia to China, China is not an easy alternative for Russia to replace Turkey. The GDP growth of Russia originated from weapon selling, not from the natural gas trade, and it is not sustainable. Moreover, Russia sells gas to India for below thirty dollars, but its average value is ninety dollars. That means Russia cannot gain revenue from this sale. However, trade with Turkey has gained Russia significant revenue from TurkStream, especially Blue Stream. Lastly, she pointed out that the Akkuyu Power Plant will never become operational. It is a terrible deal for Turkey, and Turkey's future decision-makers would never accept it.

Finally, the discussion mainly concerns whether Turkey depends on Russia or vice versa. Some participants supported the view that after the Russia-Ukraine War, since Russia has no alternative, it is heavily dependent on Turkey. However, according to other participants, Turkey needs energy, so it depends on Russia regarding natural gas, oil, and nuclear power.