



BULLETIN

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The South Caucasus in the Shadow of the Russian-Turkish Crisis

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The conflict between Turkey and Russia due to their contradictory interests in the Middle East deepens the division of the South Caucasus into two blocks. As a result, Turkey strengthens its political and economic cooperation with Georgia and Azerbaijan while Russia increases military cooperation with Armenia. This situation, although it poses security challenges, could paradoxically be beneficial for the Georgian and Azerbaijani economies, including through the development of trade with Turkey. The EU and Turkey should coordinate their policies towards the Caucasus, including issues such as frozen conflicts, regional economic integration and the development of energy projects.

Turkey and Russia are in a deep dispute due to their involvement in the civil war in Syria where Moscow supports the regime of Bashar al-Assad and Ankara the anti-government Sunni opposition. The Turkish Air Force downing of a Russian Su-24 (24 November 2015) became a critical moment. Given that both countries have their own interests in the South Caucasus, their dispute strongly influences the situation in the region, thus increasing the security risks. The weakening of ties between the Russian and Turkish economies as a result of the conflict may affect the strengthening of Turkish-Georgian-Azerbaijani economic relations.

The Impact of the Crisis on Security in the South Caucasus. Strained relations between Russia and Turkey contribute to a further increase of the Russian military presence in Armenia and the separatist regions of Georgia, which is a significant challenge for Ankara's strategic partners, Georgia and Azerbaijan. Settlement of the "frozen" conflicts in Abkhazia, South Ossetia and Nagorno-Karabakh is currently impossible, due to the state of relations between Russia and the West. Moreover, the strengthening of Russia's military potential in the Caucasus deepens the political conflict between Moscow and Tbilisi, and Moscow and Baku.

In the case of Nagorno-Karabakh, an increase of tensions cannot be excluded. During the last two years, there was a significant rise in the number of serious clashes between Azerbaijani and Armenian forces. Russia, even though it is an ally of Armenia in the Collective Security Treaty Organisation (CSTO), has so far officially taken a neutral stance on the dispute between Yerevan and Baku. Nevertheless, the CSTO exercises conducted in Armenia in September 2015 show that Russia considers the possibility of military intervention (on the Armenian side), under the pretext of "peace enforcement." The Moscow scenario assumes an operation on foreign territory in order to separate the warring parties to the conflict.

After the downing of the Su-24, Russia sent 13 Mi-24P assault helicopters to the Erebuni air base in Armenia. The Kremlin also announced that it would send additional equipment, including MiG-29 multi-purpose fighter aircraft and Mi-8 transport helicopters in 2016. In addition, on 23 December 2015, Armenia and Russia signed an agreement to create a joint air defence system. The appearance of Russian troops in Karabakh would mean the exclusion of Western countries from the conflict resolution process, further increasing Yerevan's dependence on Moscow, and giving Russia direct control over the separatist enclave. Stronger Russian support for Armenia will instead encourage the Azerbaijani government to strengthen security cooperation with traditional partners, such as Turkey and the United States.

The Russian authorities also continue to strengthen their military potential in South Ossetia, as evidenced by the exercises in the region in January 2016 with the participation of 2,000 soldiers, T72-B3 tanks, Grad BM-21 rocket launchers and Iskander-M missile systems. Russia is also seeking to increase its control over Abkhazia, and the

establishment of a coordination centre for the Russian and Abkhazian Interior Ministries, under full Russian control, will serve this goal. Shortly after a visit to the republic by Vladislav Surkov, the Russian presidential advisor with responsibility for contacts with the authorities of Abkhazia and South Ossetia, the Abkhazian authorities agreed to join Russian sanctions against Turkey. This decision was apparently taken under pressure from the Kremlin, but will be disadvantageous for the Abkhazian economy as 18% of its trade is with Turkey. Russia's aim is therefore to eliminate contacts between the authorities in Sukhumi and any foreign partners, and Moscow's actions diminish the possibility that Turkey will play a mediating role in the Abkhazian-Georgian reconciliation process. Ankara could become a mediator, given its good relations with Georgia and the large group of citizens of Abkhaz origin in Turkey (around half a million people). By comparison, only 122,000 Abkhazians live in Abkhazia).

Economic Consequences of the Crisis for the Region. Shortly after the downing of the Su-24, Russia imposed economic sanctions on Turkey. Less than a week after the incident, on 30 November 2015, the Russian Federation banned charter flights to Turkey, drastically reduced the number of transit licences for Turkish carriers operating through Russia, and placed various food products (including poultry, fruit and vegetables) under embargo. On 1 January 2016 sanctions were introduced to block the activity of Turkish construction and tourism companies in Russia, and to ban Russian administration and local authorities from hiring Turkish companies.

Paradoxically, however, the Russian-Turkish crisis may create new opportunities for the economies of Georgia and Azerbaijan, which are currently struggling. Georgia's potential gains include a growing influx of tourists from Russia, a trend that has already been visible in recent years. Russians are the fourth largest group of tourists visiting this country, and their number increased last year by 13.9%. As a result of the political crisis between Ankara and Moscow, further significant growth is likely. This will happen not only due to the crisis in Russian-Turkish relations but also because of the increased risk of travel to Egypt following the terrorist attack on the Russian Metrojet plane flying from the Egyptian resort Sharm el-Sheikh. In addition, some Turkish companies that have so far operated in Russia, especially in the textile industry, will move factories to Georgia. The Turkish clothing business is already present in the country, attracted, among other things by the possibilities of export to EU markets resulting from the Georgia-EU free trade agreement.

For Turkey, the crisis in relations with Russia increases the importance of cooperation between the countries of the Caucasus in joint transport and energy projects. They are also a priority for Georgia and Azerbaijan. The flagship project in this area is the construction of the Kars-Tbilisi-Baku railway, which is scheduled to open this year. Moreover, the closure of Russian borders to Turkish transport firms increases the importance of the South Caucasus as a road transit route. Azerbaijan is trying to strengthen its economy, currently dominated by the mining sector, by increasing revenues from the transit of goods. For this purpose, as well as being a gesture of solidarity with Turkey, Azerbaijan decreased tariffs on goods transported to Kazakhstan and Turkmenistan by 40%. The construction of the new commercial port in Alat near Baku is planned to encourage the development of the Caspian transport route.

In view of the crisis of the relationship with Russia, which is the main supplier of gas to Turkey, Ankara is stepping up efforts to diversify sources of natural gas. Turkey's natural partner is Azerbaijan, which together with Turkish companies is building the TANAP gas pipeline. Azerbaijani President Ilham Aliyev and Turkish Prime Minister Ahmet Davutoglu have already announced that construction will be hastened and finished before 2018. After the establishment of TANAP, the amount of Azerbaijani gas received by Turkey will increase from the current 6.6 billion cubic metres to 16 billion cubic metres (approx. 25% of the Turkey's total gas consumption). This will, in turn, reduce Turkey's high dependence on supplies from Russia, which currently accounts for about 55% of Turkish demand (compared to 10% from Azerbaijan).

Turkey-EU dialogue on the South Caucasus. The current crisis in relations between Turkey and Russia is a good moment to approximate the strategic visions of development of relations between the EU, Turkey and the Caucasus countries as participants of the Eastern Partnership, especially Georgia and Azerbaijan. The EU and Turkey share a common desire to stabilise the neighbourhood, develop regional economies and settle the conflicts. The harmonisation of policies between Brussels and Ankara will serve these goals.

Transport projects that serve not only Turkey and countries of the Caucasus and Central Asia but also affect EU carriers, should be the subject of coordination. Brussels should continue dialogue with Ankara concerning gas transportation. In addition to supporting TANAP, which will enhance the energy security of EU countries such as Bulgaria and Greece, the EU and Turkey should make joint efforts to develop routes for gas supplies from Turkmenistan and Iran.

It is necessary to coordinate EU and Turkish policy vis-à-vis the separatist republics in the South Caucasus. Options for action are limited due to Russian resistance, as Moscow will seek to maintain the status quo or increase its own control over these regions. However, the lack of a common position between the EU and Turkey will additionally reduce the chances that they can influence the "frozen" conflicts. Turkey cannot play the role of mediator in the case of Nagorno-Karabakh, because of its very close relationship with Azerbaijan. However, Ankara may mediate in the dialogue between the government in Tbilisi, Georgian civil society organisations, the authorities in Sukhumi, and representatives of the Abkhazian diaspora in Turkey. The EU should support such contacts in the same way as it does in the framework of the Civil Society Forum of the Eastern Partnership countries.

Development of dialogue between Turkey and other NATO members on regional security in the South Caucasus is also essential. Ankara's voice on key issues, such as the further integration of Georgia with the Alliance, will be particularly important during this year's NATO summit in Warsaw.