

Turkey: the transit of goods subject to Western sanctions face restrictions

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Overnight on 6 to 7 March, the Turkish electronic customs system stopped accepting transit declarations of goods sent to Russia and Belarus that were subject to EU sanctions. This fact was reported by Russian logistics companies involved in the import of goods to Russia. The Turkish authorities did not warn about the planned changes in the customs clearance rules. Nor did they present an official position on this matter that would, for example, set out the scope of the restrictions and explain why they have been imposed. On 10 March, Bloomberg, citing a high-ranking Turkish government official, confirmed reports that Ankara had suspended the transit of goods to Russia that are subject to EU and US sanctions. According to the information received, the restrictions have been in force since 1 March and have been implemented at the behest of the Turkish parliament. However, no resolution to this effect was indicated. Allegedly, goods covered by Western sanctions will be exported from Turkey to Russia on the basis of certificates of origin. This is expected to limit the possibility of re-exporting them and selling them as Turkish goods.

Commentary

- After the Russian invasion of Ukraine, Turkey not only failed to join the Western sanctions, but in fact became one of the main beneficiaries of the restrictions imposed on Russia. At the beginning of August 2022, Turkey and Russia signed an agreement on enhancing economic and energy cooperation. Turkey also opened itself up to the inflow of Russian capital and intensified trade with Russia, thus becoming a channel for circumventing sanctions. As a result, Turkish exports to Russia increased by 60% y/y in 2022 – to \$9.3 billion. In addition, Turkey doubled its purchases of Russian oil last year and is now one of the main recipients of petroleum products from Russia since the imposition of the EU embargo (in February this year).
- Ankara's decision to suspend the transit of goods subject to sanctions through its territory to Russia was most likely the result of growing pressure from the US and the EU. In recent months, Washington has consistently expressed its disapproval of the tightening trade relations between Turkey and Russia. In August 2022, the US Department of the Treasury sent letters to Turkish business associations, warning them that sanctions could be imposed on Turkish business entities which cooperated with Russian companies subject to restrictions. US government delegations have twice held consultations with Turkey regarding this issue to express concern and warn about the consequences of Turkey's intensified trade with Russia. Finally, on 2 March, the US

Departments of Finance, Commerce and Justice published a joint report in which they warned US companies against violating sanctions against Russia. Turkey was mentioned in the report as a transshipment point for the illegal redirection of restricted goods. In recent weeks, the European Union has also been intensifying efforts to prevent the circumvention of restrictions.

- The decision to introduce transit restrictions does not mean that Turkey has formally joined the Western sanctions regime. It is only meant to curb the possibilities of circumventing them via Turkey. This move is most likely motivated by the desire to minimise the scale of criticism of Ankara's increased economic involvement in its contacts with Moscow. It is also an attempt to influence the easing of the Western threats regarding the potential imposition of sanctions on Turkey's companies and financial sector. This is particularly important, especially given the fact that Turkey is already dealing with a financial crisis. Possible restrictions could aggravate this situation and have an additional negative impact on the position of the government team during the campaign ahead of the presidential and parliamentary elections. However, this does not mean that Ankara will give up its trade relations with Moscow.
- Although the way Ankara introduced the restrictions surprised entrepreneurs, most of them had expected this decision. Russian business hopes to overcome the new restrictions in the coming months. One method to circumvent the Turkish prohibition procedure on the transit of sanctioned goods involves importing them directly to Turkey, also by Russian companies registered in Turkey, and then exporting them (as Turkish goods) to Russia. However, this method will result in higher delivery costs due to the need to comply with customs procedures in Turkey (concerning, for example, VAT) and longer delivery time. According to Russian estimates (based on the transit so far), the increase in the costs of Russian importers, and consequently the potential additional income for Turkey, may reach \$200–400 million per month. Problems with obtaining a certificate of origin of goods will be another serious obstacle. At present, it is difficult to say what policy Ankara will pursue in this area. If Turkey adopts a restrictive approach to issuing certificates, this would cause a real cut in supplies of goods to Russia via Turkey and force Russian companies to look for new import routes.