

The Grey Trade of the EU-Russia Borderlands ECONOMIC OBSTACLE OR OPPORTUNITY?

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The grey trade in consumer goods and raw materials has been widespread along the borders of the Russian Federation since the 1990s. In the northwest, where Russia meets EU member states, the activity is well-established, providing consumers with a variety of discount products and profit to local shuttle traders. Despite the legal, taxation, and logistical drawbacks at the state level, it might be argued that this trading is one of the more dynamic and successful forms of cross-border cooperation. However, the trade has seen occasional discord and even public protest (on both sides of the border) in reaction to the ever-tightening official cross-border policies and restrictions.

This memo focuses on the development and impact of shuttle trading in the EU-Russian borderlands. First, I consider the major trends of this phenomenon in Russia since the early 1990s. Second, I look at the drivers and typical practices of the trade. Third, I analyze its economic and other impacts as well as the reaction of authorities. Fourth, I consider the recent trend of politicization of shuttle trade issues, which has emerged in reaction to the toughening of official EU policies that seriously affect economically disadvantaged areas that have high rates of unemployment on the EU's side of the border.

Russian Trends in the 1990s-2000s

In the early 1990s, catastrophic declines in production, mass impoverishment, and dramatically increasing unemployment, combined with a liberalization of entry and exit requirements for international travellers, made cross-border shuttle trading an attractive option for many people in the post-Soviet region. An increasing number of shuttle traders went "abroad" to buy consumer goods with the purpose of reselling them at home. Of course, not everyone involved in such activities was successful. The imported goods were not always in demand, and many shuttle traders had to deal with racketeers robbing them en route and when they sold their goods at market.

By the end of the 1990s, the Russian shuttle trade business began to decline. This was due to several reasons. First, the economic situation in the country began to improve and many people were able to find more stable and less risky jobs. Second, Russian customs policies, which had already been protectionist and unfriendly to shuttle trading, began to tighten. For example, in 2006, travellers were allowed to bring to Russia only 35 kilograms of consumer goods per month; in 2011, this limit was increased to 50 kilograms. From the other side of the border, it is also significant that in 2003 Poland—a primary destination for Russian merchants—introduced a visa regime for Russian citizens when it joined the EU.

In general, the shuttle trade remained profitable mainly in borderland areas where the proximity of a border greatly contributed to low transportation and visa costs (as many consulates were purposefully opened in borderland regions) both for Russians and inhabitants of adjacent states, such as Finland, Estonia, Latvia, Lithuania, and Poland.

Drivers and Practices of the Cross-Border Shuttle Trade

The majority of citizens living in borderland areas suffered greatly in the first years after the collapse of the USSR. There was a disintegration of economic ties between Russia and neighboring states, and many enterprises lost their partners and markets. Rather quickly, inhabitants of such areas perceived a wide range of opportunities to sell goods across the nearby borders due to sharp differences in, for example, fuel prices, food products, alcohol, medicine, and clothing. The “new” international borders between Russia and the Baltic states were poorly protected in the first half of 1990s. Until June 1992, they were even considered internal in Russian legislation, which gave shadow entrepreneurs a unique opportunity to transfer goods (including huge amounts of scrap metal) virtually risk- and penalty-free¹.

In the EU-Russia border regions, especially in the Ida-Viru county of Estonia, the Latgale region of Latvia, and in the Warmia-Mazury district of Poland, shuttle trading served as an important source of income for Russians, particularly during those economically uncertain and depressed times. The flow of goods was mostly westward because Russian prices were lower than prices in neighbor states.

In the Kaliningrad exclave, the flow of goods brought by shuttle traders was reciprocal: Poles bought cheap cigarettes and fuel while Kaliningrad residents bought a wide range of consumer goods that were less expensive than those supplied from within Russia, since Russian customs barriers, delivery challenges, and weak competition among local producers created high prices.

Over time, some techniques became routine. Small-scale traders in fuel, for example, in order to avoid customs duties, filled the petrol tanks of their vehicles and sold it on the other side. Naturally, large fuel tanks were in high demand—people

¹ For more, see Serghei Golunov, [*EU-Russian Border Security: Challenges, \(Mis\)perceptions, and Responses*](#) (London: Routledge, 2012), especially Part V.

installed large tanks in their vehicles or bought cars like Volkswagen Passats that have large fuel tanks. Some even created fake bus routes to use large vehicles. At the Narva-Ivangorod border area, a major border crossing zone between Russia and Estonia that can be crossed on foot, the range of goods is diverse and new small-quantity techniques have been developed, such as using baby strollers.

Often, the shuttle trade represents the so-called “ant trade,” when goods brought through borders in small lots are actually controlled by larger entrepreneurs or systematically bought by them after a border is crossed. For instance, some bus and shuttle van drivers crossing the Russian-Finnish border distribute cigarette cartons among passengers and threaten to not give them a lift next time if they refuse to cooperate. Some companies even organize free or low-cost tours to Finland for those who are ready to assist them in exporting and importing goods. In Poland, cross-border traders that have established connections with petrol-filling stations are actually nicknamed *mrówki* (“ants”). Similar schemes are also flourishing in other EU-Russia borderland regions.

Effects and Official Reactions

Already in the 1990s, the vigorous cross-border activity of shuttle traders started to cause traffic congestion at checkpoints. Russia-EU cross-border cooperation programs modernised some checkpoints and adjacent roads, but congestion problems remain.

Another major effect of the shuttle trade was its competition with legal businesses specializing in fuel, tobacco, and some foodstuffs. In most cases (with the partial exception of Kaliningrad), Russia has had a relatively tolerant attitude toward such activities as they predominantly involve the purchase of Russian goods thereby bringing profit and additional jobs to borderland regions. The effect of shuttle trading on neighboring EU member states (especially the Baltic states and Poland) was more controversial. On the one hand, it served as employment for many inhabitants of borderland regions suffering from high unemployment: specifically, in the above-mentioned regions of Ida-Viru (Estonia), Latgale (Latvia), Warmia-Mazuria (Poland), as well as Klaipeda county in Lithuania—all places where the unemployment rate has fluctuated from 15 to over 20 percent. This was the main reason that authorities in these states were long reluctant to undertake firm measures against grey traders. There was a real fear of heavy socioeconomic consequences. On the other hand, the trade became a serious threat to legal EU petrol and tobacco producers and sellers, whose business costs are high.

In 2008-09, the Baltic states and Poland at last decided to implement firmer measures against the grey tobacco trade, diminishing the daily norm of allowable imports from 200 to 40 cigarettes (in Finland the norm allowing imports of 200 cigarettes has remained unchanged until now). This made grey cross-border trade in cigarettes unprofitable and thus some shuttle traders switched to gasoline while others have chosen to bring in cigarettes illegally. At the beginning of the 2010s, the share of illegal

cigarettes in the Latvian market was estimated at 50 percent, in Lithuania at 25 percent, in Estonia at 25 percent, and in the Polish market at 15 percent. It is worth mentioning that in Estonia and Poland the cigarette consumption rate (more than 1500 per adult per year) is above the consumption rate in the majority of EU member states, while in Finland, Latvia, and Lithuania it is much lower but also significant (600-800 per adult per year)².

The subsequent wave of customs restrictions targeted illicit trade in fuel (gas is still almost twice as expensive in the EU than in Russia). In 2011, Lithuania started to collect excise duties for fuel in tanks from motorists who crossed the Russia-EU border more than five times a month. In 2012, Latvia introduced a similar excise duty for those who crossed the border more frequently than once a week. That same year, Estonia started to charge “suspicious” vehicles for fuel that the authorities estimated to be more than sufficient for reaching their destination in Estonia. In 2013, Poland started to charge “fees” to motorists who crossed the border more than ten times a month.

As usually happens in such cases, some loopholes continued to exist: for instance, some fuel traders bought petrol from long-distance truck drivers crossing the EU-Russian border. However, generally such measures dealt a very serious blow to cross-border shuttle traders whose most popular activities now became subject to greater restrictions.

Politicization Trends

Thus, after being cautious for a long while, Polish and Baltic states’ authorities finally enacted tougher policies toward domestic shuttle traders at the end of the 2000s. Because such measures deprived many people in depressed borderland areas of an important source of income, they led to popular discontent.

In some cases, restrictions on shuttle trade have led to mass protest actions, an atypical phenomenon for these regions. In February 2012, inhabitants of Latvia’s Latgale region reacted to the introduction of petrol excise duties by organizing several demonstrations and pickets in the cities of Riga and Rezekne and signing petitions against the new measure. Some activists even called for granting autonomy to their region. In northern Poland, the introduction of excise duties caused even stronger protests. In May-June 2013, protesters organized mass actions near the Polish-Russian border and sent a petition to the Polish constitutional court. They managed to be heard not only by mass media but also by major opposition parties. In the end, Polish customs regulations were only slightly modified, to make them more compliant with existing law and somewhat more flexible.

Although in these and other cases, protesters did not succeed in obtaining major concessions from authorities, the overall trend can be considered an alarm. If unemployed inhabitants of borderland regions do not find other options to continue

² Cigarette Consumption,
http://www.tobaccoatlas.org/products/cigarette_consumption/annual_cigarette_consumption

their shuttle trade or, alternatively, do not find jobs in their regions or outside them, authorities can face great challenges in the future. In the Ida-Viru county of Estonia, where Russians are a majority of the population, the potential for local protests is considerably softened by the emigration of young people to other parts of Estonia and to other EU states.

It should also be noted that protests against tightened customs policies together with demands for greater autonomy are not atypical for Kaliningrad. In October 2013, local civic activists in the city of Kaliningrad organized an Internet campaign calling for a protest against an ongoing Russian “customs war” with Lithuania. Finally, the meeting was cancelled as Russia ceased its close inspection of every Lithuanian vehicle crossing the border.

Conclusion

The grey shuttle trade along EU-Russian borderlands has arguably been more successful in many respects than any official cross-border cooperation. It is difficult to identify any form of the latter that would provide opportunities for income on the other side of a border for so many people and that would stimulate cross-border movement to such an extent. At the same time, shuttle trading greatly damages certain legal businesses (that also provide many jobs) and is one of the main reasons for traffic congestion that repeatedly paralyzes cross-border traffic movement.

Because the flow of goods bought by shuttle traders is directed mainly westwards, Russia remains relatively open to such activity as it provides borderland regions with additional incomes and jobs. The activities of Kaliningrad traders who buy cheaper consumer goods in Poland are less welcomed. While Finland remains relatively tolerant toward trade in such popular goods as petrol and tobacco, the Baltic states and Poland have after many years of relative tolerance resorted to restrictive and penalizing policies. Such restrictive measures have caused an atypically strong, although short-term, protest reaction in some borderland regions that suffer from severe unemployment. It remains unclear whether active unemployed borderlanders will react to unfavorable changes by increasing their political activity or will manage to adapt to new circumstances by resorting to novel grey trading practices or finding jobs outside their depressed regions.