



# TRANS-INGUR/I ECONOMIC RELATIONS: A CASE FOR REGULATION

Volume 2



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# TRANS-INGUR/I ECONOMIC RELATIONS: A CASE FOR REGULATION

## Volume 2

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## Introduction

Trans-Ingur/i trade takes place between Georgian and Abkhaz entrepreneurs in a context where the conflicting sides have no relations, including economic ones.<sup>1</sup>

The monitoring of trans-Ingur/i trade carried out between August 2012 and January 2013 showed that the volume of trade was worth around US\$15 million.<sup>2</sup> The trade was clearly seasonal in nature, with the highest volumes observed in July–August (US\$1.5 million per month) and the lowest in January–February (US\$0.6–0.8 million per month).

The following characteristics of the trade were identified:

1. Trade flows are asymmetrical: goods are supplied to the Abkhaz market by Georgian producers or intermediaries. This unidirectional movement of goods is determined by the balance of supply/demand aligned with trends in price.
2. Trade flows from Abkhazia to the Georgian market are determined by price conditions for various types of agricultural products, in particular hazelnuts, tangerines, kiwi fruit and feijoa,<sup>3</sup> in Russia and Europe.
3. Potatoes, tomatoes, cucumbers, onions and apples constitute the largest group of vegetables and fruit brought to Abkhaz markets across the Ingur/i River, equivalent to 20–40 percent of the total volumes of these products imported from Russia and Turkey. Furniture supplied to Abkhazia across the Ingur/i River, including items produced in Georgia and those imported into Georgia, is equivalent to 40 percent of the total direct shipments of furniture from Russia and Turkey to Abkhazia.
4. The volume of potatoes, tomatoes, cucumbers, onions and apples and some other fruit from Georgian producers supplied to Abkhaz markets is up to ten times greater than the total official Georgian exports of these products. The trans-Ingur/i flow of meat and dairy products equals the total exports of these products from Georgia to other destinations.
5. Furniture brought into Abkhazia equates on average to 25 percent of official export volumes of furniture from Georgia.

Officials on both sides are taking no action either to legalise this trade or to put a complete stop to it. Each side has its own reasons for adopting this position.

The legalisation of this trade would be a serious political step towards greater security and trust-building in the conflict zone, which neither side is currently prepared to take. From the political perspective, for the Georgian side, goods that cross the border and enter Abkhazia constitute internal trade across an administrative border, while, for the Abkhaz side, this trade is considered to be foreign trade across a national border.

Georgia's commitments within the framework of the Deep and Comprehensive Free Trade Area (DCFTA) (an agreement between the European Union and Georgia, which came into force in September 2014) mean it must take responsibility for ensuring that goods that do not comply with EU standards and that are produced by companies that are not inspected by EU-licensed experts do not end up on the Georgian market, since from there they could reach the European market

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<sup>1</sup> The Ingur/i hydropower plant is an exception.

<sup>2</sup> N. Mirimanova (2013) 'Trans-Ingur/i economic relations. A case for regulation', International Alert, London, [www.international-alert.org/resources/publications/trans-inguri-economic-relations-case-regulation-en](http://www.international-alert.org/resources/publications/trans-inguri-economic-relations-case-regulation-en)

<sup>3</sup> A fruit of the guava family.

unimpeded. This means that the existence of a porous border with places where EU standards do not apply is not in Georgia's interests. In addition, the Law on the Occupied Territories,<sup>4</sup> which was adopted after the war between Russia and Georgia in August 2008 and which rules any economic (including entrepreneurial) activity in Abkhazia illegal, is still in force. On the other hand, the Georgian population on both sides of the disputed border has a vital interest in this trade continuing, as for many, if not the majority of, families, it forms their main source of income. This means that Georgia cannot address the issue of stopping trans-Ingur/i trade without causing problems for compatriots, especially in Gal/i, who are considered to be a vulnerable group in Abkhazia.

For their part, the Abkhaz authorities consider the movement of goods across the disputed border as being of marginal significance and, essentially, as criminal activity. However, the infrastructure of informal trade is advantageous for all those who take part in it, whether high or low level. It meets consumer demand without attracting public attention, since it is only agricultural rather than branded products that are supplied from Georgia and these do not stand out from other similar products from Russia and Turkey. Many Abkhazians are well aware that potatoes from Svaneti and apples from Gori are available at the markets and even seek to buy these products specifically, due to their optimum price-quality ratio. However, in public discourse, trade with Georgia remains a taboo subject.

In order to help the sides to view the phenomenon of sustainable trade relations as a potential component in building trust, transforming the conflict and strengthening local and regional security, the phenomenon must be studied so that its social and economic significance can be identified and its legal context documented.

## Research aims

The main aim of this research was to assess the scale and structure of trans-Ingur/i trade during the period **from November 2013 to December 2014**. This was the second period of monitoring following the trans-Ingur/i trade monitoring which was carried out from August 2012 to January 2013. This new monitoring period focused on two tasks:

1. Testing the theory that, if the border between Russia and Abkhazia were to be closed during the Olympic and Paralympic Games in Sochi, from 7 January to 21 March 2014 and the preparatory period from November 2013, the volume and variety of trans-Ingur/i trade would increase.
2. The results of the first monitoring period attracted significant interest among Abkhaz and Georgian experts, civil society, the authorities and the business communities. It was therefore decided to conduct a second period of monitoring, designed to overlap partially with the first period, in order to identify individual, seasonal and more general, universal characteristics of trans-Ingur/i trade.

## Methodology for research into informal trade

The monitoring was carried out using the same methods developed for the previous monitoring period.<sup>5</sup> In developing a methodology to assess the scale of informal trade, the researchers encountered a number of challenges:

<sup>4</sup> See Article 6 of the Georgian Law on the Occupied Territories. See also the Criminal Code of Georgia, Articles 3221-2 and 3222-2: 'Carrying out prohibited economic activity in the occupied territories': 1. Carrying out economic activity, prohibited by the Georgian Law on the Occupied Territories, in the occupied territories is punishable with a fine or imprisonment for a term of between three and five years. 2. The same action committed: a) by a group, b) repeatedly; is punishable with a fine or imprisonment for a term of four to six years.

<sup>5</sup> N. Mirimanova (2013) Op. cit.

- The politicised nature of the subject and, consequently, mythologised narratives of the phenomenon hindered its objective study.
- There is a lack of statistics on the informal trade.
- Since all trade across the Ingur/i River is informal, and thus hidden, it is not feasible to conduct regular visual and documentary assessments of the volume of goods crossing the border, due to practical difficulties and the high level of risk to the researchers. It is therefore impossible to carry out an accurate quantitative assessment of trans-Ingur/i trade. For this reason, informal (shadow) trade was measured by means of proxy indicators to provide an empirical assessment. These indicators were selected on the basis of their ability to provide a reasonable prediction of the volume of goods crossing the Ingur/i River.<sup>6</sup>
- The assessments of informal trade made by its participants and observers are of limited reliability.
- It was not possible to establish a representative and sufficiently large sample of people involved in informal trade. As a result, it was not possible to employ the quantitative survey method as a substitute for the lack of official statistics on informal trade. Using quantitative analysis to test the hypothetical links between variables pertaining to informal trade and variables pertaining to social, political and other factors proved impossible, since the number of observations gathered was insufficient.
- Personal risks for the researchers and research subjects made long-term field research problematic.
- The research should be long-term and uninterrupted. However, this requires significant resources and increases the risks for the researchers and the research subjects.
- While there are always difficulties in assessing shadow trade, in conflict conditions the task becomes much more complex. Researchers on the different sides of the line of conflict are unable to undertake any work on the opposite side. Therefore, the approach adopted for this research was to carry out the same work on each side of the conflict and regularly compare the data collected.

In order to minimise the difficulties outlined above, the following decisions were taken:

- From the conceptual perspective, Trans-Ingur/i trade was considered as a subject for research (analytical framework) rather than as a matter for judgement (political, moral and legal framework).<sup>7</sup> This approach meant that the subject of the research could be depoliticised and an objective picture of trans-Ingur/i trade could be established, the motivations of those involved identified, as well as those of its opponents, and its economic significance in the local and national context evaluated.
- The volume of goods transported across the Ingur/i River was assessed by means of proxy indicators of the scale of informal trans-Ingur/i trade collected during the process of monitoring the Abkhaz markets and the market in Zugdidi and conversations conducted with people involved in the trade.
- The monitoring was conducted using anthropological methods: the researchers were immersed in the context, developed relationships of trust with people involved in trans-Ingur/i trade and observed the trade 'from the inside'. The data obtained from conversations with buyers and sellers were compared with observations of the markets.
- The monitoring was conducted over a prolonged period (6 months during the first phase and 14 months for the second phase).
- The monitoring was conducted at both ends of the trade route simultaneously, i.e. on both sides of the conflict, employing an identical methodology. The researchers visited selected markets once a month throughout the monitoring period.
- The monitoring was conducted by teams of researchers. Different members of the team visited the markets and talked directly with the traders and customers so that data obtained by the different researchers could be compared.

<sup>6</sup> M. Ruge (2010) Determinants and size of the shadow economy: An empirical structural equation model with latent variables, Preliminary version. Available at: [http://www.profpetersen.de/HGP-Homepage/projekte/schattenwirtschaft/Working%20Group%203/01%20Ruge\\_Determinants\\_and\\_size\\_of\\_the\\_shadow\\_economy\\_potsdam2010.pdf](http://www.profpetersen.de/HGP-Homepage/projekte/schattenwirtschaft/Working%20Group%203/01%20Ruge_Determinants_and_size_of_the_shadow_economy_potsdam2010.pdf)

<sup>7</sup> An analysis of the legal context of trans-Ingur/i trade was conducted by Georgian and Abkhaz legal experts during the first monitoring period and formed part of a separate piece of research: see N. Mirimanova (2013) Op. cit.

## Results

### Trans-Ingur/i trade flows

In 2013 two additional public crossing points were opened. To date, there are five checkpoints along the Ingur/i river. In September 2014, Abkhaz authorities talked about the need to close the four checkpoints<sup>8</sup> but the results of the monitoring indicate that the routes for transporting goods across the border remained the same as in 2013:

- the Ingur/i bridge, which accounts for over 85 percent of goods traffic;
- the so-called 'Upper Zone', an area that is difficult to cross and sparsely populated and which accounts for around 5 percent of cross-border trade; and
- the so-called 'Lower Zone', a more populated area through which around 10 percent of trade between Abkhazia and Georgia flows.

As in 2012, trans-Ingur/i trade is dependent on the operation of Gal/i market. Since this market is only held three days a week (on Wednesdays, Fridays and Sundays), two-thirds of the goods that are brought weekly from Georgia arrive on these days.

### Distribution of goods from Georgia to Abkhaz markets

During the second phase of the research, as in 2012, a study was made of the distribution of goods from Georgia to the different towns and regions of Abkhazia and any changes occurring during the research period were recorded. The main market for goods from Georgia is in Sukhum/i. Over the winter period the percentage of goods rose from 51 to 64 percent compared with the previous research period. The share of consumption of goods from Georgia in the towns of Gudauta, Ochamchira/Ochamchire and Gal/i was virtually unchanged and comprised 6 percent, 4 percent and 14 percent, respectively. During the winter months the share of goods from Georgia on the market in Gagra fell from 25 percent in summer 2012 to 12 percent, although during the summer of the following year the distribution of goods on the Abkhaz markets was identical to the results of the monitoring in 2012. It can therefore be concluded that the proportion of goods brought from Georgia and sold on the market in Gagra is higher in the summer months than during the winter months.

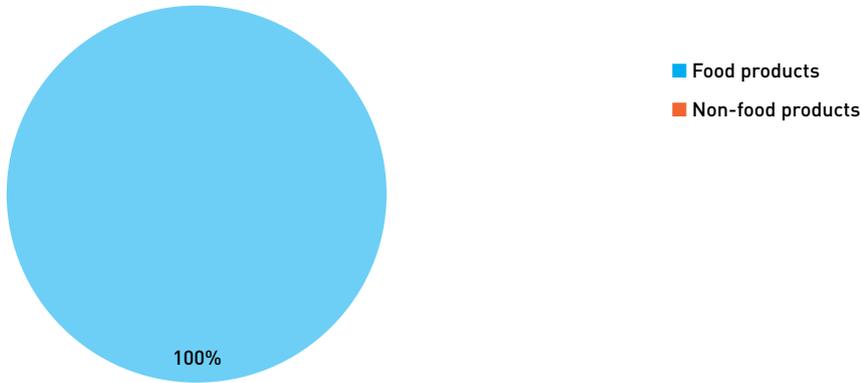
### Composition of goods

The key difference between the structure of trade during the period from November 2013 to December 2014 and the period from August 2012 to January 2013 was the reduction in non-food products as a proportion of the total volume of goods during the monitoring period: from 30–40 percent in November 2013 to 2–5 percent in December 2014 (see Figures 1 to 5). During the previous monitoring period, the share of non-food products was a stable 30–40 percent. This change can be explained by a number of factors. First, it became possible to buy household appliances and electrical goods under guarantee from dealers for Russian retail chains and shops. Second, the significant fall in the value of the rouble (from 30 roubles to the dollar at the beginning of the monitoring period to 60 roubles to the dollar at the end of 2014) meant that clothing and

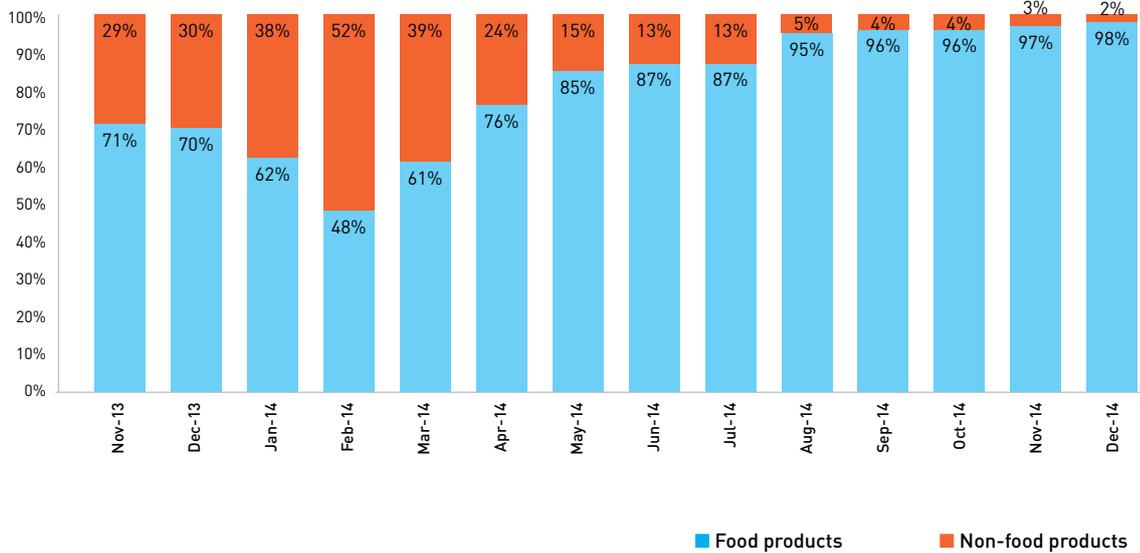
8 I. Bartsits, 'Prezident Abkhazii Khadzhimba khochet zakryt' pyat' KPP na granitse s Gruzией' ['Abkhaz President Khadzhimba wants to close five checkpoints on the border with Georgia'], RIA Novosti [RIA Novosti], 3 October 2014. Available in Russian at: <http://ria.ru/world/20141003/1026767543.html#ixzz3SD1z8n6W>

other goods purchased in Georgia at prices calculated on the rate of the US dollar became 1.5 times to twice as expensive when converted into roubles. Therefore, it ceased to be profitable to compete with supplies from Russia, which continue to be sold in roubles.

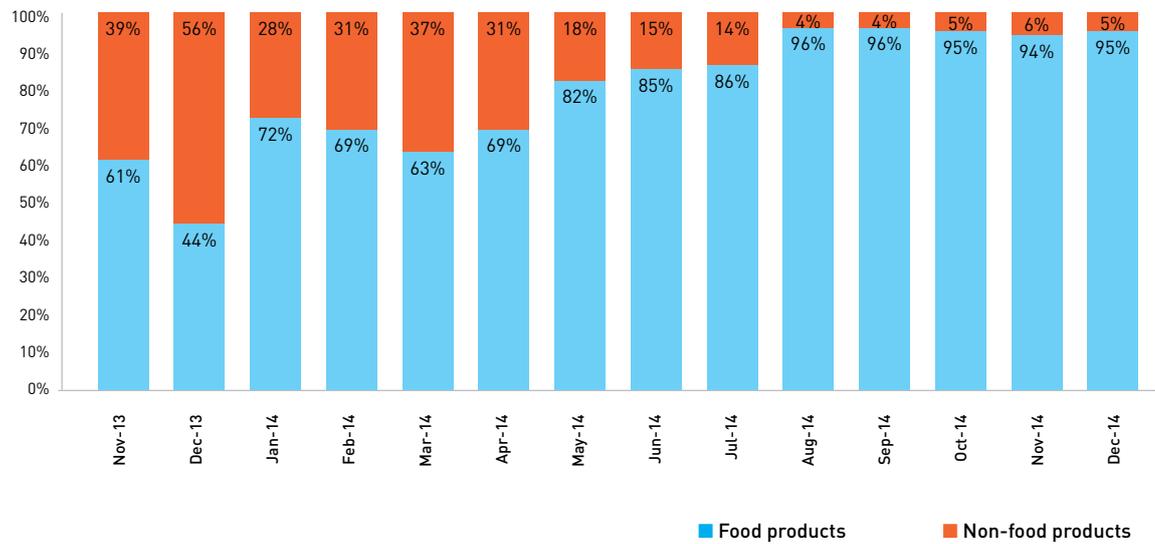
**Figure 1: Proportion of food and non-food products in trans-Ingur/i trade (in tonnes), November 2013–December 2014, assessed on the Georgian side**



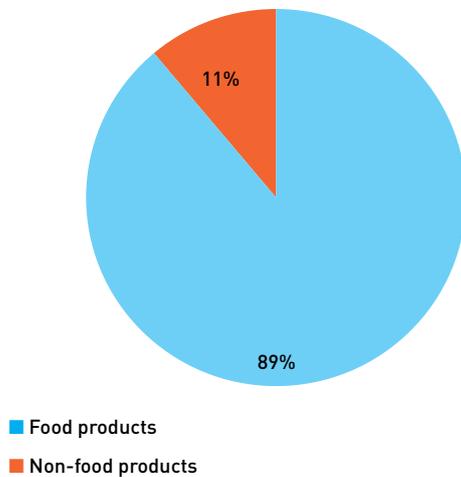
**Figure 2: Proportion of food and non-food products in trans-Ingur/i trade (in US\$), by month, assessed on the Abkhaz side**



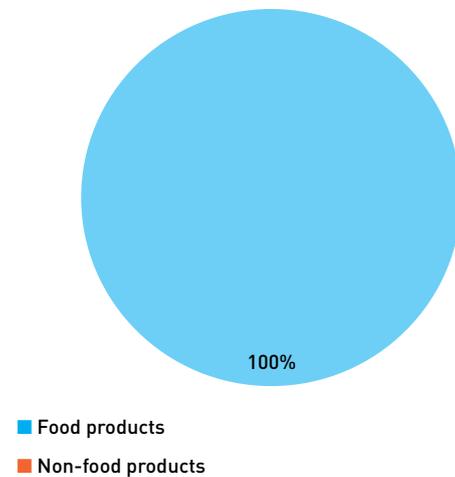
**Figure 3: Proportion of food and non-food products in trans-Ingur/i trade (in US\$), by month, assessed on the Georgian side**



**Figure 4: Proportion of food and non-food products in trans-Ingur/i trade (in US\$), November 2013–December 2014, assessed on the Abkhaz side**

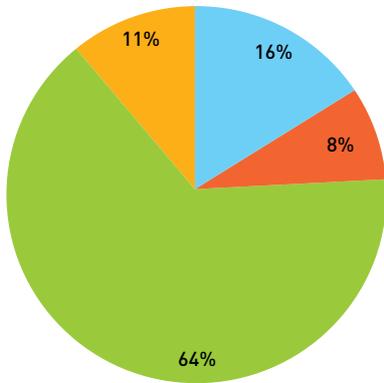


**Figure 5: Proportion of food and non-food products in trans-Ingur/i trade (in tonnes), November 2013–December 2014, assessed on the Abkhaz side**



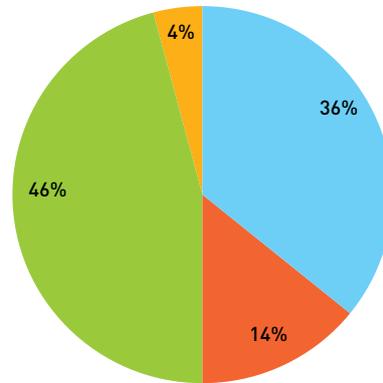
During the monitoring period from November 2013 to December 2014 there was a substantial change in the composition of food products and their direction of movement, due to the significant proportion of hazelnuts transported from Abkhazia by wholesale buyers to Georgia for onward sale on the European market (see Figures 6 to 9).

**Figure 6: Average estimates (in US\$) of food products transported across the Ingur/i, including hazelnuts, November 2013–December 2014, Zugdidi**



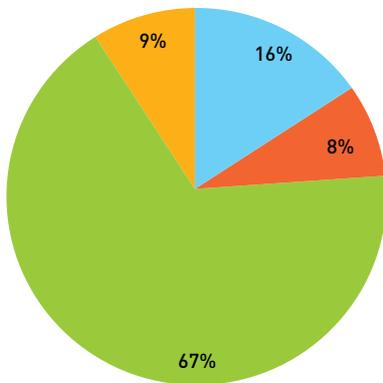
- Vegetables
- Fruits
- Hazelnuts
- Meat and dairy

**Figure 7: Average estimates (in tonnes) of food products transported across the Ingur/i, including hazelnuts, November 2013–December 2014, Zugdidi**



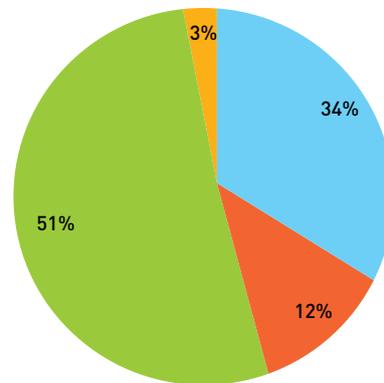
- Vegetables
- Fruits
- Hazelnuts
- Meat and dairy

**Figure 8: Average estimates (in US\$) of food products transported across the Ingur/i, including hazelnuts, November 2013–December 2014, Abkhazia**



- Vegetables
- Fruits
- Hazelnuts
- Meat and dairy

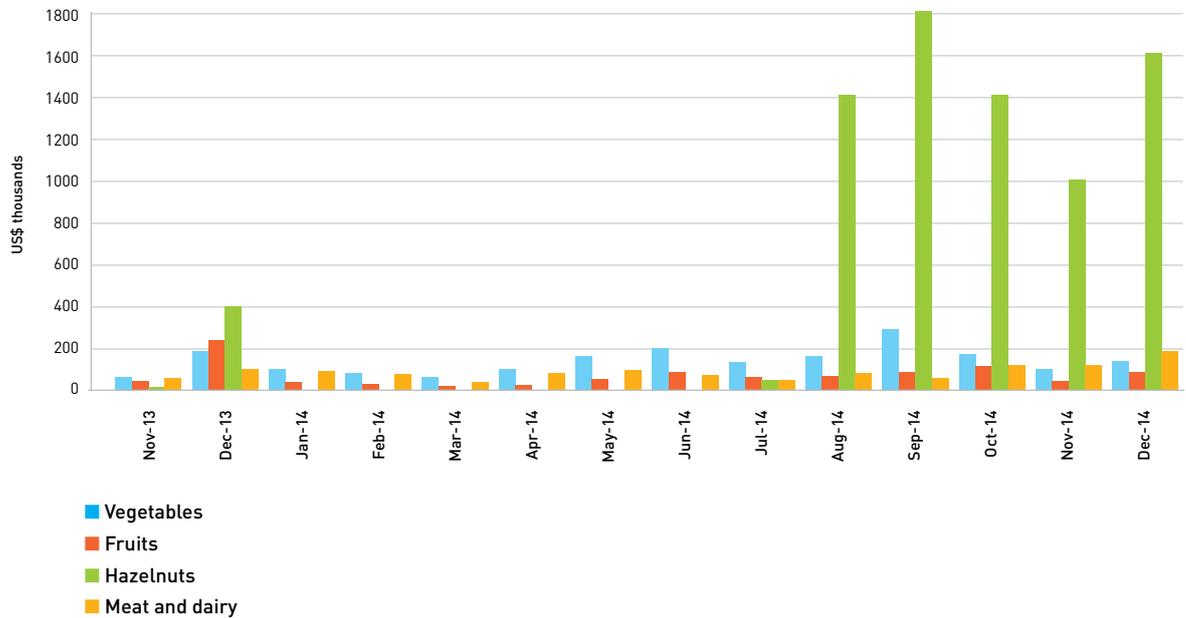
**Figure 9: Average estimates (in tonnes) of food products transported across the Ingur/i, including hazelnuts, November 2013–December 2014, Abkhazia**



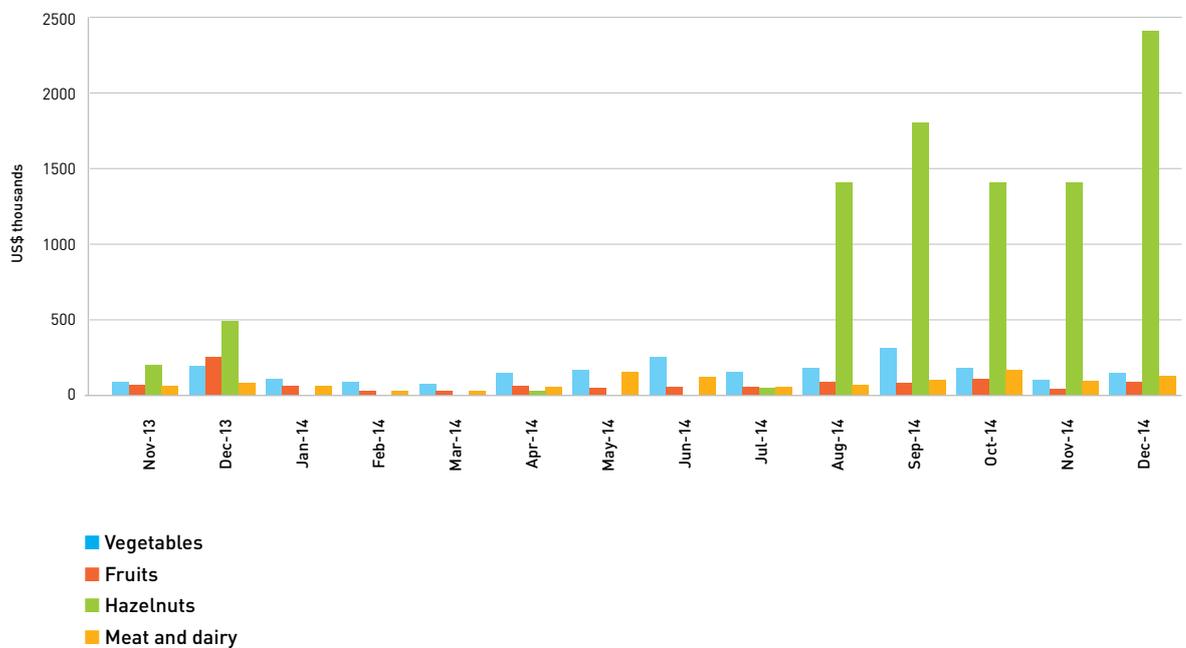
- Vegetables
- Fruits
- Hazelnuts
- Meat and dairy

Hazelnuts appeared in trans-Ingur/i trade during the final months of 2014 (see Figure 10).

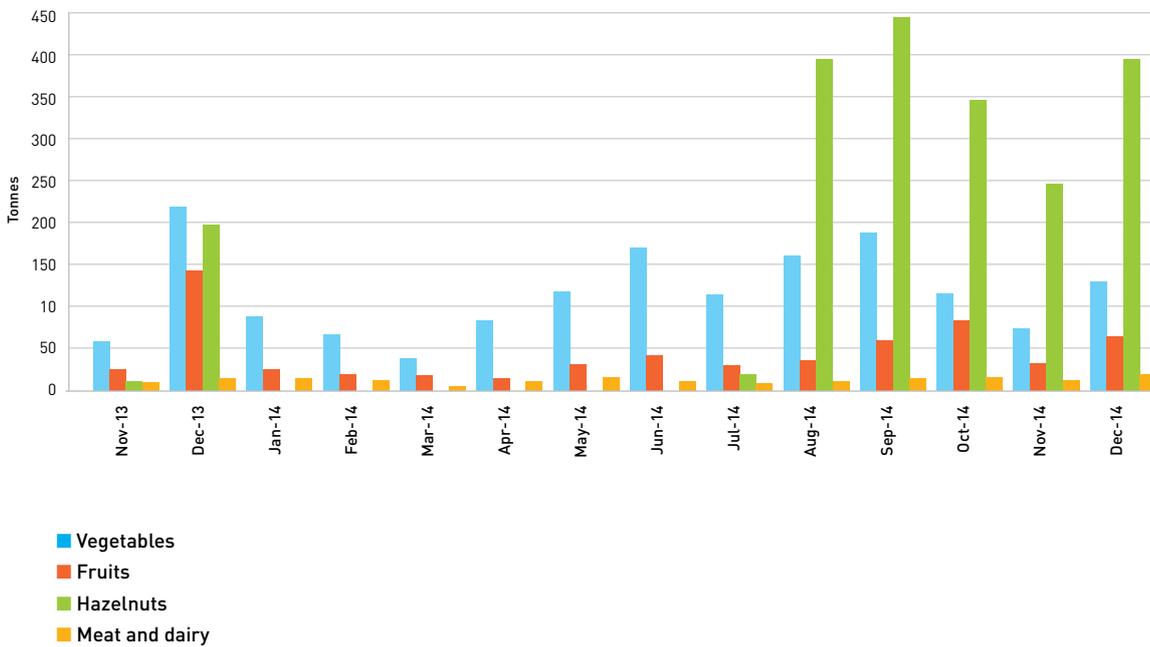
**Figure 10: Monthly value (in US\$ thousands) of food products transported across the Ingur/i, including hazelnuts, November 2013–December 2014, Zugdidi**



**Figure 11: Monthly value (in US\$ thousands) of food products transported across the Ingur/i, including hazelnuts, November 2013–December 2014, Abkhazia**



**Figure 12: Monthly volume (in tonnes) of food products transported across the Ingur/i, including hazelnuts, November 2013–December 2014, Zugdidi**



**Figure 13: Monthly volume (in tonnes) of food products transported across the Ingur/i, including hazelnuts, November 2013–December 2014, Abkhazia**

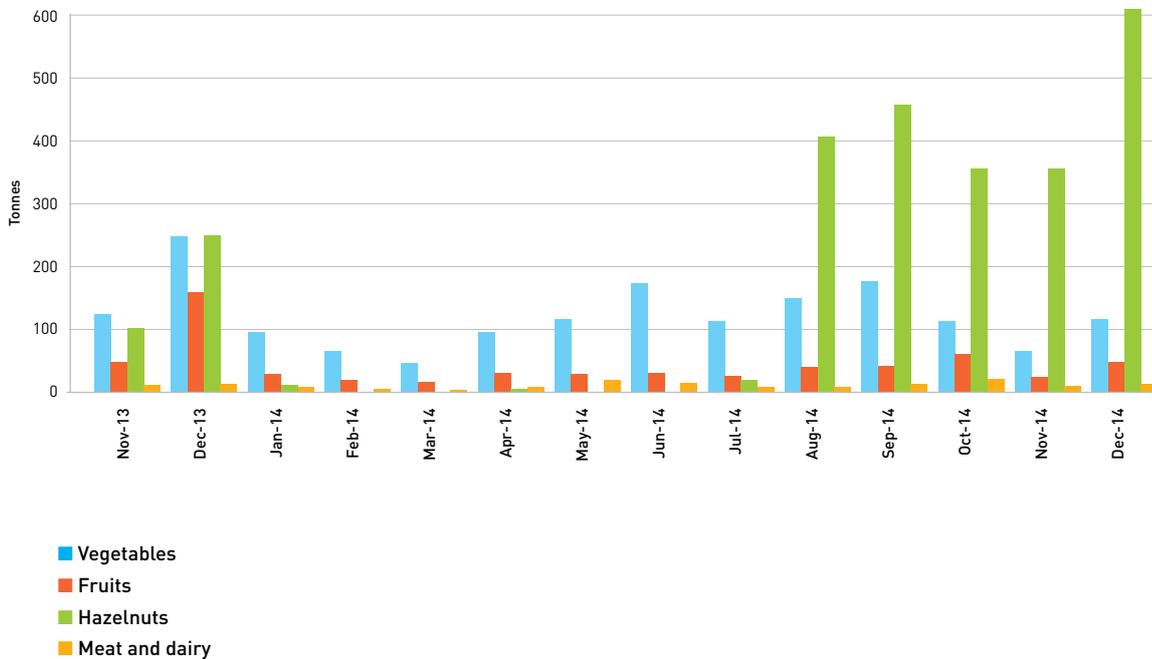
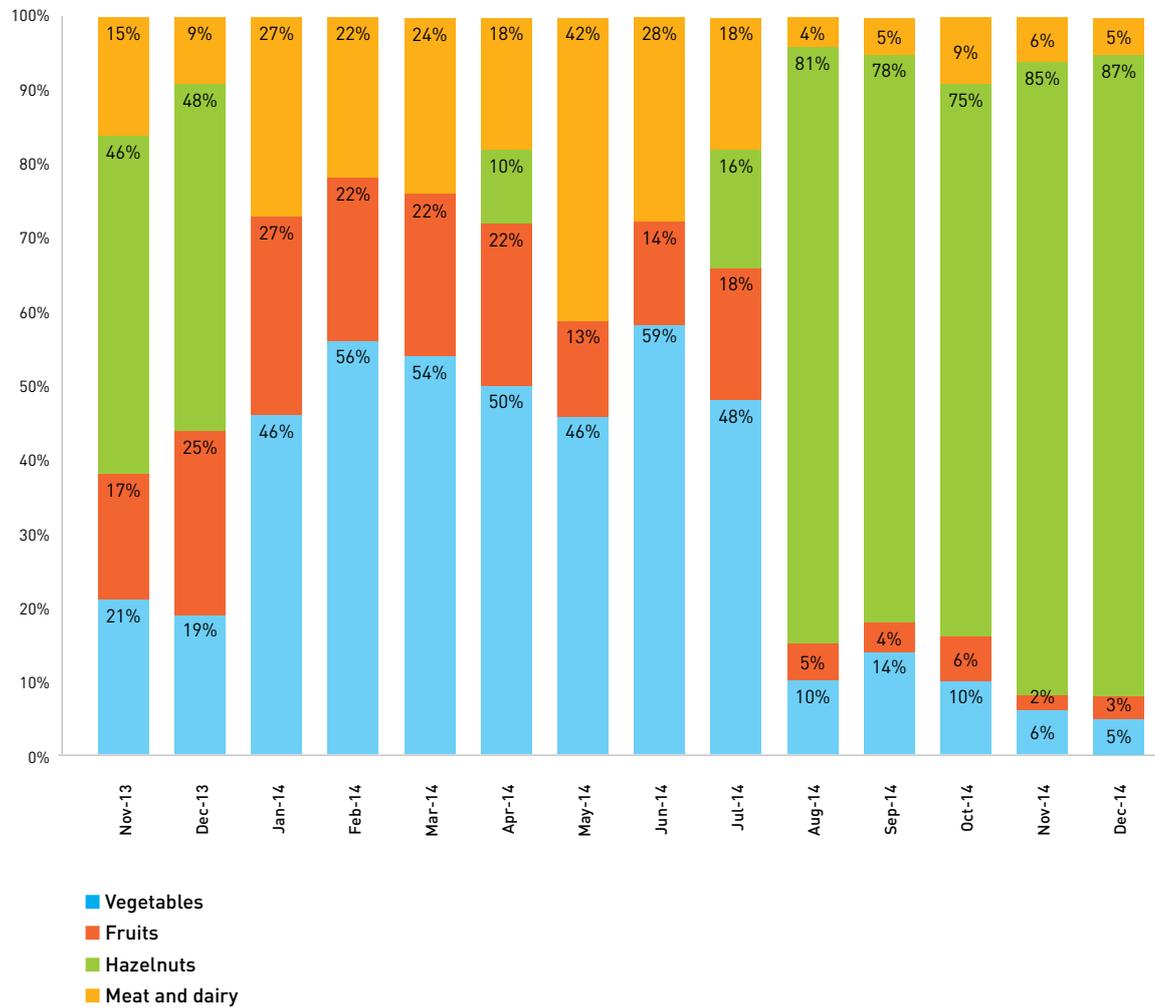
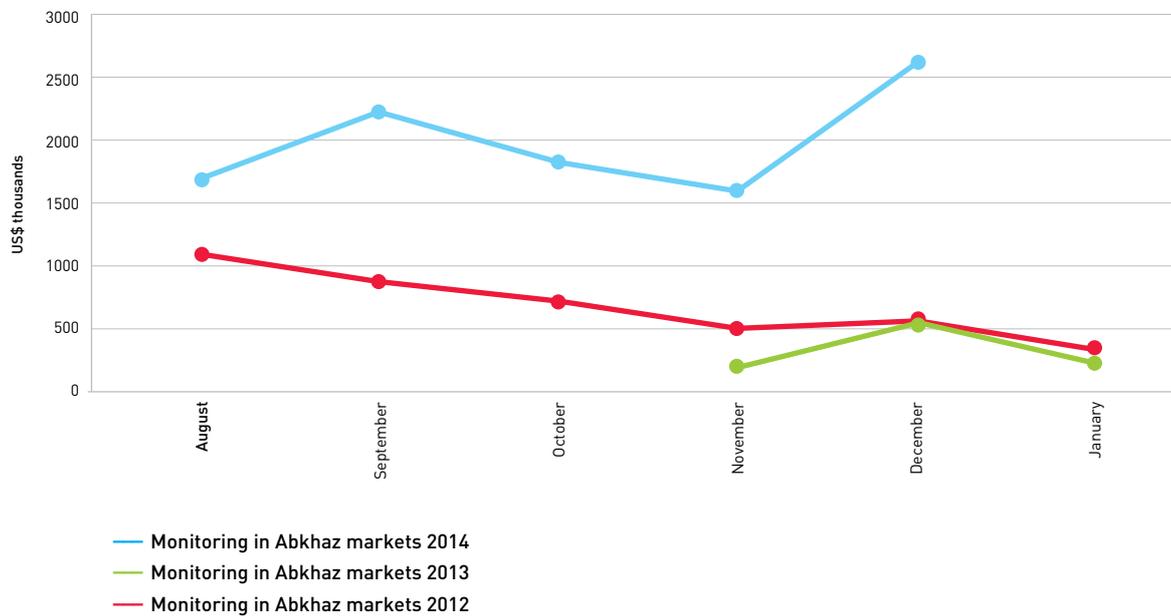


Figure 14: Percentage by value of different food products (in US\$), by month, November 2013–December 2014, Abkhazia



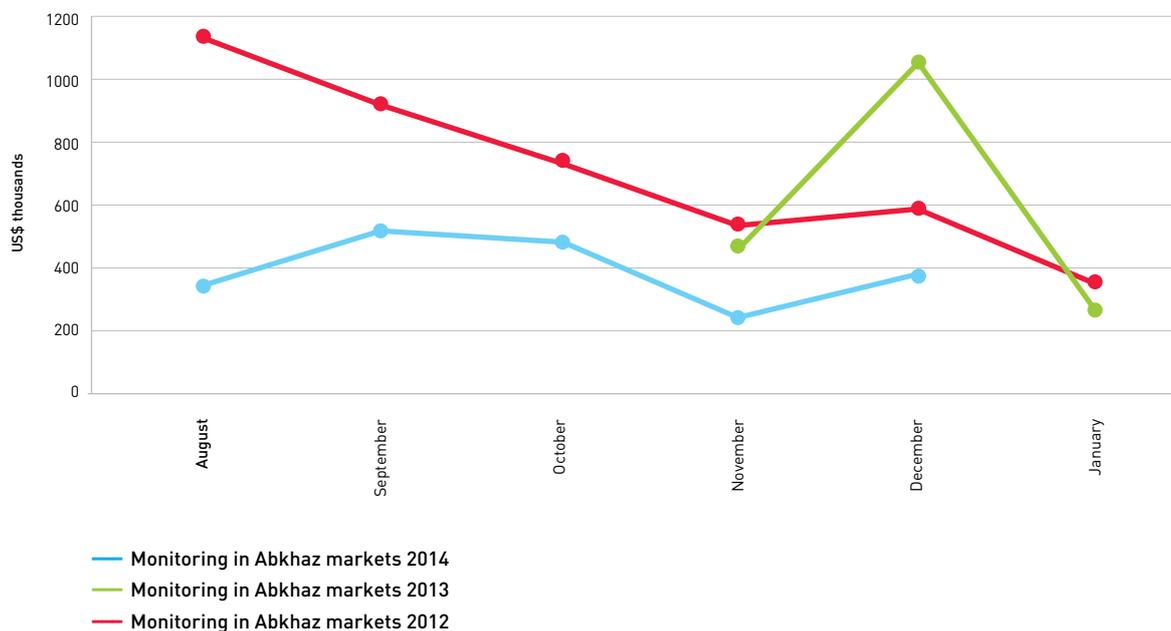
The volume of hazelnuts in trans-Ingur/i trade in food products was responsible for an increase between August and December 2014 compared with 2012 (see Figure 15).

**Figure 15: Estimated value of food products transported across the Ingur/i (in US\$ thousands)**



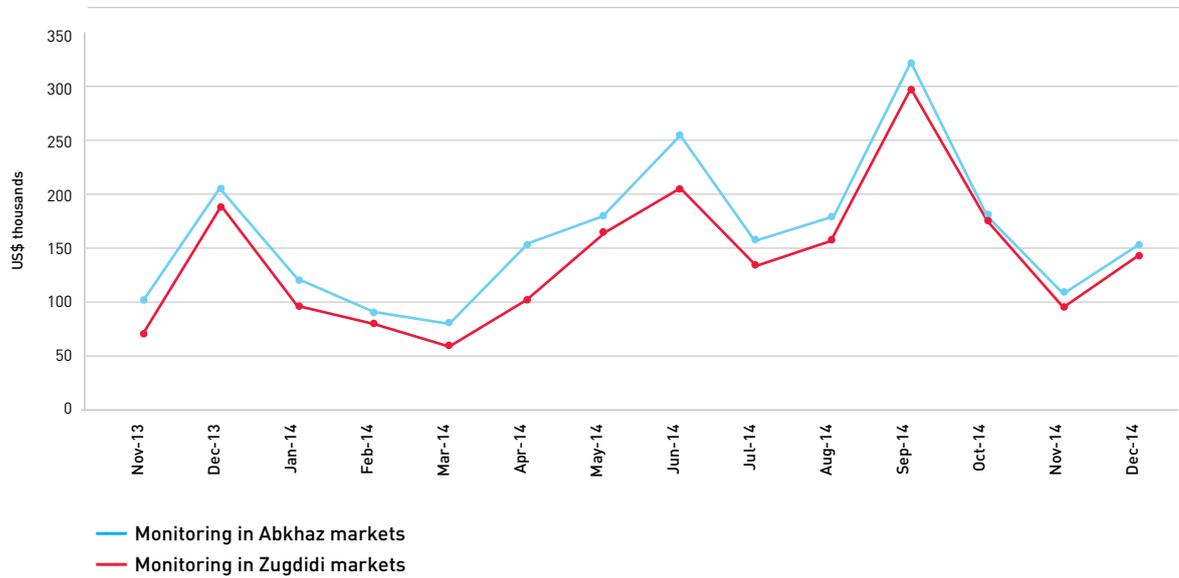
However, if hazelnuts are excluded from the total volume of food products, the picture is rather different (see Figure 16). The volume of trade in the remaining food products in 2014 fell, on average for the period from August to December, by 50 percent. This reduction in trade was seasonal: with a decline in August 2014 of 70 percent and in December 2014 of 30 percent compared with August and December 2012.

**Figure 16: Estimated value of food products, excluding hazelnuts, transported across the Ingur/i (in US\$ thousands)**



The pattern in trade volumes for vegetables and comparisons with the same periods in 2012 and 2013 are shown in Figures 17, 18, 19 and 20.

**Figure 17: Estimated monthly value of vegetables transported across the Ingur/i, November 2013–December 2014 (in US\$ thousands)**



**Figure 18: Estimated monthly volume of vegetables transported across the Ingur/i, November 2013–December 2014 (in tonnes)**

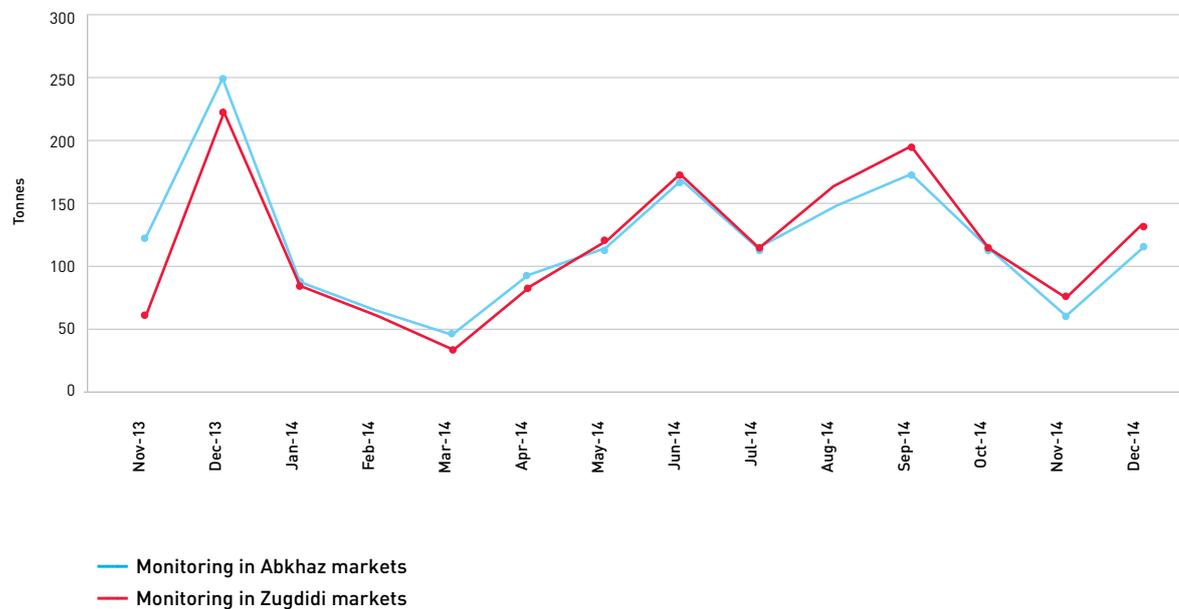


Figure 19: Estimated value of vegetables transported across the Ingur/i (in US\$ thousands)

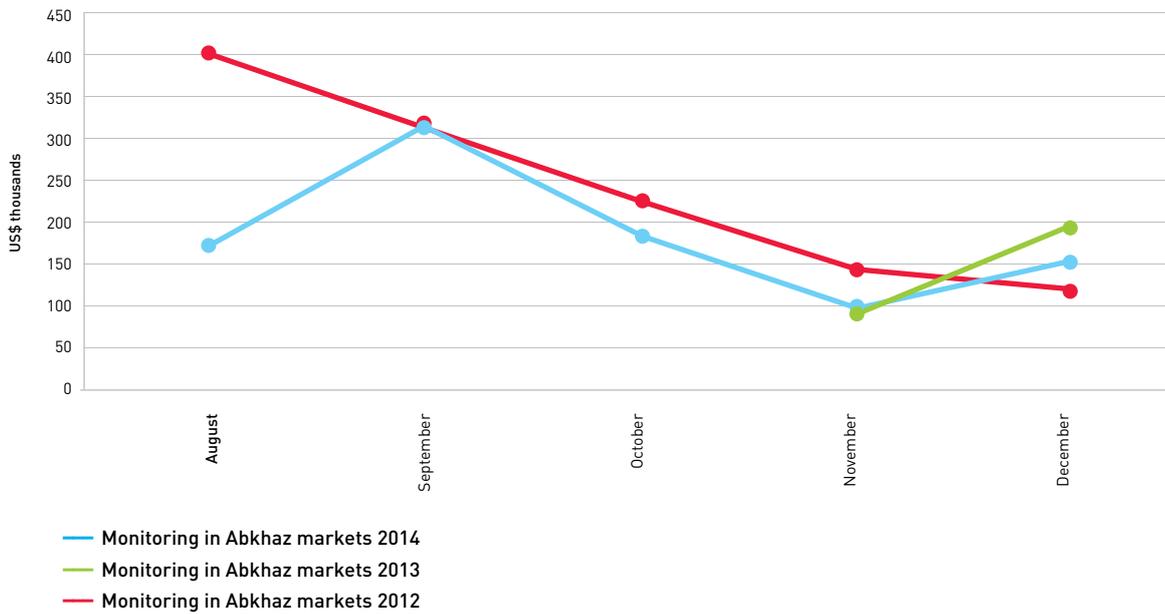
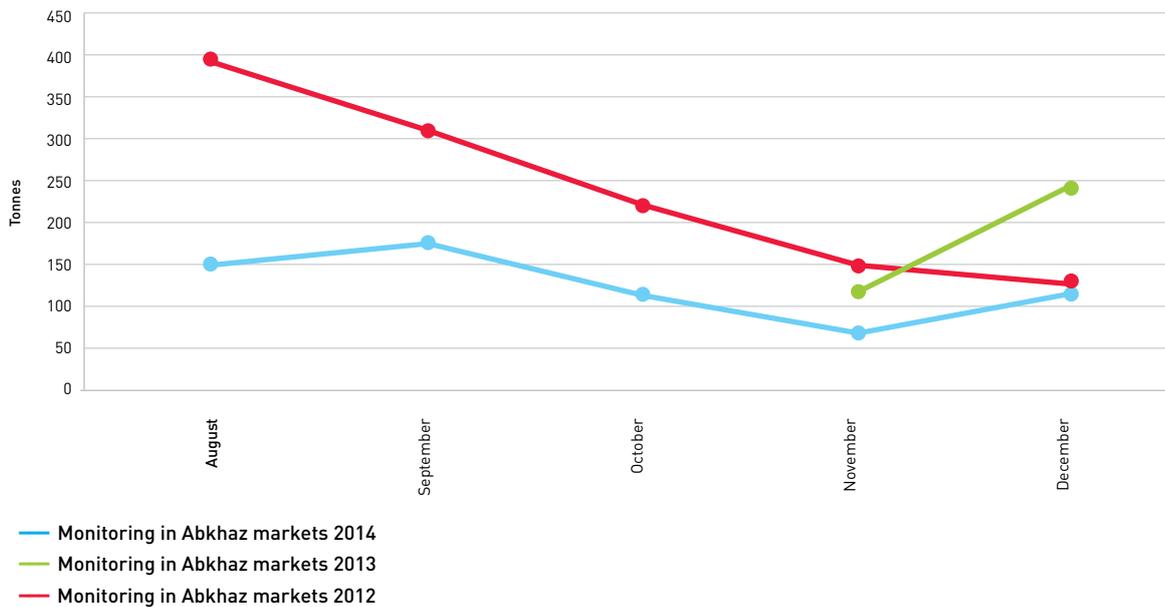


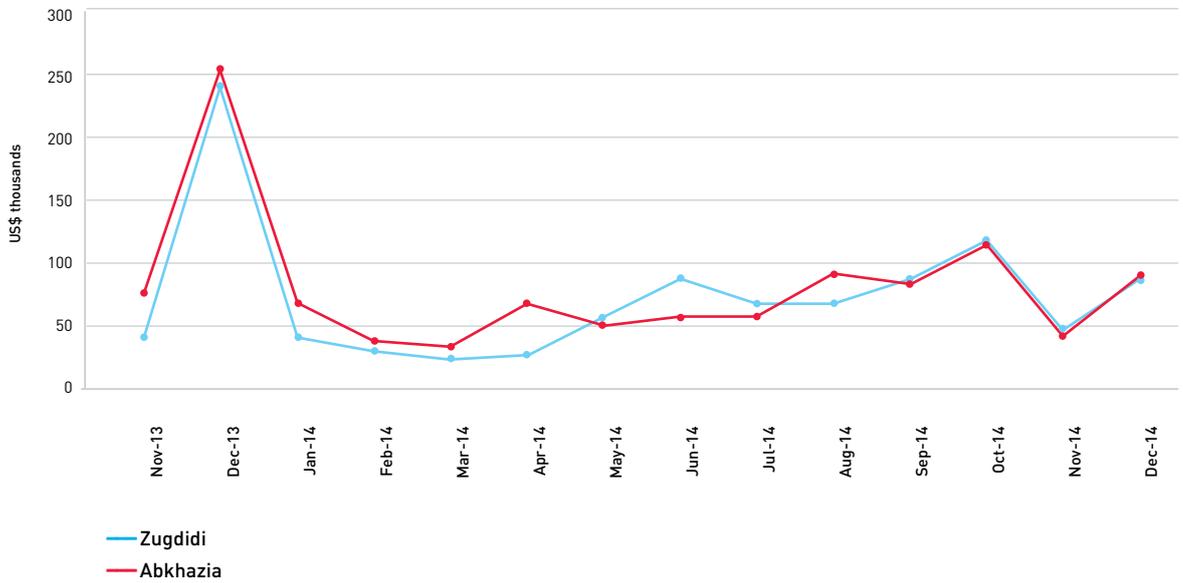
Figure 20: Estimated volume of vegetables transported across the Ingur/i (in tonnes)



The results show that, in terms of weight, the volumes of products transported fell in comparison with 2012, although the total value of vegetables transported remained unchanged. This indicates a rise in the price of vegetables brought into Abkhazia across the Ingur/i.

The pattern in trade volumes for fruit and comparisons with the same periods in 2012 and 2013 are shown in Figures 21, 22, 23 and 24.

**Figure 21: Estimated monthly value of fruit transported across the Ingur/i, November 2013–December 2014 (in US\$ thousands)**



**Figure 22: Estimated monthly volume of fruit transported across the Ingur/i, November 2013–December 2014 (in tonnes)**

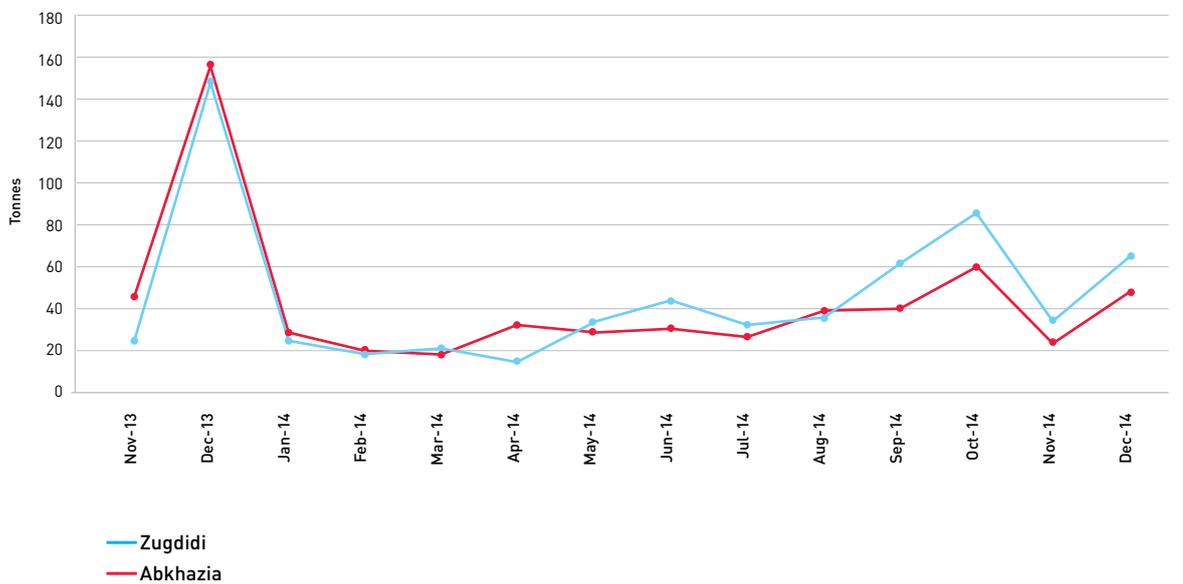


Figure 23: Estimated value of fruit transported across the Ingur/i (in US\$ thousands)

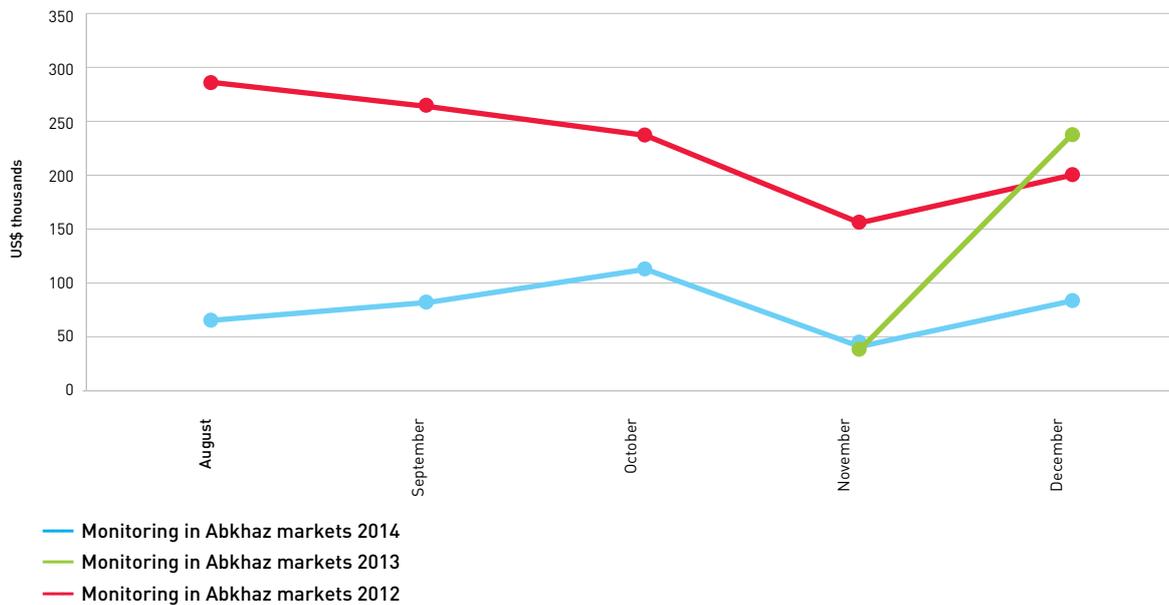
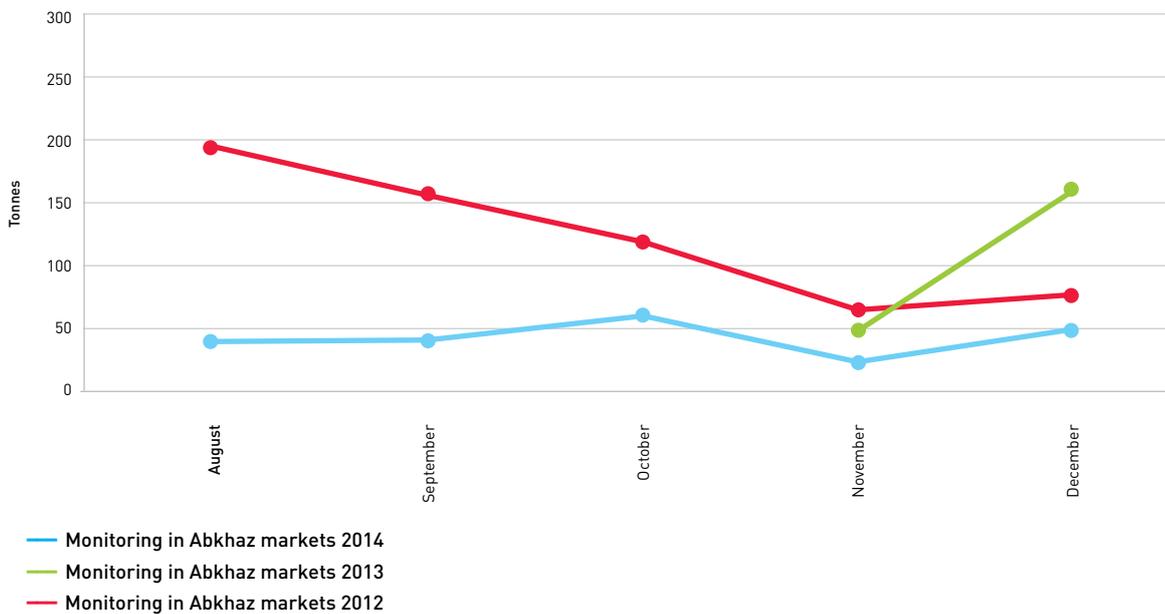


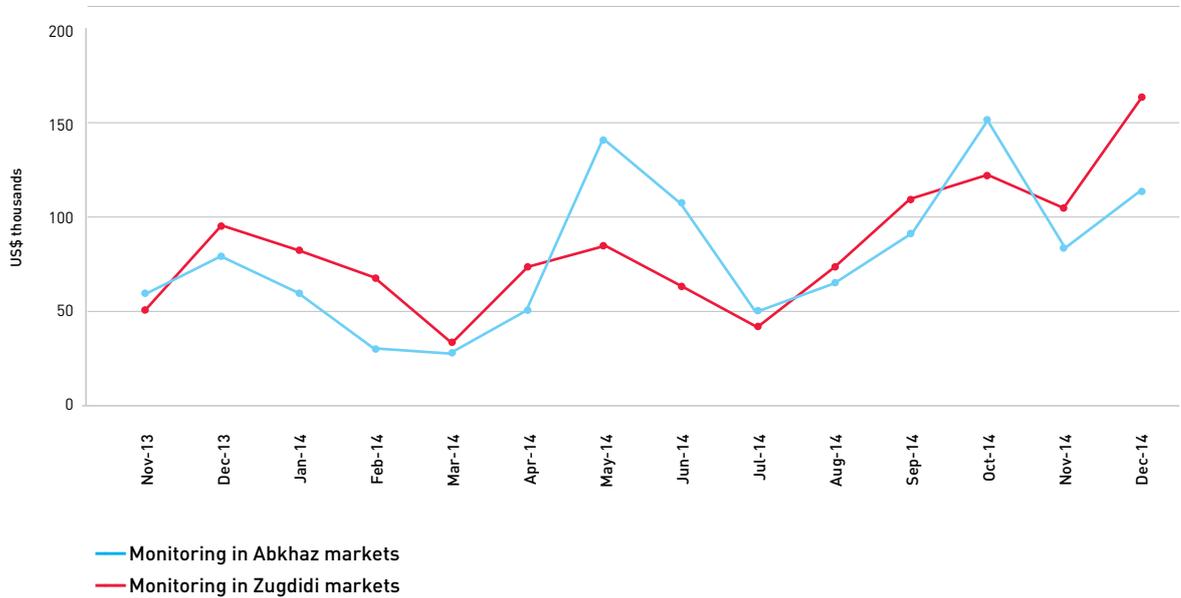
Figure 24: Estimated volume of fruit transported across the Ingur/i (in tonnes)



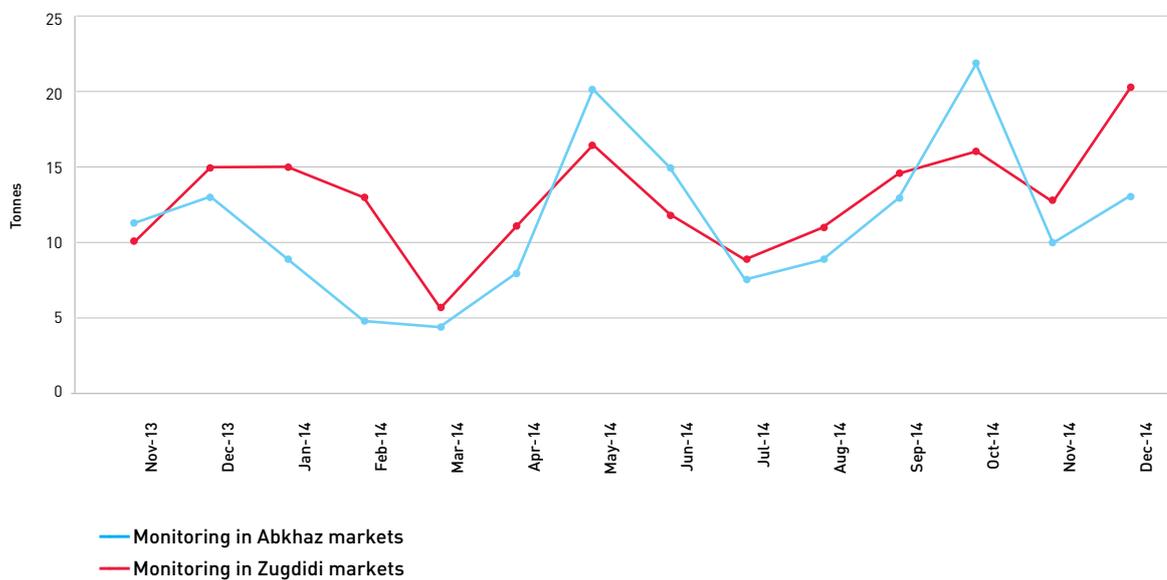
In terms of both weight and price, the volumes of fruit transported across the Ingur/i River fell substantially, on average, in comparison with the previous monitoring period. Of particular note is the fall in the volume of Georgian fruit during the harvest months in the summer and autumn. This may be explained by the availability of Abkhaz fruit and the emergence of the possibility of exporting Georgian fruit to Russia.

The pattern in trade volumes for meat and dairy products and comparisons with the same periods in 2012 and 2013 are shown in Figures 25 and 26.

**Figure 25: Estimated monthly value of meat and dairy products transported across the Ingur/i, November 2013–December 2014 (in US\$ thousands)**



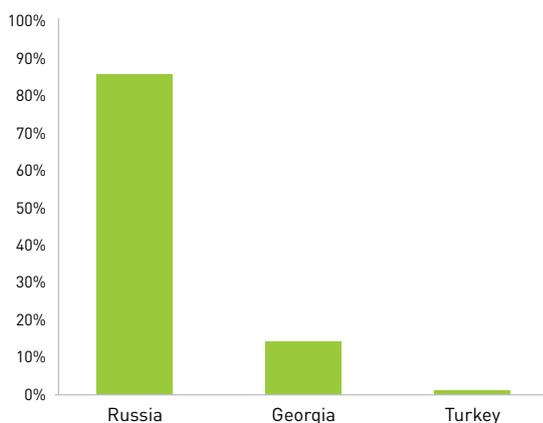
**Figure 26: Estimated monthly volume of meat and dairy products transported across the Ingur/i, November 2013–December 2014 (in tonnes)**



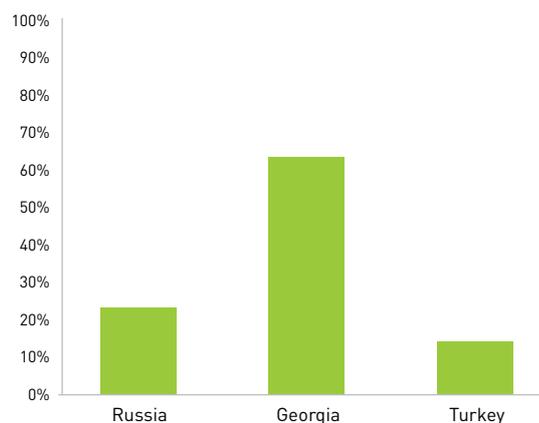
### Goods from Georgia in relation to the external trade turnover of Abkhazia

Trans-Ingur/i trade represents a significant portion of goods brought into Abkhazia. Thus, Georgian potatoes comprise 14 percent of total potatoes transported into Abkhazia (see Figure 27), Georgian tomatoes represent 63 percent of the total (see Figure 28), Georgian onions 24 percent (see Figure 29), Georgian cucumbers 73 percent (see Figure 30) and Georgian apples and pears 50 percent (see Figure 31). In comparison, in 2012 these figures were 27 percent, 38 percent, 36 percent, 40 percent and 20 percent,<sup>9</sup> respectively.

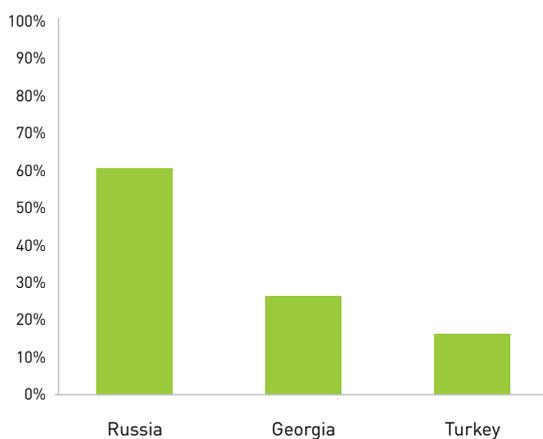
**Figure 27: Inflow of potatoes to Abkhazia (percent, US\$), January–December 2014**



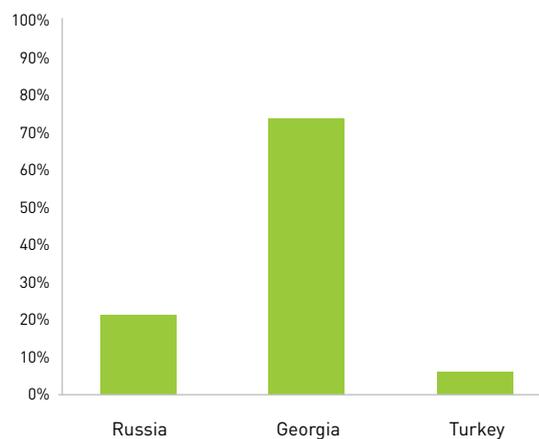
**Figure 28: Inflow of tomatoes to Abkhazia (percent, US\$), January–December 2014**



**Figure 29: Inflow of onions to Abkhazia (percent, US\$), January–December 2014**

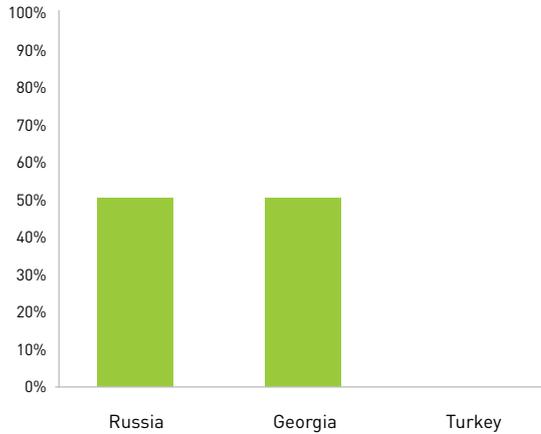


**Figure 30: Inflow of cucumbers to Abkhazia (percent, US\$), January–December 2014**



<sup>9</sup> Pears make up no more than 10 percent of the total volume of apples and pears; therefore, the total volume of apples and pears in 2014 can be compared with the volume of apples in 2012.

**Figure 31: Inflow of apples and pears to Abkhazia (percent, US\$), January–December 2014**

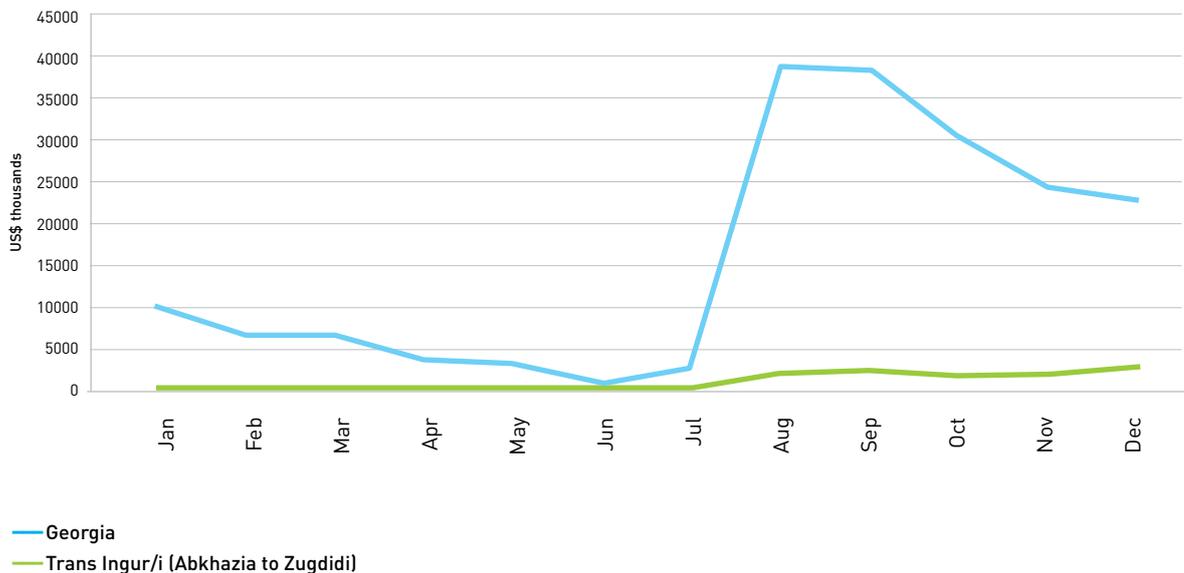


Thus, the volume of agricultural products transported into Abkhazia is regulated by price and demand. The proportion of products transported from across the Ingur/i River varied from 15 to 70 percent, depending on season, price conditions and demand.

### Goods transported to and from Abkhazia in relation to total exports from Georgia

Figure 32 shows the pattern of the inflow of hazelnuts from Abkhazia and export of hazelnuts from Georgia.

**Figure 32: Value of hazelnuts transported from Abkhazia to Zugdidi and exports of hazelnuts from Georgia, January–December 2014 (in US\$ thousands)**



Abkhaz hazelnuts accounted for a maximum of 10 percent of hazelnuts exported from Georgia in 2014.

Table 1 shows that the volume of hazelnuts sold on the market in Gal/i to be transported to Zugdidi is not always in sync with the volume of hazelnuts brought into Zugdidi. This is because the previous year hazelnut vendors in Abkhazia delayed the harvest until the price on one of the sides became more attractive. Therefore, only some of the hazelnuts that were sold on the Gal/i market in 2014 were transported across the Ingur/i River to Zugdidi. At the beginning of 2014 all the Abkhaz borders became more tightly controlled, which also explains the lack of movement of hazelnuts across the Ingur/i.

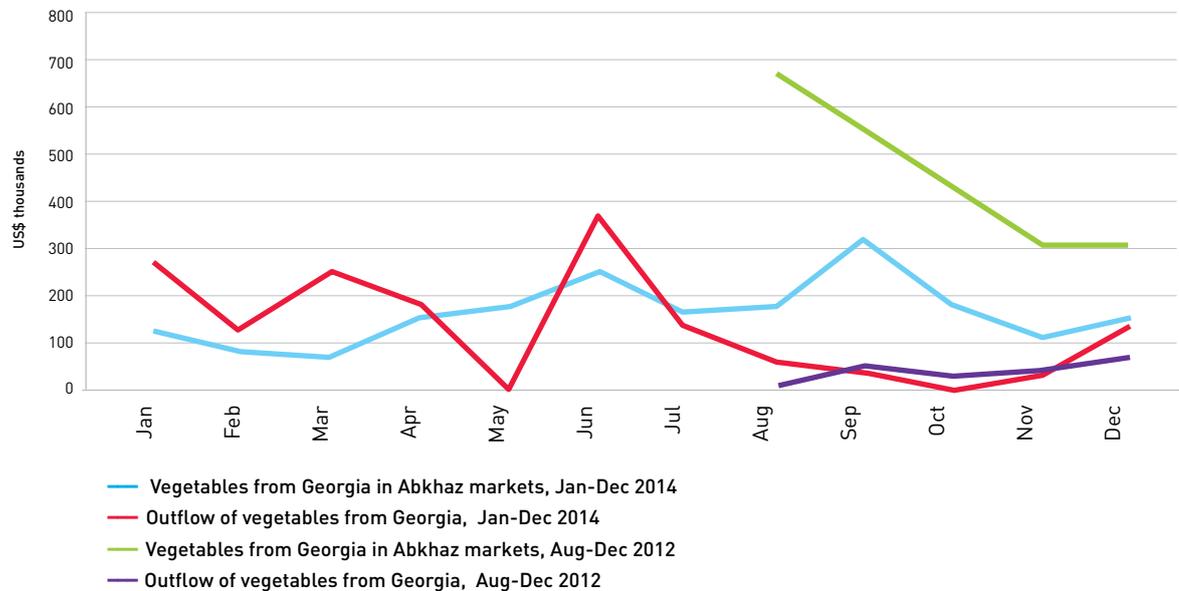
**Table 1: Estimated volume of hazelnuts (in tonnes)**

	Exports from Georgia	Volume of hazelnuts from Abkhazia, monitored on the Abkhaz side (Gal/i)	Volume of hazelnuts from Abkhazia, monitored on the Georgian side (Zugdidi)
January	9,416.4	0	0
February	6,260.6	0	0
March	5,963.6	0	0
April	3,551.2	30	0
May	2,432.4	0	0
June	341.1	0	0
July	2,570.8	50	50
August	38,725.9	1,400	1,400
September	37,902.4	1,800	1,800
October	30,002.3	1,400	1,400
November	23,914.9	1,400	1,000
December	22,267.0	2,400	1,600

In 2014 a total of 2,185 tonnes of hazelnuts worth US\$9,204,000 were transported from Abkhazia across the Ingur/i River. For comparison, 1,128 tonnes of hazelnuts totalling US\$1,324,599 were exported from Abkhazia to Russia. Thus, the average selling price for a tonne of hazelnuts in Russia was US\$1,174, whereas the same tonne of hazelnuts could be sold in Europe for US\$4,212. These price conditions determined the direction of movement of hazelnuts from Abkhazia to Zugdidi. In addition, purchase prices for hazelnuts in Georgia were fixed in dollars, which was particularly advantageous for Abkhaz entrepreneurs because of the devaluation of the rouble in relation to the US dollar.

In 2014 the value of exports of vegetables, fruit and meat and dairy products from Georgia was equal to the value of the trans-Ingur/i trade. For comparison, in 2012 trans-Ingur/i trade flows for vegetables were clearly larger than international exports from Georgia. This pattern in trade is shown in Figures 33, 34, 35.

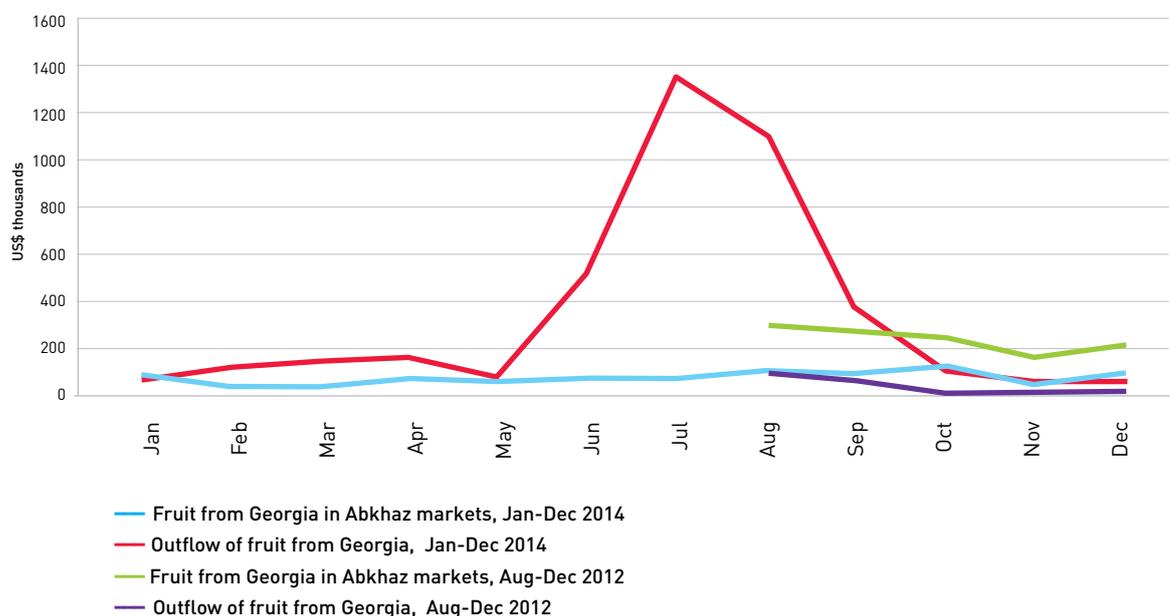
**Figure 33: Value of vegetables transported to Abkhaz markets and vegetable exports from Georgia (in US\$ thousands)**



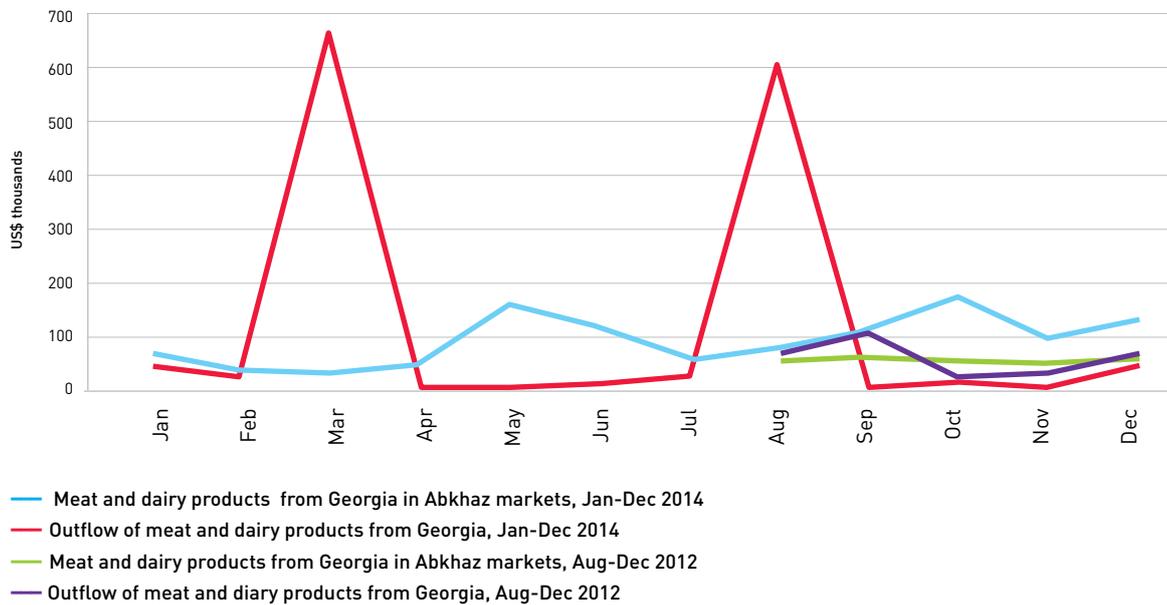
Vegetable exports from Georgia increased, and the difference between trans-Ingur/i trade and exports was not as wide as it was in 2012.

In addition, total fruit exports from Georgia increased and the share of fruit transported across the Ingur/i River declined (see Figure 34).

**Figure 34: Value of fruit transported to Abkhaz markets and fruit exports from Georgia (in US\$ thousands)**



**Figure 35: Value of meat and dairy products transported to Abkhaz markets and exports of meat and dairy products from Georgia (in US\$ thousands)**



The greater the volume of products exported from Georgia the lower the volumes transported to Abkhaz markets: a peak in outflows in one direction is mirrored by a fall in the volume of products being transported in the other direction. The substantial increase in exports of agricultural products (vegetables, fruit and meat and dairy products) from Georgia in 2014 in comparison with 2012 explains the fall in absolute and comparative volumes of Georgian products transported across the Ingur/i River.

## Theory regarding the Olympic Games in Sochi

The theory about the impact of the Olympic and Paralympic Games in January 2014 on the pattern of trans-Ingur/i trade was that closing the border at Psou would lead to an increase in this trade. The announcement from the Russian side that the movement of vehicles and goods across the border would be restricted from November 2013 and would be completely stopped from 7 January 2014 had an impact on the volumes of trans-Ingur/i trade. Trade increased in December, forming an 'Olympic peak' in trans-Ingur/i trade. Consumers and traders began to stockpile goods and food products, which explains the fall in trade over the following months, as entrepreneurs sold the reserves they had accumulated. Although the border at Psou was not ultimately closed, controls on the border along the Ingur/i River were tightened, which also led to a reduction in the volume of goods in the winter months.

However, since the border closure did not happen, trans-Ingur/i trade subsequently returned to the usual market routine.

## Summary of findings

- The asymmetrical nature of trans-Ingur/i trade persisted, with goods flowing from Georgia to the Abkhaz market.
- The trade continued to show seasonal fluctuations.
- The significant flow of hazelnuts in the opposite direction to Georgia was determined by price conditions on the Russian and European markets: the value of the hazelnuts transported from Abkhazia to Zugdidi for onward sale on the European market was seven times higher than the value of the hazelnuts transported into Russia, despite the volume of hazelnuts transported to Zugdidi being only twice as high as that going to Russia.
- The proposed closure of the border at Psou before and during the Olympic and Paralympic Games in Sochi in January 2014 led to a peak in trans-Ingur/i trade in December. However, due to the fact that sellers and buyers had amassed large reserves, despite the border with Russia ultimately not being closed, there was a fall in trans-Ingur/i trade during the winter months. It subsequently resumed its usual levels.
- The total volume of trans-Ingur/i trade in 2014 fell compared with 2012. This is explained by a number of factors:
  - The devaluation of the Russian rouble, which is the currency in use in Abkhazia. Goods on the market in Zugdidi are bought for lari, a currency pegged to the dollar. As a result, goods priced in lari, when their prices were converted into roubles (the currency in which goods are sold in Abkhazia), became less attractive in comparison with previous years and compared with the prices of Russian imports.
  - There were periods of stricter controls on the Ingur/i border associated with the Olympic Games, the political conflict and the extraordinary presidential elections in Abkhazia.
  - Aid to Abkhazia from Russia halved, which led to a fall in incomes and, correspondingly, purchasing power.
  - There was a significant increase in exports from Georgia of typical 'trans-Ingur/i' food products, such as vegetables and fruit. This resulted in smaller flows of goods to Abkhazia.
  - Trade in household appliances and clothing virtually ceased due to the fall in the value of the rouble and the emergence in Abkhazia of shops that issue guarantees for appliances purchased.
- In some instances (tomatoes, cucumbers and apples), trans-Ingur/i trade exceeds imports from Russia and Turkey.

## Conclusion

Despite temporary restrictions on the movement of goods across the Ingur/i and the official complete closure of this route for commercial activities, trans-Ingur/i trade adheres to the rules of the market. Trends in price, demand, season and exchange rates regulate the flow of goods across the disputed border, which is officially closed to commerce.

An agreement on monitoring the movement of goods along 'corridors' through Abkhazia and South Ossetia and the crossing point at Verkhny Lars (the only undisputed stretch of border of these three) could open up the possibility of dialogue between all the sides about the opening of disputed borders and the regulation of goods crossing them. However, since the agreement between Georgia and Russia was signed in November 2011, no monitoring of the movement of goods through the 'corridors' crossing the disputed territories has taken place. The border between Georgia and Abkhazia is considered by Georgia to be an administrative border and by Abkhazia and Russia (which recognises Abkhazia as an independent state) to be a national border. If the issue of regulating goods crossing the border over the Ingur/i River were to be included on the agenda for talks on the implementation of the WTO agreement between Georgia and Russia, this could represent an important step towards a full-scale peace process.







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