Between EU Membership and the Sanctions Regime against Russia: Factors behind the Collapse of Estonian Transit Sector

Viljar Veebel, Raul Markus[1]

Abstract: *The article aims to investigate the main factors behind changes in the transit flows in Estonian transit sector. Towards this end, the current study used not only previous academic works and official statistics but also a comprehensive survey among leading businessmen, scientists and policy makers in the Estonian transit sector. According to our analysis, the main factors behind the fluctuations and decline of the Estonian transit sector were: first, the impact of European integration; second, changing relations with Russia; third, the changes in infrastructure and, fourth, the changes in global and regional trade flows. However, the European dimension appears also in second, third and fourth categories, as trade relations with Russia, infrastructural developments and general trade flows depend from European policy preferences and developments. Our latest analysis has also high importance in terms of assessing the rationality, profitability and sustainability of the expected realization of the Rail Baltic railway line and the Tallinn-Helsinki underwater tunnel. The article addresses also the political risks and security threats related to increasing trade flows from Russia.*

JEL Classification*: F1, F5, P4*

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Introduction

Estonia's (as it is also the case for all the three Baltic States) geographic location between the Russian market and the wealthy Western European countries

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provides a good basis for the country to exploit the potential and gains arising out of economic transit transport. Until the mid-2000s, this has indeed taken place, and transit flows have steadily increased in Estonia. However, since the accession to the EU, transit volumes have substantially decreased and transit flows have become extremely volatile. The drop has been particularly drastic since 2005, which leads to the central question of our current paper: **how important has been the EU membership and related political and economic activities for changes in Estonian transit flows?** The importance of the current research is even higher in light of the expected construction of the Rail Baltic railway line, which adds significantly infrastructural capabilities, but on the other hand needs also growing volumes of trade to be economically sustainable (Veebel, Ploom, Markus 2018). Additionally, political risks need to be assessed as well, as growing transit flows related to Russia which may be beneficial in economic terms, could lead to growing risks to be impacted or manipulated by the Russian side into trade economic benefits for political compromises (Veebel 2017). Next to several existing quantitative studies that analyse the dynamics of transit flows of goods in Estonia (e.g. Pukk 2011; Pukk et al. 2014), the aim of the current article is to systematically investigate the factors behind the changes in the transit flows in Estonia, focusing on the last two decades in a qualitative manner, and to estimate the outlook of the Estonian transit sector over the next decade. The study is based on a qualitative survey among transit sector entrepreneurs and experts to study the main factors behind the changes in the Estonia's transit flows. With the aim to understand whether the impact of some factors could be over- or underestimated, the results of the conducted survey are compared with expert opinions and the results of other studies, like the study of PricewaterhouseCoopers published by Tender and Kalmer (2014), or a survey published by Lend et al. (2008).

The present study is structured as follows. Section one provides the background of the survey by identifying the turning points in the Estonian transit sector. The dynamics of transit flows over the last two decades will be analysed and both the main trends and factors influencing the transit volumes in Estonia in various periods will be identified, based mostly on previous studies. Section two briefly explains the structure and the methodology of the current survey and provides the main characteristics of the sample. Section three describes the results of the first part of the survey by summarizing the views and expectations of the Estonian entrepreneurs and experts, as far as the situation in the transit sector and the main factors behind the changes in the transit flows in Estonia over the last two decades are concerned. Section four presents the results of the second part of the survey and discusses the future outlook of the local transit sector. The final section is dedicated to our concluding remarks.

1. Identifying the turning points: Transit flows in Estonia between 2000 and 2018

The Estonian transit sector is mainly divided into railway-based transit and port-based transit. The transport of transit goods takes place mainly in the multimodal transport chain either in form of ship-train or train-ship (Pukk 2011). Other forms of transit transport like transit by cars or transit goods flow passing through Estonia through the airports, or even other combined transport chains like car and ship or train and car are only secondary options (Devoino 2017). Since the restoration of independence of Estonia in the early 1990s until 2005, this strategy has mostly paid off, as the volumes of transit goods transported by rail and through the ports have steadily increased except a small setback in 2003 and a slight decrease in transit of goods by rail in 2005 (see Figure 1). At its peak, the share of the transit sector in the country's GDP reached over 10 percent (see Pukk et al. 2014). Based on the methodology developed by PricewaterhouseCoopers in the framework of a sectoral survey, the logistics sector, with transit being its main constituent element, had an impact of 12.7% on the Estonian economy in 2012 (Pukk et al. 2014).

In the literature, the increase in transit volumes in Estonia in early 2000s has been mainly associated with the rapid growth of transit of oil products, as Estonia used the typical model of the Baltic transit transport in which oil and petroleum products from Russia are transported to the Baltic Sea ports and loaded and shipped there (Saarniit 2006; Pukk 2011). Next to this, the opening of a modern coal terminal in Muuga Harbour in 2005 was assessed as a main positive factor (Saarniit 2006). The accession to the European Union in 2004 and its associated necessity to follow the Common Market regulations started to have growing impact on Estonian transit flows from the year 2004: first, the growth turned to stagnation in 2005 and then to decline starting from 2006 (Veebel and Markus 2018).

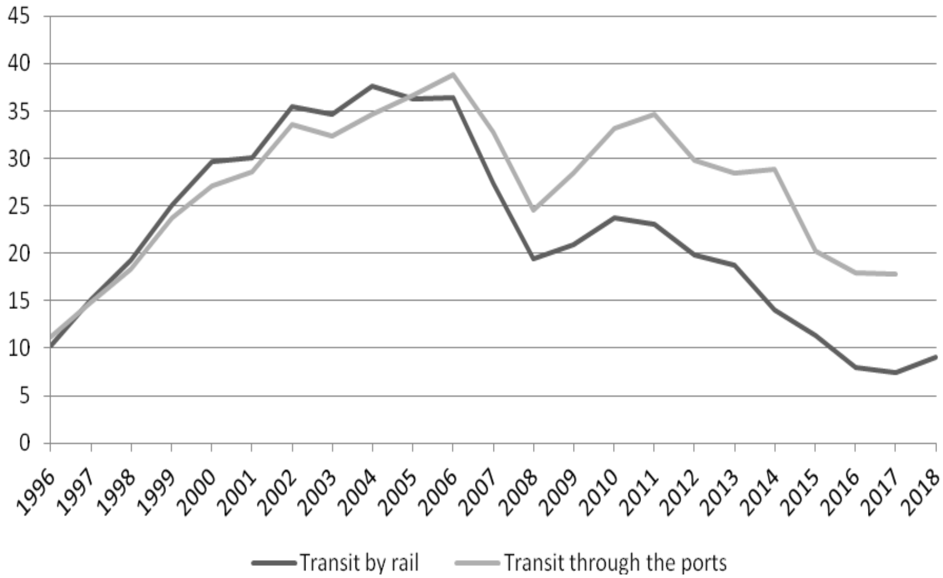
Accordingly, the year 2006 constitutes the first turning point in Estonia's transit flows, a peak after what the previously increasing trend started to invert to a decreasing trend. Having in mind the survey conducted in the framework of this study, it could be expected that until 2006 the overall assessment of the survey participants on the Estonian transit sector should be positive, and in 2007 and 2008 respectively negative. However, the Estonian transit sector faced some setbacks between 2000 and 2006 which means that most likely some problems could be identified already during that period on the basis of the assessments of the survey respondents. This applies particularly to the assessments of the survey respondents operating in the railway sector, as in 2006 a fundamental shift occurred in the sense that transit volumes in ports started to exceed transit volumes by rail in Estonia.

Next to the impact of European Union accession, the drop in transit flows in 2007 and 2008 has also been associated with deterioration of international relations with Russia starting from 2007 onwards and the reduced demand of the markets in 2008 (Pukk 2011 and Veebel 2015), the inability of Estonia to react and adjust to global trends (Laidvee 2008), but also Russia's plan to reroute transit flows from ports the neighbouring countries to Russian ports by 2030 (Pukk et al. 2014). What makes this period particularly interesting to investigate in retrospect is the question of whether local entrepreneurs and experts had already then sensed the long-term difficulties and problems of the Estonian transit sector.

The second turning point appears to be in year 2008, after which the downward trend reversed once more to a positive trend. Some authors have associated the improvement in transit flows in 2009–2010 with the recovery of demand both in ports as well as rail (see Pukk 2011).

Based on Figure 1, the third turning point took place in the year 2011, after the situation in the Estonian transit sector worsened substantially and the transit volumes have basically not recovered since then. To illustrate that: the share of the transit sector in Estonia's GDP nowadays is a bit more than a half of what it was in mid-2000s (Pukk et al. 2014). More recently, in 2018, the volume of transit of goods by rail has to some extent increased again (Statistics Estonia 2019a). Considering the slight improvement in the Estonian transit sector in 2009–2011, it could be expected that the assessments of local entrepreneurs and experts for this period potentially reflect some optimism, whereas from 2012 onwards their assessment on the transit environment in Estonia is most likely rather pessimistic. The decrease in transit volumes of goods transported through Estonian ports and by rail after 2011 onward has been linked to many factors. It has been stated that decline in transit flows is the result of the development of Russian ports and the rerouting of cargo flows (Pukk et al. 2014).

Figure 1: Dynamics of the transport of transit goods on rail and in ports in 1996–2018 (million tonnes).



Source: Statistics Estonia (2019a), Statistics Estonia (2019b).

However, decline in transit flows from 2014 to 2018 has been also associated with the sanctions war between EU and Russia caused by the Crimean annexation in 2014 and the ongoing conflict in Eastern Ukraine. For example, Oja (2014a) argues that although the overall impact of the EU-Russian economic sanctions remains modest for Estonia, the local transit sector could be one out of two sectors, next to the gas sector, which could seriously suffer from the deterioration of the political relations between Russia and the EU. Simson (2017) assesses that the sanctions have negatively affected Estonia's economic growth between 2015 and 2016, particularly the transit sector, tourism, and industry in general.

Next to the external factors, experts have also pointed to the more fundamental and long-term problems related to the local transit sector. Oja (2014b) stresses that for quite some time already the value added provided by the transit sector is decreasing. This drop is by its nature structural and there is nothing to suggest that the transit volumes will recover in the coming years. Vare (2014) argues that several negative trends became visible already before the Ukrainian conflict erupted in 2013–2014. He also states that the attitude to transit is negative in Estonia, which also affects the country's transit flows. Furthermore, some politicians have argued that due to a missing national transit policy, a significant part of potential delivery capacities were transferred to Finland and Latvia (see Korb 2016).

This statement stems from a study by PricewaterhouseCoopers from 2014, stressing that, based on the World Bank's logistics performance index, Estonia does not have significant qualitative advantages vis-à-vis Latvia and Finland, as far as the main logistics components such as customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness are concerned (Tender and Kalmer 2014). Another study of PricewaterhouseCoopers (2017) states that Estonia has lost trade volume while at the same time, its neighbouring countries have benefited from an increase in global trade volumes and that the competitiveness of Estonia as a transit corridor is relatively weak due to high prices. Last but not least, some local entrepreneurs have strongly criticised Estonian politicians who supported stronger EU sanctions against Russia and suggested cutting political and economic relations with Russia to a minimum (Vedler 2018). At the same time, other entrepreneurs take the view that Estonia should forget about the Russian transit flows because they are not recovering anyway and new market niches in the Western countries should be found (Poverina 2018). In general, there is also a reference in the literature that the railway infrastructure charges (including waterway transport charges) in Estonia having increased significantly in 2006–2013, making Estonia's transit corridor more expensive than that of Latvia (Pukk et al. 2014). The role of the price increase of Estonia's transit corridor in redirecting the trade flows to Latvia and Finland has been also stressed by another study (PricewaterhouseCoopers, The Cost-Benefit Analysis of Railway Infrastructure 2014). However, it must also be noted that as most of transit flows originating from Russia depend on political will of Russian administration and the actual costs are only one part calculation, while political motives and preferences form the second one (Veebel and Markus 2016). All this leaves open the question of what factors have influenced the Estonian transit sector the most, and whether some patterns could be identified when investigating the factors behind the changes in the transit flows in Estonia over the last two decades.

To answer this question in more detail, the following periods are differentiated over the past two decades based on the dynamics of the transit flows in Estonia: 2000–2006, 2007–2008, 2009–2011, and the period from 2012 onwards.

Based on previous studies, the following potential factors behind the changes in the transit flows in Estonia over the last two decades are identified: (1) the effect of the European Union membership and the EU-Russian economic sanctions exchange; (2) changes in the transit volume of oil products; (3) changes in local infrastructure in Estonia; (4) dynamics of political and economic relations with Russia; (5) changes in market demand and Estonia's inability to react and adjust to global trends; (6) the development plan of Russian ports; (7) dynamics of railway infrastructure charges in Estonia; (8) the unilateral nature of Estonia's transit flows; (9) and changes in competitiveness of the Estonian transit sector. However, the respondents to the survey also suggested including several additional factors in our list, such as (10) changes in container transit in Estonia, and (11) changes in the value added in the transit corridor of Estonia. Last but not least, global financial and economic crisis (12) seemed to play also significant role to trigger decline of transit flows, however it was not part of survey, but was identified based on statistics and earlier studies.

The assessed impact of all these factors will be investigated in a dynamic way over the period selected in the survey. Next to that, the survey offers an insight into the dynamics of the main transit partners of Estonia, assessed by local entrepreneurs and experts. This reveals another dimension of the potential factors that could have an impact on the development of the Estonian transit sector. Most partner countries included in the survey were selected on the basis of statistical data provided by Statistics Estonia. These countries are Russia, Belarus, Kazakhstan, Ukraine, Uzbekistan, Turkmenistan, Latvia, Lithuania, and Tajikistan who are Estonia's main partner countries in rail transit and Russia and Finland as the main partner countries in transit through ports. Next to that, authors of the survey have included China and Sweden as countries with a significant potential in the future.

2. Overview of the sample and methodology

Our study on dynamics and the main factors behind the changes in the transit flows in Estonia over the last two decades is based on a qualitative survey which investigates the views and expectations of local entrepreneurs and experts in Estonia, as far as the developments in the Estonian transit sector are concerned. To understand whether the impact of some factors could be over- or underestimated, the results of the survey are compared with the results of other studies. Next to that, two interviews with local experts are conducted to analyse and discuss the results of the survey.

The written survey consists of two sections, focusing respectively on the assessment of the situation in the transit sector in Estonia in various periods, the dynamics of factors that could potentially have an impact on transit flows in Estonia over the last two decades and on the changes in the structure of main transit partners for Estonia (Survey Section 1, Annex 1), and the assessment of the outlook of the Estonian transit sector over the next decade and the estimated impact of various factors that could potentially influence Estonia's transit flows in the near future (Survey Section 2, Annex 1). Furthermore, Survey Section 1 covers both the whole period considered (i.e. 2000–2018) as well as differentiates between the sub-periods defined on the basis of the turning points identified in section 1 of the current article (i.e. 2000–2006, 2007–2008, 2009–2011, and a period from 2012 onward). The detailed survey questionnaire is available in Annex 1. In general, the most common rating scale in survey designs, the so-called Likert scale with scores 1–5, was used in the survey with 1 representing the negative end and 5 representing the positive end. The only exception is the question 6a(1) in Survey Section 2 with 1 representing the answer that the company definitely continues to operate in the transit sector in the future and 5 representing the answer that the company definitely does not continue to operate in the transit sector in the future.

Next to this, multiple-answers or open-ended questions were used to identify the changes in the structure of Estonia's main transit partners (in both Survey Sections 1 and 2 the respondents were asked to list the main transit partners in various periods in the following way: the most important transit partner as 1, the second-important transit partner as 2, and the third-important transit partner as 3) and to assess the outlook of the Estonian transit sector over the next decade (respondents were asked to write answers to several questions in the Survey Section 2).

Throughout the survey, differentiation was made between entrepreneurs and experts in the sense that some questions are modified, depending on that whether entrepreneurs or experts are asked to answer the question. For example, whereas the entrepreneurs were asked about the main transit partners of their companies in corresponding periods, the experts were asked about the main transit partners of Estonia in corresponding periods. Where it appeared reasonable, differentiation was also made between transit of goods by rail and through ports. The survey sample consists of 24 respondents, of which 16 respondents represent companies operating in the Estonian transit sector, and 8 respondents are experts in transit-related issues in Estonia. The companies included in the survey were mainly selected on the basis of the membership at the Estonian Logistics and Transit Association. The experts included in the survey were selected on the basis of their publications, presentations and research studies. The survey was conducted between February and May 2019. The results of the survey were collected and analysed in May 2019 and the first results of the survey were revealed in June 2019. The survey response rate was 58%. However, the number of respondents to each question varies because of the modification of the questions with the aim to differentiate between the assessments of entrepreneurs and of experts.

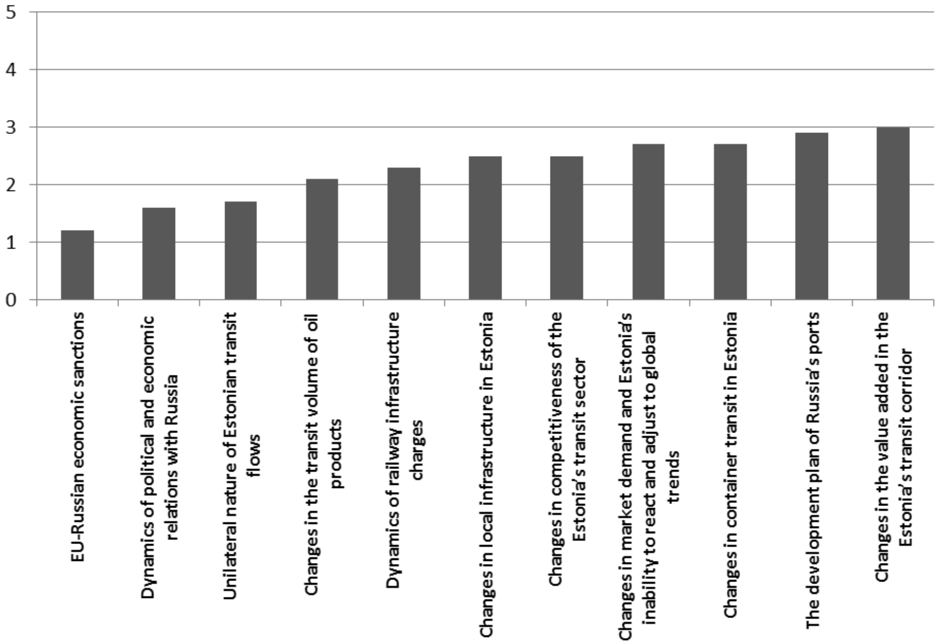
3. The results of the survey: Factors behind the changes of transit flows

In our study, survey questions No 1a, 1b and 1c assess the state of the Estonia's transit sector in general, between 2000 and 2018. These questions allow us to identify overall trends in the Estonian transit sector, as the entrepreneurs and experts see them. In this respect, the results of the survey questions overlap with the main concern expressed by various sources in Estonia according to which the local transit sector has faced serious problems over the past two decades. All survey respondents have chosen only the scores "1" (referring to very problematic; 9 respondents) or "2" (referring to problematic; 3 respondents) to the question on the developments in the Estonia's transit sector between 2000 and 2018 and the dynamics in transit flows in general (i.e. survey question No 1a).

As far as the factors behind the changes in 2000–2018 are concerned, one definitely cannot get over Russia: from the range of many options, all respondents marked either "EU-Russian economic sanctions" or "the dynamics of political and economic relations with Russia" with the score 1, referring to the most negative impact of these factors on transit flows between 2000 and 2018 (see, Figure 2).

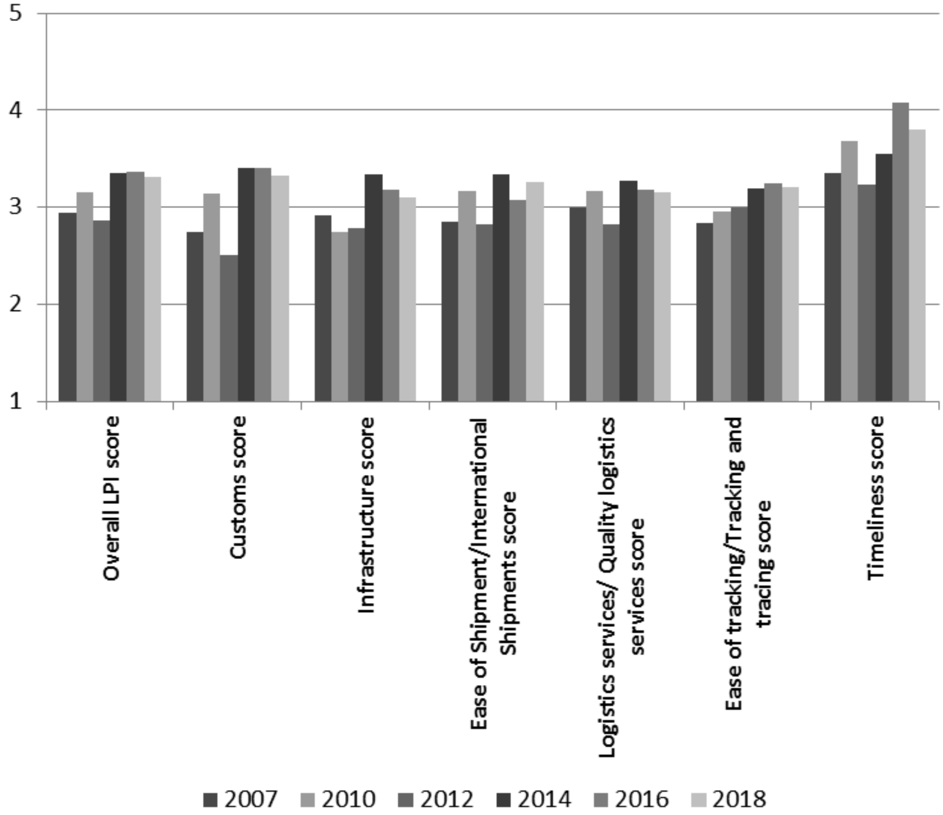
This is particularly interesting, because the EU-Russian economic sanctions could, at best, have a negative impact on the transit flows in Estonia only on the recent decade; however, in reality the sanctions were assessed to leave a negative trace to the Estonian transit sector during the whole period. Controversially, the impact of Russia's plan to reroute transit flows from the ports of the neighbouring countries to Russian ports by 2030 has not gained particularly negative feedback by the Estonian entrepreneurs and experts, and was assessed to have no impact (i.e. the assessment's score was 2.9 which is the closest to the category "no impact"). Next to Russia, in overall the survey results refer to problems linked with the unilateral nature of Estonia's transit flows, combined with the changes in the transit volume of oil products: according to the survey score, these factors were assessed to be more problematic than the others. At first sight, these answers could refer to more fundamental problems of the Estonian transit sector, however, at the same time the respondents have somewhat surprisingly disregarded changes in the overall competitiveness of Estonia's transit sector and the changes in the value added in Estonia's transit sector (i.e. the score of the survey for these factors was close to 3, referring to the category "no impact"), although these factors could be interpreted as potential reflections of structural problems of the Estonian transit sector, too.

Figure 2: Answers to the survey question No 1b: "What is the impact of the following factors on the transit flows in Estonia between 2000 and 2018" (1 refers to significant negative impact, 3 to no impact, and 5 to significant positive impact).



Furthermore, the assessment that changes in competitiveness of the Estonian transit sector have not particularly affected the national transit sector negatively over the whole period observed is somewhat surprising in this light that according to the World Bank's Logistics Performance Index (LPI) for Estonia, which also indirectly refers to the overall competitiveness of the Estonian transit sector, the main components of LPI (e.g. infrastructure, international shipments, customs, logistics competence, timeliness, and tracking & tracing) have gone through significant changes. For example, the scores of all the main components reached bottom in 2012, have increased in 2014 (in some cases the increase continued until 2016), but slightly then decreased in 2018 (see, Figure 3).

Figure 3: World Bank's Logistics Performance Index (LPI) for Estonia in 2007, 2010, 2012, 2014, 2016 and 2018 (1 = low to 5=high).



Source: World Bank 2019.

Next to that, in an international comparison with the neighbouring countries and competitors in the area of transit, Estonia's LPI in 2018 is clearly lower than, for example, in Finland and Poland (Ibid.). Not surprisingly, Russia, Kazakhstan and Belarus were mentioned as the most popular transit partners of Estonia or of Estonian companies between 2000 and 2018. In general, those results are in accordance with statistical data for the period 2000–2018 (Statistics Estonia 2019).The survey questions No 2–5 continue to examine potential factors behind the changes in the transit flows in Estonia. Thus, first, differentiation is made between four sub-periods: 2000–2006, 2007–2008, 2009–2011, and a period from 2012 onward. Next to that, differentiation is made also between the state of the Estonia's transit sector in overall, and the situation of a particular enterprise or a company in selected periods (see questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1)). Again, the score 1 refers to "very problematic", 3 to "moderate concerns", and 5 to "no problems at all". These results of these survey questions are highlighted in Figure 4.

Figure 4: Answers to the survey questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1): "What was the state of transit sector in Estonia/your company respectively in…" (1 refers to "very problematic", 3 to "moderate concerns", and 5 to "no problems at all").

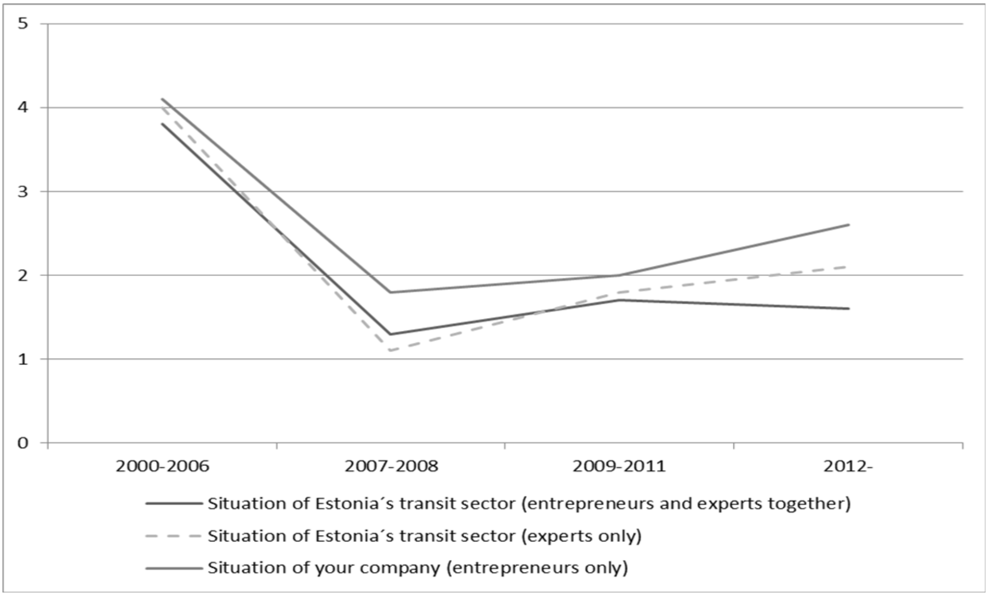


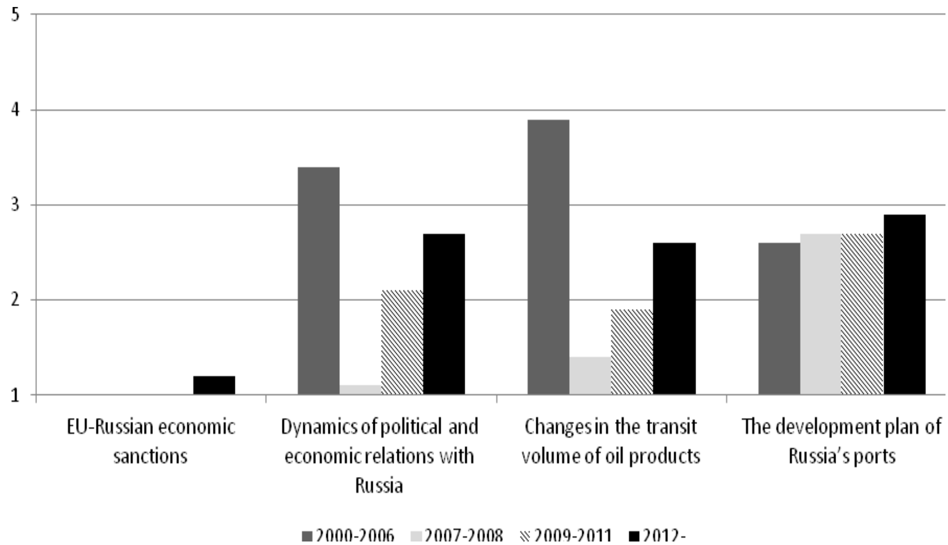
Figure 4 indicates that the respondents' assessments on the developments in the Estonian transit sector and on the situation of particular company linked to the transit sector in Estonia go basically hand in hand, except the last period observed (i.e. from 2012 on). The survey respondents suggest that there were no particular problems in the early 2000s, but from 2007 on the Estonian transit sector faced already significant problems according to their assessment, and the situation has not significantly improved during the short-time recovery period in 2009–2011 (the closer is the score to 1, the more problematic the factor is assessed to be). Somewhat surprisingly, those experts who have participated in the survey seem to be more pessimistic about the state of the sector in 2007–2008 by comparison with the entrepreneurs, but more optimistic about the recent developments from 2012 onwards in the local transit sector. However, at the same time, the entrepreneurs assess that, specifically, the situation of their own companies has gradually improved and the problems have decreased over time (again the closer is the score to 1, the more problematic the factor is assessed to be).

In order to have a better overview, on the assessments of the dynamics of various factors, those factors are divided into three categories:

- First, factors related to Russia, referring to EU-Russian economic sanctions, the dynamics of political and economic relations with Russia, changes in the transit volume of oil products, and Russia's plan to reroute transit flows from the ports of the neighbouring countries to Russian ports (see Figure 4(a)).

- Second, factors that could be classified as fundamental (or even structural) changes in the Estonian transit sector, such as changes in the unilateral nature of Estonia's transit flows, changes in competitiveness of the Estonian transit sector, changes in market demand and Estonia's inability to react and adjust to global trends, and changes in the value added in the Estonia's transit corridor (Figure 4(b)).
- Third, factors associated with more sector-specific and detailed topics, like dynamics of railway infrastructure charges, changes in local infrastructure in Estonia, and changes in container transit in Estonia (Figure 4(c)).

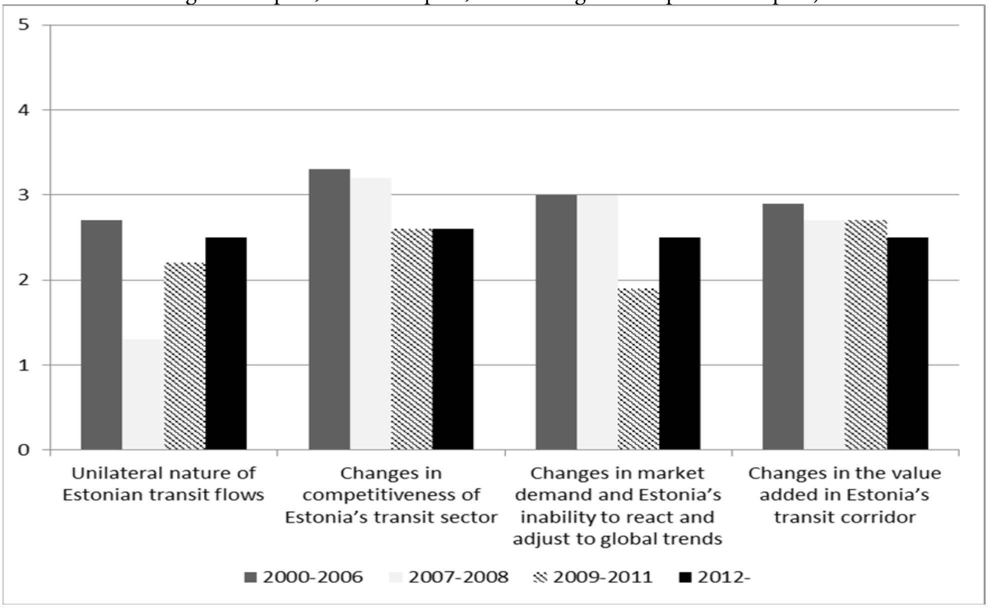
Figure 4(a): Answers to the survey questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1): Factors related to Russia (1 refers to strong negative impact, 3 to no impact, and 5 to strong positive impact).



In this light, the overall picture becomes more varied. Figure 4(a) indicates that from 2007–2008 on the negative impact of most topics related to Russia seems to decrease over time and to become less and less significant in each subsequent period, of course, this does not apply to the negative impact of the EU-Russian sanctions. However, as already mentioned, other topics related to Russia seem to affect less and less the transit sector in Estonia, based on the assessments of Estonian entrepreneurs and experts. The roots of such an assessment are difficult to identify only on the basis of the survey. For example, this may controversially indicate that either the Estonian transit sector is currently undergoing some reorientation from Russia to other partners and is, therefore, not so vulnerable anymore as far as Russia is concerned, or that the Estonian entrepreneurs and experts are finally accepting the fact that Russian market is lost for the Estonian transit anyway, and they do not assess the impact of Russian-related issues so negatively anymore. Therefore, this question definitely needs to be investigated further.

Next to that, our survey results confirm the previous statement that the impact of Russia's plan to reroute transit flows from the ports of the neighbouring countries to Russian ports by 2030 is assessed to be not so important, based on the views of Estonian entrepreneurs and experts. Only one respondent constantly scored this factor as having significant negative impact on the Estonian transit sector.

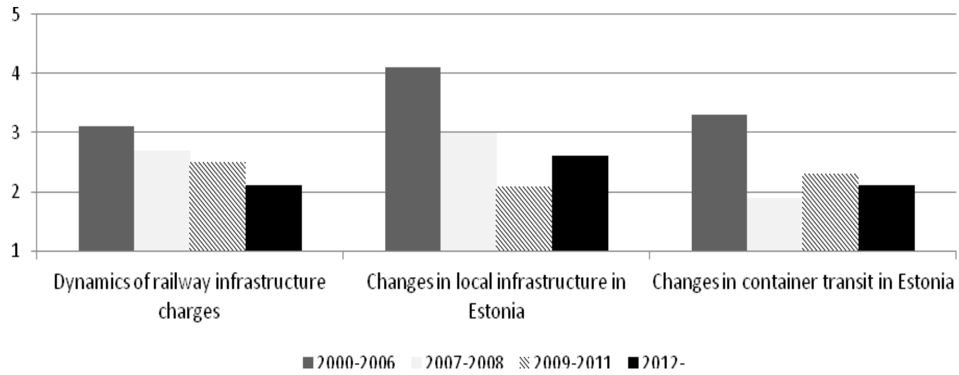
Figure 4(b): Answers to survey questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1): Factors linked to general trends and conditions of Estonia's transit sector (1 refers to significant negative impact, 3 to no impact, and 5 to significant positive impact).



The dynamics of our survey assessments on factors that could be classified as fundamental (or even structural) changes in the Estonian transit sector in various periods over the past two decades also reveal some thought-provoking results. On the one hand, Figure 3(b) indicates that the changes in competitiveness of the local transit sector is assessed to cause more and more problems over time from 2007 on, and the same applies to changes in the value added in Estonia's transit corridor. The unilateral nature of the Estonian transit flows, which was estimated to have a relatively negative impact on the Estonian transit sector in overall, is assessed not to be problematic anymore from 2007–2008 on.

This confirms that some reorientation and restructuration is taking place in the Estonian transit sector. Problems related to the changes in the global market demand and Estonia's inability to react and adjust to these global trends have been highlighted particularly for the period 2009–2011, which seems to be justified in the context of the recovery from the recent global financial crisis. It is worth noting that one survey respondent also directly mentioned a negative impact of the global financial crisis on the Estonian transit sector during this period. Among the factors related to more sector-specific or detailed topics such as dynamics of railway infrastructure charges, changes in local infrastructure in Estonia, and changes in container transit in Estonia, the negative impact of the dynamics of railway infrastructure charges seems to concern the Estonian entrepreneurs and experts more and more (see Figure 3(c)). The impact of changes in the local infrastructure over various periods of time seems to concern the survey respondents the least, however, this factor could be somewhat underestimated by the survey respondents, because logistical infrastructure constitutes "the lifeblood of the economy", as one high-level expert in Estonia has rightly observed.

Figure 4(c): Answers to survey questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1): Factors linked to more detailed topics of the Estonia's transit sector (1 refers to significant negative impact, 3 to no impact, and 5 to significant positive impact).



At the first glance, further results of the survey oppose the idea of transit reorientation taking place in Estonia in this respect that based on the survey results Russia is assessed to be the main transit partner of Estonia/of Estonian companies during the whole period (in most cases ranked as No. 1 in the questions 2c, 3c, 4c and 5c). However, again, what may to some extent dismiss the argument is that in latter periods the range of countries that have been mentioned as main transit partners of Estonia has somewhat widened, covering not only Russia, Belarus and Kazakhstan, but also, Finland, Sweden, Latvia and Lithuania. To sum up, first, the survey results to some extent support the idea of the reorientation or restructuration of the Estonian transit sector, referring both to the assessment that negative impact of most factors related to Russia's behaviour seems to be less and less significant in each subsequent period, and that potential diversification of the transit partners of Estonia has taken place over time. Second, the fact that simultaneously the EU-Russian sanctions were assessed to have strong negative effect on the Estonian transit sector in 2000–2018, but Russia's plan to reroute transit from the ports of the neighbouring countries to Russian ports was assessed rather not to have an impact on the transit in Estonia could refer to a more challenging problem of being able to identify long-term consequences of various policy measures. In its essence, the long-term consequences of the latter could be as dangerous as of the former; however, this risk is not fully recognized by the respondents to our survey. Last but not least, the impact of potential changes in the local infrastructure should not be underestimated. Constant and systematic development of the network of roads, ports, railways, airports and so on, constitutes a necessary precondition for stable and transit-friendly economic environment.

4. Assessment on the outlook for the Estonian transit sector for 2019–2029

The aim of the second part of the survey is to estimate the outlook of the Estonian transit sector over the next decade. Again, the survey respondents were asked to anticipate the overall state of the Estonian transit sector between 2019 and 2029, as well as to evaluate the factors that could potentially have an impact on transit flows in Estonia over the next decade.

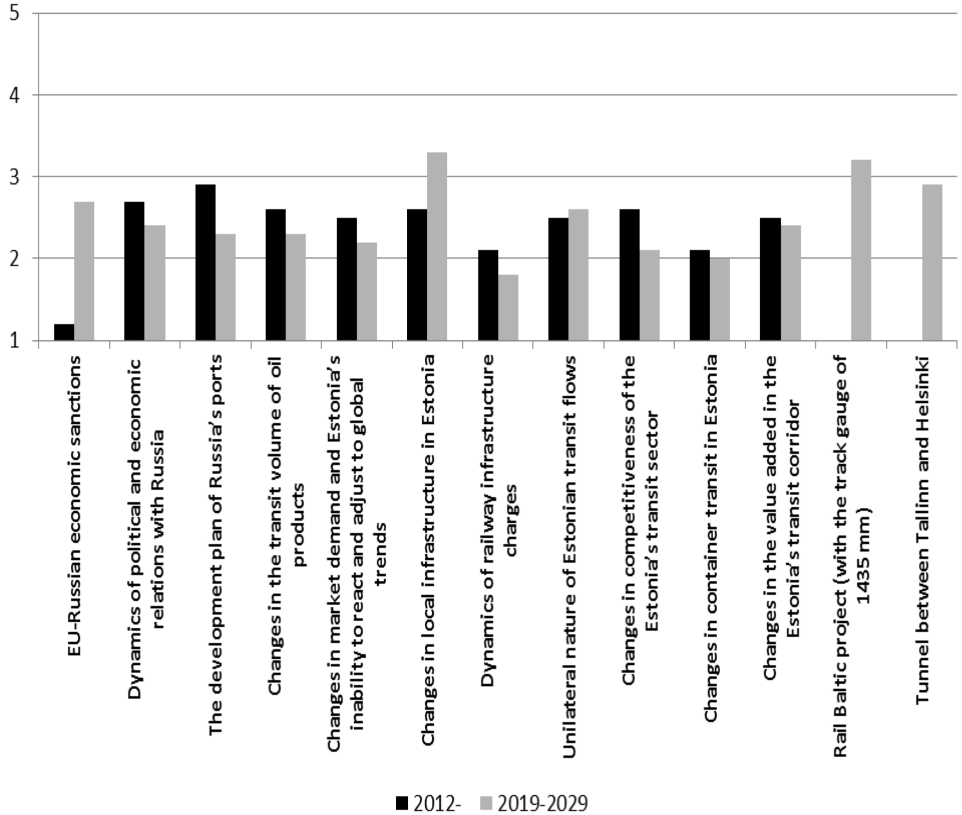
Overall, the Estonian transit entrepreneurs and experts seem to remain pessimistic about the outlook for the Estonian transit sector. Again, all survey respondents have chosen only the scores "1" ("very problematic) or "2" ("problematic"), however, this time majority of the respondents selected the score "2" to the survey question No 6a. At the same time, six out of eight entrepreneurs assessed that they are highly likely operating in the transit sector also in 2019–2029, and two companies couldn't answer the question (see the survey question 6a(1)). This may indicate that the survey respondents are actually not so pessimistic about the outlook of the Estonian transit sector anymore over the next decade as it may appear at the first glance, and that despite some problems the Estonian companies and experts still see the potential of the national transit sector.

As far as the assessment of factors behind potential changes in 2019–2029 is concerned (see survey question No 6b), most of the factors are expected to have slightly more negative impact on the Estonian transit sector in the near future in comparison with the period of 2012–2018, except for the negative impact of the EU-Russian sanctions, which is expected to decrease. Also, the neutral or slightly negative impact of the changes in the local infrastructure is expected to turn to a positive one, most likely because of the expected Rail Baltic project (see Figure 5). The latter overlaps with the Rail Baltic Global Project Cost-Benefit Analysis, arguing that Rail Baltic should improve the freight shipment potential by rail both for the import/export traffic of the Baltic countries as well as transit traffic in the region, referring mainly to trade of Finland and Poland with other countries in the Nordic-Baltic region. Based on the report, the improvement is expected to occur particularly from the removal of break-of-gauge barrier on the border of Poland and Lithuania, and from the established intermodal logistics terminals in Muuga, Salaspils, Kaunas and Vilnius (Rail Baltica… 2017).

Over the next decade, the range of the partner countries is expected to somewhat increase according to the survey, as some "new" countries with a huge potential have been named in the survey, such as China. This is, in principle, in accordance with the view that the negative impact of the unilateral nature of the Estonian transit sector on the sectoral development is also expected to decrease in 2019–2029, as indicated in Figure 4 (the farther is the score of 1, the less problematic the factor is assessed to be). At the end of the questionnaire, the respondents were asked to assess the potential transit volumes in the Estonian transit sector in the future and to share their view of what needs to be done (or what should not be done) to improve the state of the Estonian transit sector, including their recommendation about the policy measures (see the questions 6d, 6e, and 6f).

One policy recommendation concerned the revision of the EU-sanctions, and two other policy recommendations were suggesting to strengthen cooperation between the government and the entrepreneurs operating in the Estonian transit sector, or to consider tax cuts for the companies operating in the logistics and transit sector.

Figure 5: Answers to the survey questions No 5b and 6b:
"What is the impact of the following factors on the transit flows in Estonia…" (1 refers to strong negative impact, 3 to no impact, and 5 to strong positive impact).



Most of the experts agreed that competition within the Baltic region over the transit flows is intense, and in this respect any efforts to gain advantages for Estonia must be highly valued. However, the need to have a broader and more balanced view in this matter was stressed. The biggest challenge for the Estonian transit sector in the near future is the short-sighted attitude toward the development of local infrastructure as logistical infrastructure constitutes "the lifeblood of the economy", as already mentioned, and unfortunately rail transport has across time remained in the background in Estonia, as far as investments in rail transport are concerned. The EU funds have contributed to the improvement of local infrastructure in Estonia, however, this cannot last forever, and compared to, for example Poland or Ireland, Estonia has not paid much attention to the improvement of the local infrastructure.

In this context, experts have also stressed the importance of the Rail Baltic project to the recovery of the transit flows in Estonia. Since the project is not focused on transit flows from Russia but from Finland and Poland, its potential for increasing transit flows is significant for Estonia. Last but not least, experts were pessimistic about the recovery of the transit flows between Russia and Estonia in the future, and have welcomed the trend to focus on other markets. In this respect, also the potential of other forms of transit transport like transit goods flow passing through Estonia through the airports should not be underestimated.

Conclusions

The aim of the current study was to investigate the factors behind the changes in the transit flows in Estonia over the last two decades and to estimate the outlook of the Estonian transit sector over the next decade.

Both external and internal factors were considered. The study was based on a qualitative survey on the expectations and views of local entrepreneurs and experts in Estonia conducted in the first half of 2019. Overall, the survey confirmed the main concern expressed by various sources in Estonia that the local transit sector has faced serious problems over the past two decades.

Research results were mixed: on the one hand, the survey assessments have shown that local entrepreneurs and experts consider Russia partially responsible for this. On the other hand, when going in more detail and assessing the impact of various factors on the state of the Estonian transit sector in various periods, such as 2000–2006, 2007–2008, 2009–2011, and a period from 2012 onward, the results of the survey allowed drawing some interesting conclusions. First, the reorientation or restructuration of the Estonian transit sector (referring to the assessment that negative impact of most factors related to Russia's behaviour seems to be less and less significant in each subsequent period, and that potential diversification of the transit partners of Estonia has taken place over time) seems to take place which is a good news for the country, considering the fact that until now Russia has been an extremely unstable transit partner for Estonia.

However, second, unfortunately the impact of potential changes in the local infrastructure may have been somewhat underestimated in Estonia until now, since the country has not constantly and systematically developed the network of roads, ports, railways, airports and so on. Today, this could seriously backfire Estonia when it attempts to restructure and re-orientate its transit sector.

Furthermore, thirdly, the Estonian transit sector might face a challenging problem of not being able to identify long-term consequences of various policy measures, for example, the consequences of Russia's plan to reroute transit from the ports of the neighbouring countries to Russian ports, or overestimate the outcome of other measures, such as the EU-Russian sanctions imposed during the Ukrainian conflict.

In this light, as far as the prospect of the local transit sector in the future is concerned, one of the biggest challenges for the Estonian transit sector seems to be the short-sighted attitude toward the development of local infrastructure. Until now, Estonia has not paid much attention to the systematic improvement of the local infrastructure, but should do that soon. The Rail Baltic project could contribute to the recovery of the transit flows in Estonia, because it is not focused on transit flows from Russia but from Finland and Poland.

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Annex 1: The survey questionnaire

Part I of the survey: Your assessment of the state of transit flows in Estonia, the problems Estonian transit sector is facing and the main transit partners of Estonia

1a: What was the state of the transit sector and the transit flows in Estonia in 2000-2018 altogether?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

1b: What is the impact of the following factors on the transit flows in Estonia between 2000 and 2018?

	„1“ Strongly negative	„2“ Moderately negative	„3“ No impact	„4“ Moderately positive	„5“ Strongly positive
The EU-Russian economic sanctions					
Estonia’s political and economic relations with Russia					
The development plan of Russian ports					
Changes of transit volume of oil products					
Estonia’s inability to adjust to global trends					
Changes in local infrastructure in Estonia					
Dynamics of railway infrastructure charges					
Unilateral nature of Estonia’s transit flow					
Competitiveness changes of Estonian transit sector					
Changes in container transit in Estonia					
Changes in the value, added in the transit corridor					

1c: *Entrepreneurs to respond to the question:* Who are 3 main transit partners of your company during the whole period 2000-2018 investigated? *Experts to respond to the question:* Which countries were 3 main transit partners of Estonia during the whole period 2000-2018 investigated?

[2] 2a: What was the state of transit sector and the transit flows in Estonia <u>in 2000-2006</u>?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

2a(1): How would you characterise the state and wellbeing of your company and the dynamics of the transit flows of your company in the Estonian transit sector <u>in 2000-2006</u>?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

2b: What is the impact of the following factors on the transit flows in Estonia <u>in 2000–2006</u>.

	„1" Strongly negative	„2" Moderately negative	„3" No impact	„4" Moderately positive	„5" Strongly positive
The EU-Russian economic sanctions					
Estonia's political and economic relations with Russia					
The development plan of Russian ports					
Changes in the transit volume of oil products					
Estonia's inability to react and adjust to global trends					
Changes in local infrastructure in Estonia					
Railway infrastructure charges in Estonia					
Unilateral nature of Estonia's transit flows					
Competitiveness of the Estonian transit sector					
Competitiveness changes in container transit					
Changes in the value, added in the transit corridor					

2c: *Entrepreneurs to respond to the question:* Who are 3 main transit partners of your company <u>in 2000-2006</u>? *Experts to respond to the question:* Which countries were 3 main transit partners of Estonia <u>in 2000-2006</u>?

3a: What was the state of transit sector and the transit flows in Estonia <u>in 2007-2008</u>?

Very		Moderate		No problems at all

[2] Please note that following questions 2, 3, 4 and 5, cover the same questions for four different periods: 2000-2006, 2007-2008, 2009-2011 and from 2012 onwards.

problematic		concerns		
1	2	3	4	5

*3a(1):Entrepreneurs to respond to the question: C*haracterise the state and wellbeing of your company and the dynamics of the transit flows of your company in the Estonian transit sector in 2007-2008?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

3b: What is the impact of the following factors on the transit flows in Estonia in 2007-2008.

	„1“ Strong negative	„2“ Moderate negative	„3“ No impact	„4“ Moderate positive	„5“ Strong positive
The EU-Russian economic sanctions					
Estonia’s political and economic relations with Russia					
The development plan of Russian ports					
Changes in the transit volume of oil products					
Estonia’s inability to react and adjust to global trends					
Changes in local infrastructure in Estonia					
Railway infrastructure charges in Estonia					
Unilateral nature of Estonia’s transit flows					
Competitiveness of the Estonian transit sector					
Changes in container transit in Estonia					
Changes in the value, added in the transit corridor					

3c: *Entrepreneurs to respond to the question:* Rank 3 main transit partners of your company in 2007-2008? E*xperts to respond to the question:* Which countries were 3 main transit partners of Estonia in 2007-2008?

4a: What was the state of transit sector and the transit flows in Estonia in 2009-2011?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

4a(1): Entrepreneurs to respond to the question: How would you characterise the state and wellbeing of your company and the dynamics of the transit flows in the Estonian transit sector in 2009–2011?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

4b: What is the impact of the following factors on the transit flows in Estonia in 2009-2011?

	„1“ Strong negative	„2“ Moderate negative	„3“ No impact	„4“ Moderate positive	„5“ Strong positive
The EU-Russian economic sanctions					
Political and economic relations with Russia					
The development plan of Russian ports					
Changes in the transit volume of oil products					
Changes in market demand and Estonia's inability to react and adjust to global trends					
Changes in local infrastructure in Estonia					
Railway infrastructure charges in Estonia					
Unilateral nature of Estonia's transit flows					
Competitiveness of the Estonian transit sector					
Changes in container transit in Estonia					
Changes in the value, added in the transit corridor					

4c: *Entrepreneurs to respond to the question:* Rank three main transit partners of your company in 2009-2011? *Experts to respond to the question:* What do you think which countries were the three main transit partners of Estonia in 2009-2011?

5a: What was the state of transit sector and the transit flows in Estonia from 2012 on?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

5a(1): Entrepreneurs to respond to the question: Characterise the state and wellbeing of your company and the dynamics of the transit flows of your company in the Estonian transit sector from 2012 on?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

5b: Please give your assessment (make X to the respective field) of what is the impact of the following factors on the transit flows in Estonia from 2012 on.

	„1“ Strong negative	„2“ Moderate negative	„3“ No impact	„4“ Moderate positive	„5“ Strong positive
The EU-Russian economic sanctions					
Political and economic relations with Russia					
The development plan of Russian ports					
Changes in the transit volume of oil products					
Changes in market demand and Estonia’s inability to react and adjust to global trends					
Changes in local infrastructure in Estonia					
Railway infrastructure charges in Estonia					
Unilateral nature of Estonia’s transit flows					
Competitiveness of the Estonian transit sector					
Changes in container transit in Estonia					
Changes in the value, added in the transit corridor					

5c: *Entrepreneurs to respond to the question:* Who are 3 main transit partners of your company from 2012 on? *Experts to respond to the question:* Which countries were 3 main transit partners of Estonia from 2012 on?

Part II of the survey: Assess the future outlook of the Estonian transit sector over the next decade

6a: How do you estimate what will be the state of transit sector and the transit flows in Estonia in 2019–2029?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

6a(1): Please the entrepreneurs to respond to the question: How would you assess, is your company operating in the Estonian transit sector also in 2019–2029?

Yes, certainly	Yes, with a high probability	I can´t say	No, with a high probability	No, certainly not
1	2	3	4	5

Please the entrepreneurs to respond to the question: Characterise the state and wellbeing of your company and the dynamics of the transit flows of your company in the Estonian transit sector in 2019–2029?

Very problematic		Moderate concerns		No problems at all
1	2	3	4	5

6b: What will be the impact of the following factors on the transit flows in Estonia in 2019–2029.

	„1“ Strong negative	„2“ Moderate negative	„3“ No impact	„4“ Moderate positive	„5“ Strong positive
The EU-Russian economic sanctions					
Political and economic relations with Russia					
The development plan of Russian ports					
Changes in the transit volume of oil products					
Estonia's inability to react and adjust to global trends					
Changes in local infrastructure in Estonia					
Railway infrastructure charges in Estonia					
Unilateral nature of Estonia's transit flows					
Competitiveness of the Estonian transit sector					
Changes in container transit in Estonia					
Changes in the value, added in the transit corridor					
Rail Baltic project (track gauge of 1435 mm)					
Tunnel between Tallinn and Helsinki					

6c: *Entrepreneurs to respond to the question:* Who will be 3 main transit partners of your company in 2019–2029? *Experts to respond to the question:* Which will be 3 main transit partners of Estonia in 2019–2029?

6d: Assess the transit volumes and general trends in the Estonian transit sector in 2019–2029?

6e: What should be certainly done in Estonia to contribute to the development of the Estonian transit sector in 2019–2029 and what should be certainly avoided?

6f: What role should the state play in developing the activities in the Estonian transit and logistics sector?