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Shortage of bilateral transport permits for trucks: Effect on trade between Ukraine and EU countries

An update

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Berlin/Kyiv, January 2022

Executive summary

- Road shipment dominates in trade with the EU
- To operate abroad, road carriers must have either ECMT licenses or transport permits that are agreed bilaterally between two countries
- Trade between Ukraine and main partners in the EU has recovered strongly in 2021, while the number of agreed transport permits has declined
- The German Economic Team has updated its impact assessment of transport permit shortages from EU-countries:
 1. There are large and expanding shortages relative to permit allocations for key transit and trade partners (POL, HUN), which are expected to worsen in 2022
 2. These shortages of permits reduced EU-UKR road-based trade by USD 756 m (2.4%) and 0.4 mt in 2021 and > USD 2 bn since 2018, hitting both exports and imports
- EU mediation and bilateral long-term agreements are recommended

Structure

1. Motivation
2. Ukraine's road-based trade with the EU
3. Transport permits for international road transport
 - Allocation of bilateral permits to Ukraine
 - Methodology of shortage assessment
 - The shortage of permits: Reasons and policy response
4. Effects of permits shortage:
 - Business response
 - Aggregate impact
5. Conclusions and recommendations

Annexes

1. Motivation

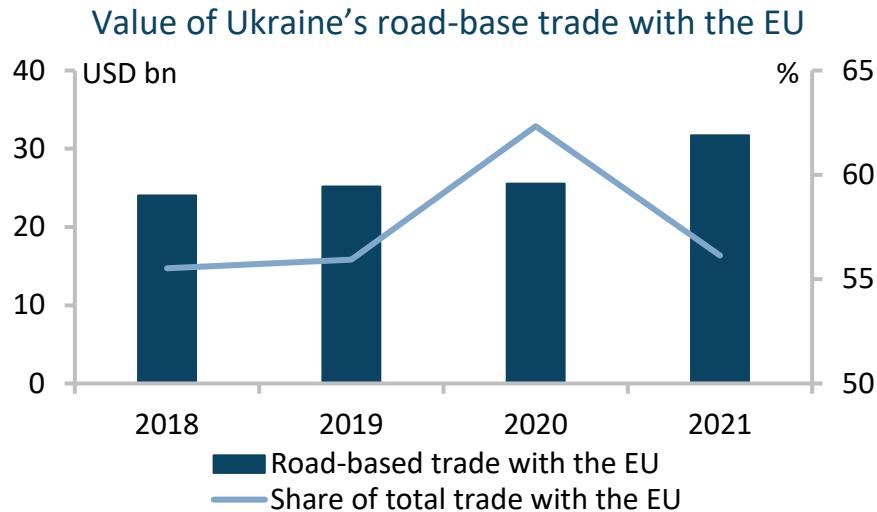
Background:

- To operate abroad, road carriers must have the ECMT license or a permit
- These permits are agreed bilaterally between two countries
- 2018: Transport and logistic companies from UKR started complaining about the shortage of bilateral permits in several EU countries, negatively affecting Ukraine's growing trade with the EU
- 2019-2022: UKR introduced new rules of permit allocation to increase its transparency and accountability

Purpose of this Policy Briefing:

- The German Economic Team has published the impact assessment of transport permit shortages from EU countries on UKR trade in 2018-2019 (PB/03/2019).
- This policy briefing continues and updates this research along the following dimensions:
 - Assess extent and effects of transport permit shortages
 - Analyse changes in bilateral permit allocation and UKR distribution system

2. Ukraine's road-based trade with the EU



Source: UKR customs database, see annex 1 for comparison by type of transport
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UKR road-based trade with the EU, 2021:

Value:

- Nominal: USD 31.7 bn
- Share of total trade with EU: 56%
- Growth: +32% since 2018

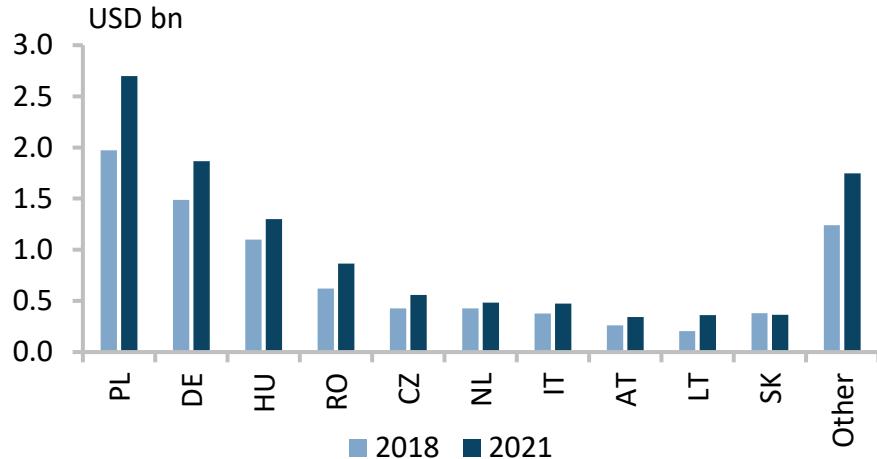
Volume:

- Nominal: 13.0 mt
- Share of total trade with EU: 18%
- Growth: +18% since 2018

- Road shipment dominates in trade with the EU
- Value of road-based trade expanded almost twice faster than volume → potential extrusion of cheaper goods

Ukraine's road-based exports to the EU

Value of Ukraine's road-based exports to the EU



Road-based exports to the EU, 2021:

Value:

- Nominal: USD 11.1 bn
- Share of total exports to EU: 41%
- Growth: +30% since 2018

Volume:

- Nominal: 6.8 mt
- Share of total exports to EU: 12%
- Growth: +11% since 2018

Main partners, 2021:

Value:

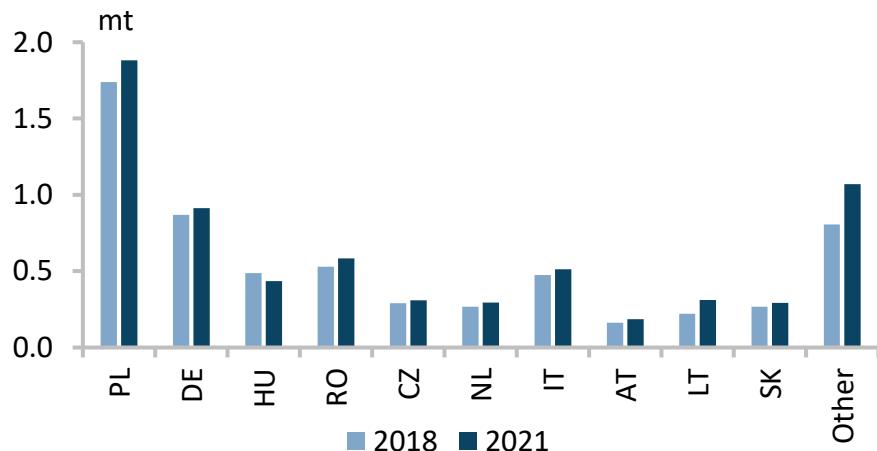
- Poland: 24% share, +37% growth since 2018
- Germany: 17% share +25% growth since 2018
- Hungary: 12% value, +18% growth since 2018

Volume:

- Poland: 28% share, +8% growth since 2018
- Germany 13% share, +5% growth since 2018
- Hungary: 6% share, -11% growth since 2018

➤ **Main mean of transportation by value, but not by volume**

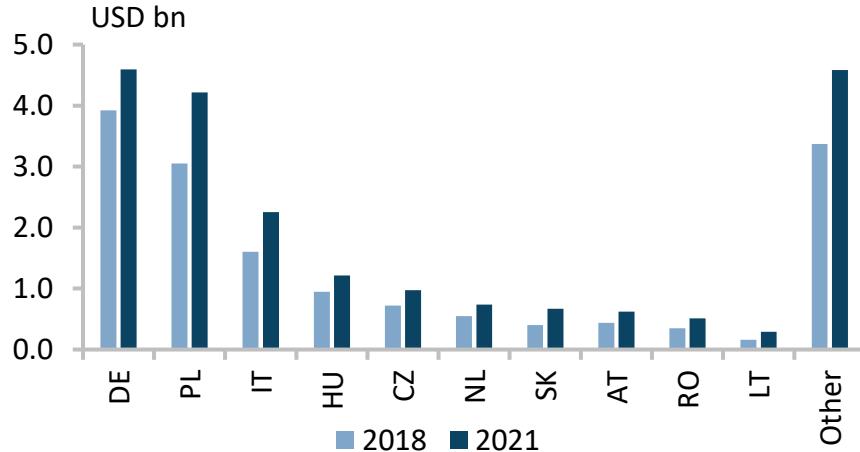
Volume of Ukraine's road-based exports to the EU



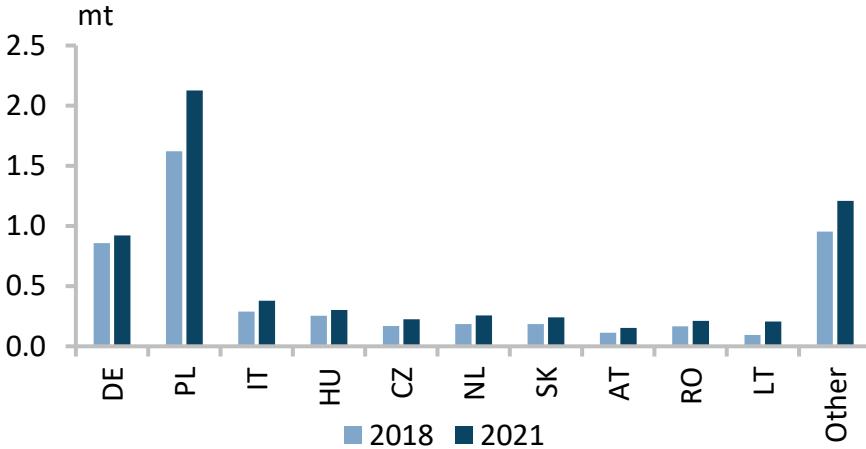
Source: UKR customs database

Ukraine's road-based imports from the EU

Value of Ukraine's road-based imports from the EU



Volume of Ukraine's road-based imports from the EU



Source: UKR customs database

Road-based imports from the EU, 2021:

Value:

- Nominal: USD 20.7 bn
- Share of total imports from EU: 70%
- Growth: +33% since 2018

Volume:

- Nominal : 6.2 mt
- Share of total imports from EU: 40%
- Growth: +27% since 2018

Main partners, 2021:

Value:

- Germany: 22% share, 17% growth since 2018
- Poland: 20% share, 38% growth since 2018
- Italy: 11% share, 41% growth since 2018

Volume:

- Germany: 15% share, 7% growth since 2018
- Poland: 34% share, 31% growth since 2018
- Italy: 6% share, 31% growth since 2018

➤ **Main mean of transportation both by value and volume**

3. Transport permits for international road transport

Different types of permit:

- ECMT licenses:
 - Valid in ECMT area (basically all Europe, including Turkey and Caucasus)
 - Valid for one year
 - Can be exchanged between vehicles after completed trip
 - Cover appr. 10-15% of trade volume with the EU
- Bilateral transport permit:
 - Issued between countries (e.g. POL for UKR trucks on Polish territory & vice versa)
 - Allocations set in bilateral negotiations
 - Different sub-types, e.g. transit, working, universal
 - One permit usually valid for one return trip in one country; if several countries are crossed, each country requires own bilateral permit
 - Some „multi“ permits exists (e.g. France issues one permit for 15 trips)

3.1. Allocation of bilateral permits to Ukraine

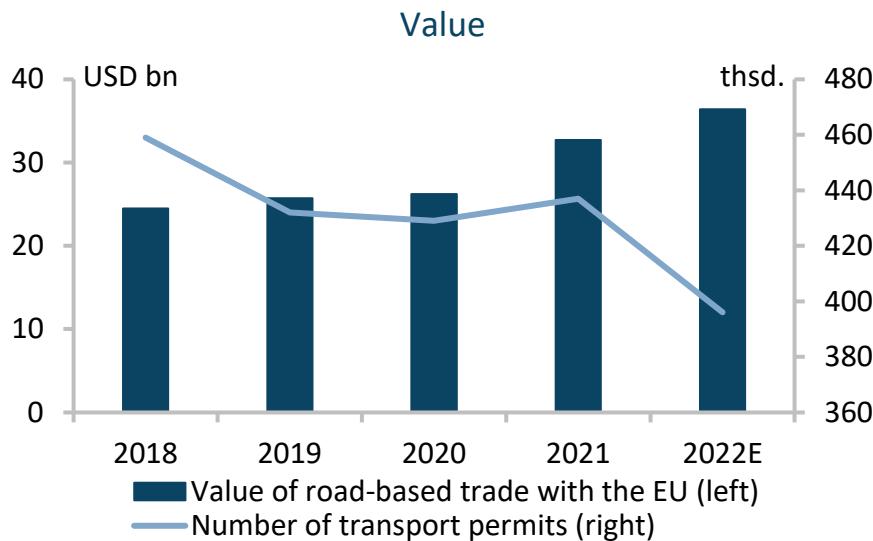


Source: DSBT and kmu.gov.ua. Note: ECMT licenses not included. Add. allocations within 2018 and 2020 are included, *since 2019, France allocates "multi"-permits, each of them allows 15 trips, each such permit calculated as 15 ordinary

- Decreased allocations in 2018 vs 2022, including:
 - Poland: by 50 thousands (-24%)
 - Hungary: by 16 thousands (-50%)
 - Netherlands: by 12 thousands (-46%)
 - Romania: by 5 thousands (-21%)

➤ Decreased allocations for key transit countries (POL, HUN)

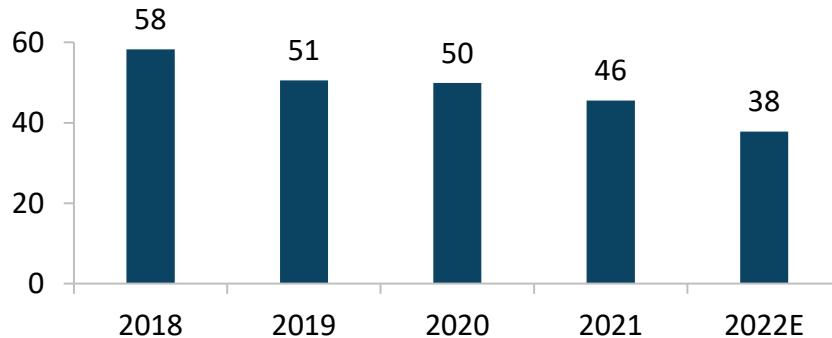
Allocation of bilateral permits vs trade growth



- The allocation of bilateral permits goes down as UKR-EU trade expands
- Permit coverage is a coefficient of trade volume
- The coverage of UKR-EU road-based trade by bilateral permits for UKR has reduced by 22% in 2018-2021
- In 2022, the estimated decrease is by another 17% compared to 2021

Coefficient of trade volume permit coverage

No.of bilateral permits for UKR hauliers per thsd. t shipped to/from EU by road



- Sharp decrease in permit coverage, expected to worsen in 2022
- Shortage of bilateral permits aggravates over time undermining trade expansion potential

Sources: DSBT and Ministry of Infrastructure for permit allocations, Ukraine State Customs Service for trade volume, own calculations, trade in 2022 is assumed to grow by 5-year average

3.2. Methodology of shortage assessment

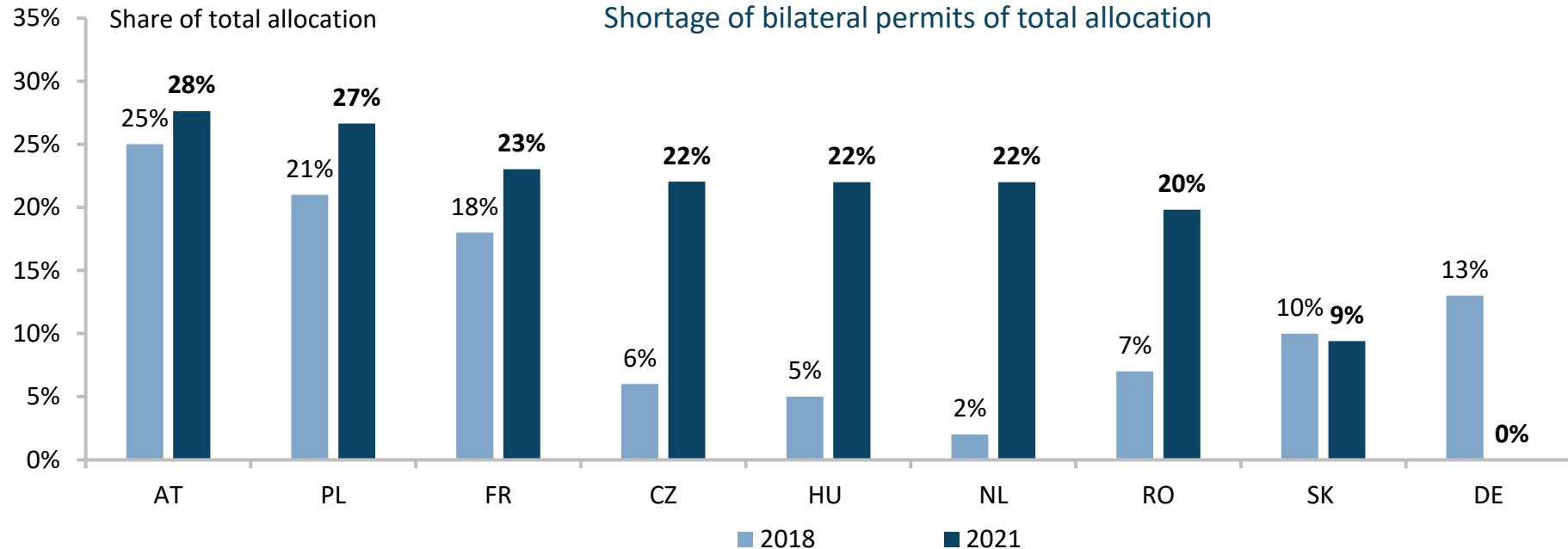
- **Aim:** assess the deficit of transport permits for trade with the EU
- Key partners: PL, DE, NL, FR, SK, CZ, HU, RO, AT
- Calculation based on sales rate before near-exhaustion of permits

Total shortage = main deficit + additional deficit – additional quota – number of permits left

- **Main deficit:** required number of permits for the remainder of year after the near-exhaustion of permit
- **Additional deficit:** partial shortages occurred before near-exhaustion of permits
- **Additional quota:** permits added as top-up later in year
- **Number of permits left**

See Annex 2 for detailed methodology

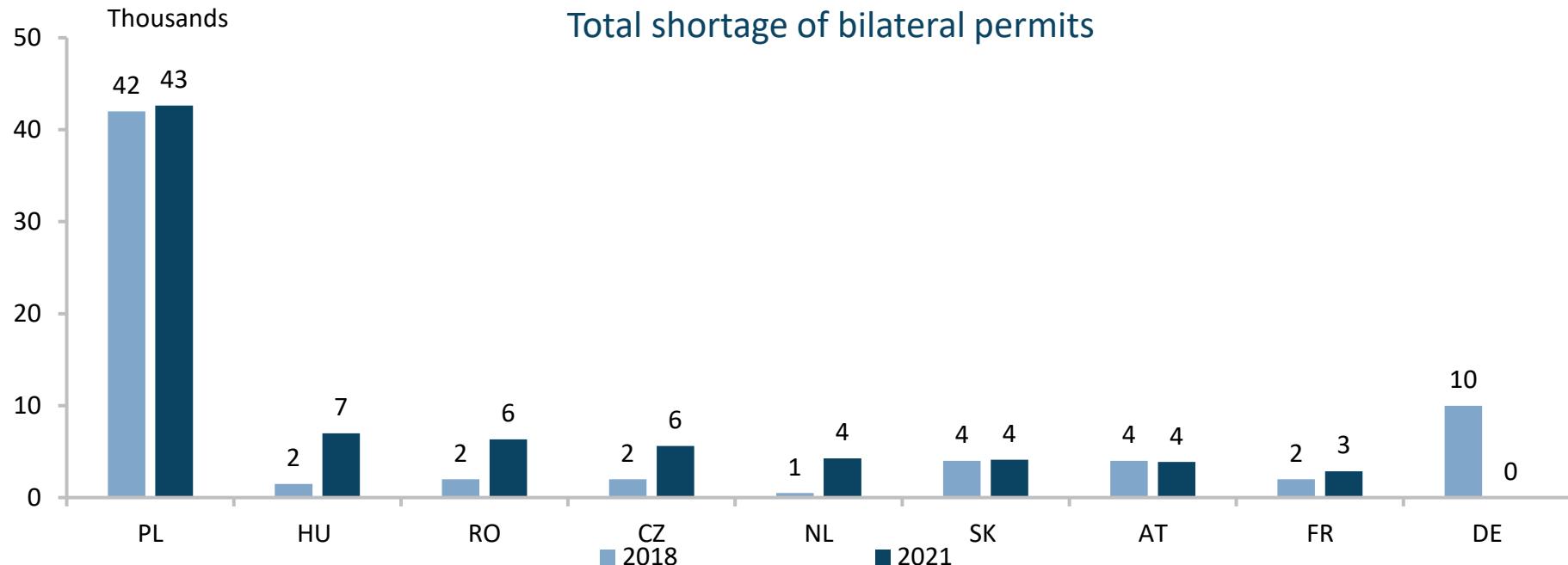
Shortage of bilateral permits to Ukraine in 2021



Source: DSBT, own calculations; 2018: see PB/03/2019; 2021: see Annex 1 for methodology

- Shortage of permits for main EU destinations/transit routes, except DEU
- The largest shortage relative to allocations: Austria, Poland and France
- Increased shortage relative to allocations in 2021 compared to 2018
- **Large and expanding shortage relative to allocations of permits**

Shortage of bilateral permits to Ukraine in 2021



Source: DSBT, own calculations; 2018: see PB/03/2019; 2021: see Annex 1 for methodology

- The shortage of POL bilateral permits is the largest in nominal terms
 - Increased absolute shortage of permits for main EU destinations/transit routes, except DEU
- **Large and expanding shortage in the number of permits**

3.3. The shortage of permits: Reasons and policy response

- Two possible reasons for the shortage – inadequate allocation of permits and problems with UA distribution system

A. Inadequate allocation of permits

- Permit numbers must be negotiated
- Countries try to „protect their own transport sectors“, and the process might be fostered by the EU Mobility Package enactment in 2021
- Reduced interest due to decay of transit through UKR to/through RUS

B. UKR distribution system

- 2019: UKR introduced new permit allocation rules to avoid artificial shortages
 - 2020: UKR introduced permit allocation quotas for POL & HUN permits to smoothen the ‘deficit curve’
 - 2021: Automatic electronic system of permit allocation introduced
 - 2022: QR code for permits introduced for traceability and accountability
- **Improved accountability and transparency did not help to remove shortages**
- **The first reason (A) prevails**

4. Effects of permits shortage: Business response

Role of foreign haulier companies:

- Shortage only affects UKR hauliers
 - Hauliers from EU countries are more expensive
 - Less interested in UKR market (bad roads, waiting time at border)
 - Want higher prices than in EU to compensate for these factors
 - 2021: POL part of bilateral permits fully used
- **Shortage of permits constrains trade through transport price effect**

Business response to shortages:

- Increased prices of road shipments
- Use of alternative means of transport (e.g. airplanes) / multimodal shipments
- UKR transport companies started registering their businesses in the neighboring EU countries:
 - Pros for UKR: ease permit shortage problem
 - Cons for UKR: loss of fiscal revenues & labour force

Effects of permits shortage: Aggregate impact

Aggregate impact on UKR road-based trade with the EU

		2018		2019		2020		2021	
		nominal	% share						
Exports	USD m	232.0	2.7%	311.4	3.7%	66.3	0.8%	440.5	4%
	thsd. t	170.7	2.8%	229.3	3.8%	50.7	0.8%	264.8	3.9%
Imports	USD m	263.2	1.7%	269.6	1.6%	118.6	0.7%	315.3	1.5%
	thsd. t	106.9	2.2%	102.3	1.9%	47.5	0.8%	136.2	2.2%
Aggregate impact	USD m	495.2	2.1%	581.0	2.3%	184.9	0.7%	755.8	2.4%
	thsd. t	277.6	2.5%	331.6	2.9%	98.2	0.8%	401	3.1%

Source: own calculations; % share is estimated based on UKR road-based exports/imports/trade with the EU; see Annex 4 for methodology

- Impact of shortages sharply reduced in 2020, likely due to COVID-19
- In 2021, impact of shortages grew again, especially in Ukraine's exports as EU-countries reduce their transit through Ukraine for trade with Russia
- The shortage of permits reduced EU-UKR road-based trade by USD 756 m (2.4%) and 0.4 m tonnes in 2021 and by > USD 2 bn since 2018

5. Conclusions and recommendations

- Severe shortages are registered in shipments to/through PL, DE, HUN, SK
- The permit shortage is not artificially created by UA distribution system, but results from the system of the EU road cargo transport regulations
- The economic impact of shortages decreased in 2020 amid COVID-19 pandemic, but started to aggravate again in 2021 as trade growth resumed
- In 2021, the shortage of permits reduced EU-UKR road-based trade by USD 756 m (2.4%) and 0.4 m tonnes
- Business response:
 - Increased price of shipment
 - Use of alternative means of transpiration/multimodality
 - UKR transport companies started registering their businesses in the neighbouring EU countries

Recommendations:

- Short-term: to use the EU mediation to increase bilateral permit allocation
- Long-term: to conclude the special road transport agreement with the EU, the possibility of which is envisaged in the EU-Ukraine Association Agreement, to alter/improve UKR access to the EU market

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

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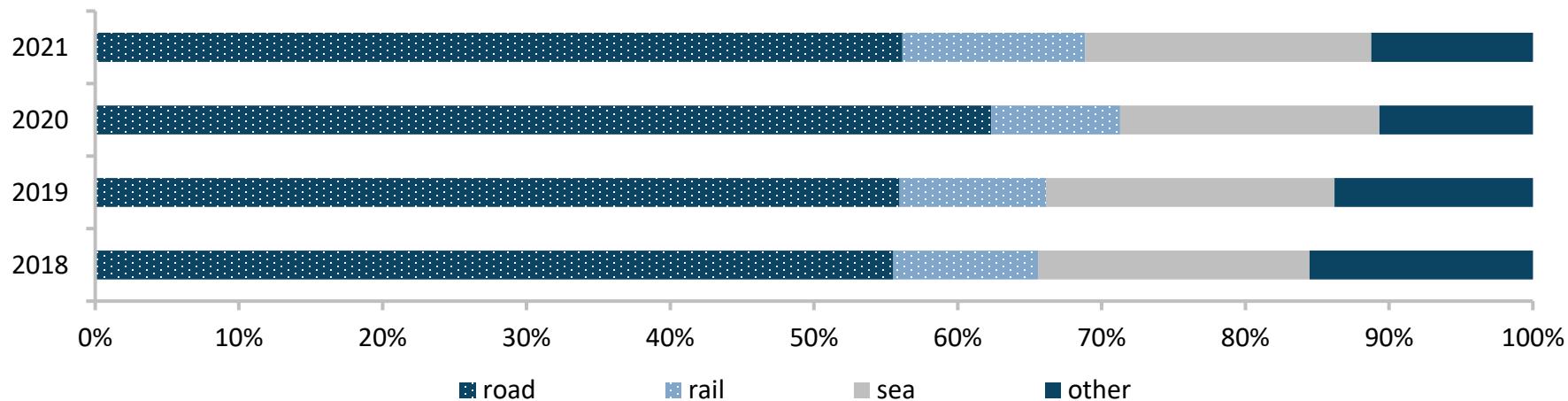
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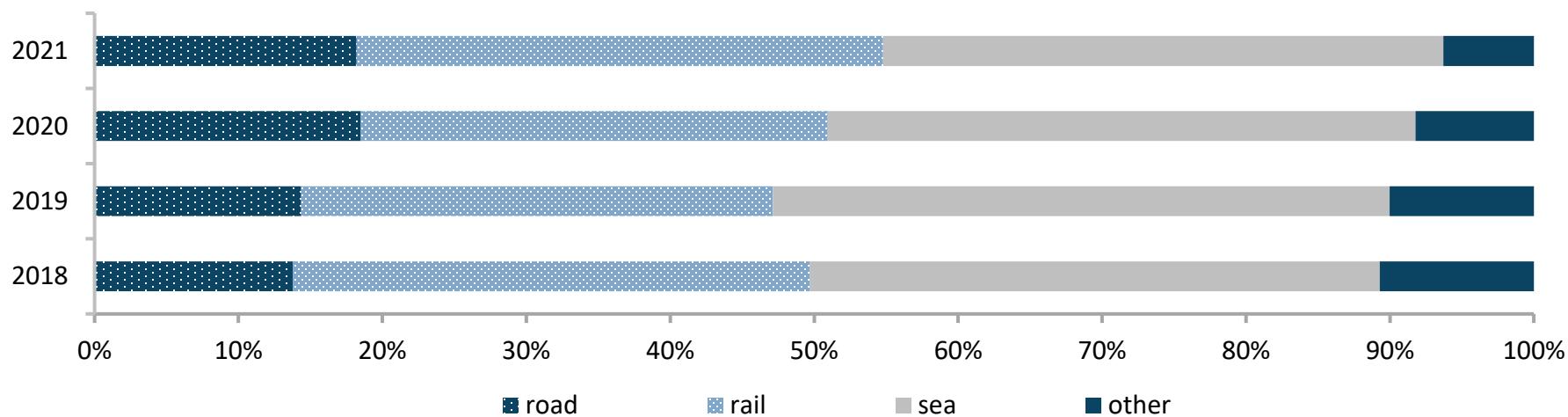
Implemented by


Annex 1: UKR-EU trade by type of transport

a) The structure of UKR-EU trade, **by value**



b) The structure of UKR-EU trade, **by volume**



Source: UKR customs database

Annex 2: Calculating the shortage of permits in 2021 (1/2)

- **Data:** Number of unsold permits at different points in time provided by DSBT
- Data for permits from 9 countries: PL, DE, NL, FR, SK, CZ, HU, RO, AT

Total share of shortage (%) = total number of shortage / the initial quota of permits,

where:

- **Main deficit:**
 - Calculated for the last months of the year. The starting month of the main deficit is the month when the deficit has started and not ended till the end of the year
 - The referral number of permits required to cover up the deficit is calculated as a mean value of the number of permits for the month without a deficit just before the start of the main deficit, and the number of permits in a given year among those months, when deficit occurred before the start of the main deficit
 - If there is no month with the deficit before the start of the main deficit, the month with the smallest number of permits in the year is taken
 - The date of the start of deficit in the first month of the main deficit is found by division of the actual number of permits by the referral number of permits
 - The main deficit is then calculated for the remainder of the year by extrapolation

Annex 2: Calculating the shortage of permits in 2021 (2/2)

- **Additional deficit:**
 - The deficit that occurred before the start of the main deficit
 - Additional deficit is calculated as the difference between the number of permits, needed to cover up the deficit, and the actual number of permits available in the given month
 - Number of permits, which is needed to cover up the deficit, is the number of permits from the month with the smallest number of permits in the year, in which the deficit has not occurred
 - If the actual number of permits in the month with the additional deficit is bigger than the smallest number of permits in the months without deficit, the second smallest number of permits for the months without the deficit is taken
- **Additional quota:** Subtract remaining volume of permits including permits added as top-up later in year
- **Number of permits left:** number of those permits, which were issued in the following month after the month in which the main deficit started, plus those permits, issued in the months of additional deficits

Total share of shortage (%) = total number of shortage / the initial quota of permits

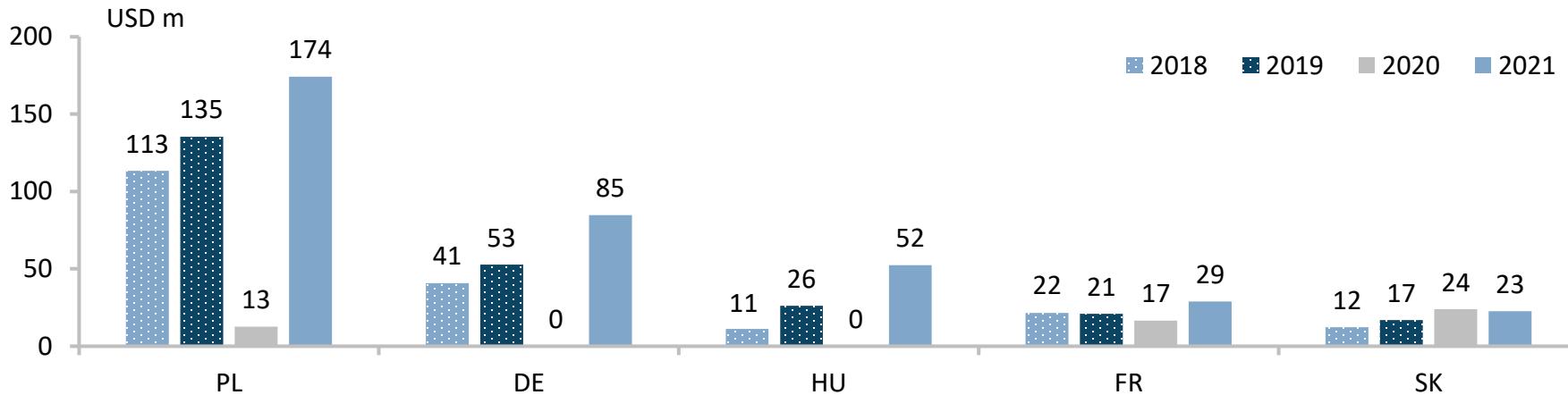
Annex 3: Calculation of the trade losses

- Base: Data on road-based exports and imports to/from EU from Eurostat
- We calculate average shares per country, per month of annual volumes for available years before 2016 (included)
- We then calculate predicted volume for October + November + December 2018-2021 using these shares and volume January-September
- Calculation is performed separate for each country, for imports and exports, for volume (kg)
- Value losses (USD) calculated by the multiplication of volume losses on the USD/kg coefficient, which is calculated for each year, for each country separately
- Conditional aggregation (sum) of losses:
 - Volume loss: if volumes in Oct/Dec 2018 were above prior years' averages, they are calculated as 0 (no reduction of loss sum through „negative losses“)
 - Value loss: Negative losses calculated as 0 (no reduction of loss sum through „negative losses“)

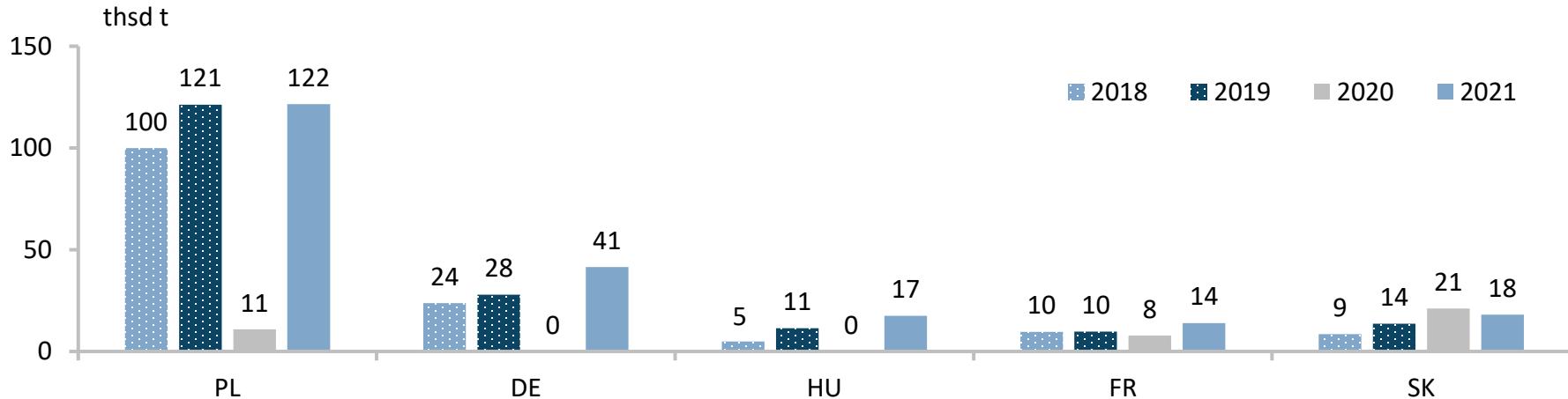
Annex 4A: Effects of a shortage of permits on exports to the EU

a) By value

Top-5 of losses of exports 2018-2021 by source



b) By volume

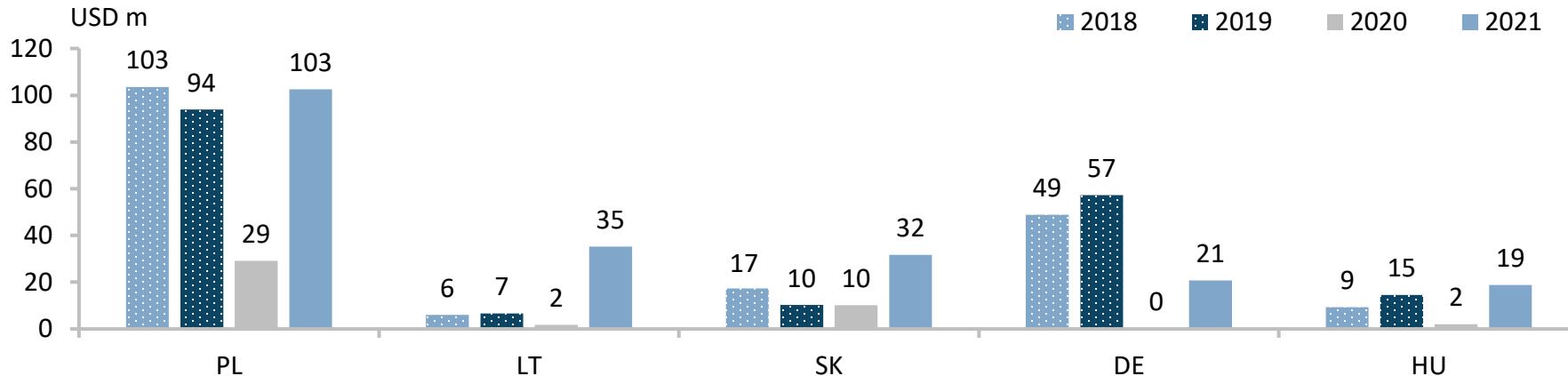


Source: own calculations; see Annex 2 for methodology

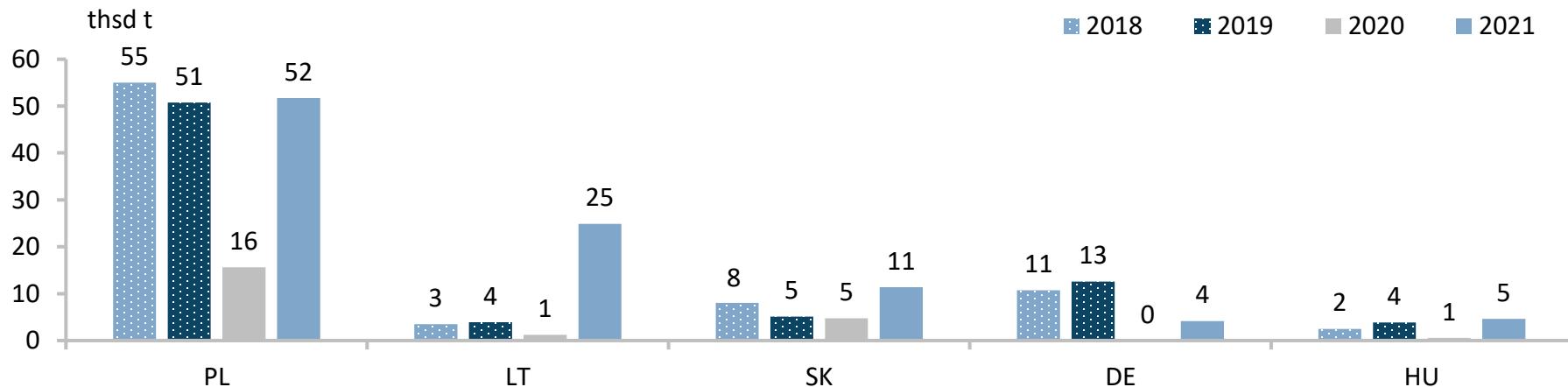
Annex 4B: Effects of a shortage of permits on imports from the EU

Top-5 of losses of imports in 2018-2021 by source

a) By value



b) By volume



Source: own calculations; see Annex 2 for methodology