



Reported shortage of EU transport permits for Ukrainian trucks: Effect on trade with the EU

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Introduction

Situation

- To operate abroad, trucks need transport permits
- Transport industry sources indicate lack of bilateral transport permits for Ukrainian trucks to operate in several EU countries
- Situation was highlighted by business in joint study with German-Ukrainian Chamber of Industry and Commerce (PS/03/2018)
- Shortage may be due to inadequate number of permits and/or intransparency in permit sales in UA
- Danger: Binding constraint to growing Ukrainian trade with the EU

Purpose of this PB:

- Analyse bilateral permit allocation and distribution system in UA
- Assess extent and effects of a possible shortage of permits
- Provide recommendations on permit allocations and distribution

Structure

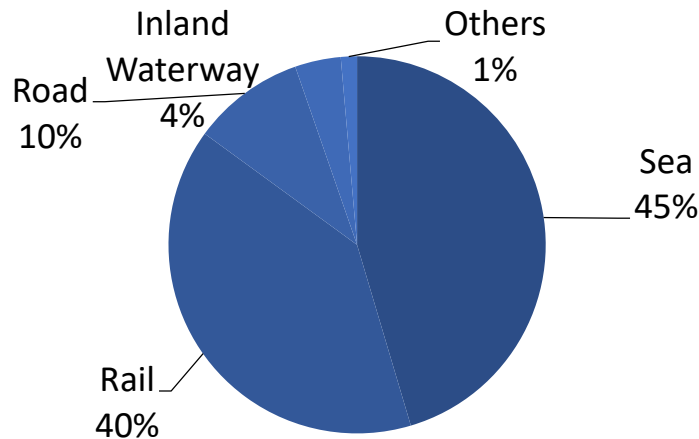
1. Ukraine's road-based trade with the EU
2. Transport permits for international road transport
 1. Allocations of bilateral permits to Ukraine
 2. Usage of bilateral permits by Ukrainian trucks
 3. Shortage of bilateral permits in 2018
 4. Possible reasons for shortage
3. Effects of permits shortage on trade
 1. Exports of Ukraine to EU
 2. Exports of EU countries to Ukraine
 3. Aggregate effect on trade turnover
4. Recommendations

Annex

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

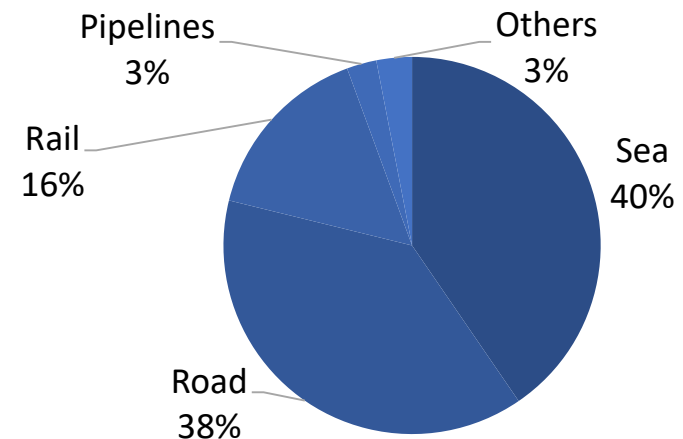
Ukrainian exports to EU-28, 2018

... by volume: 63.4 m tonnes



Source: Eurostat

... by value: EUR 17.9 bn

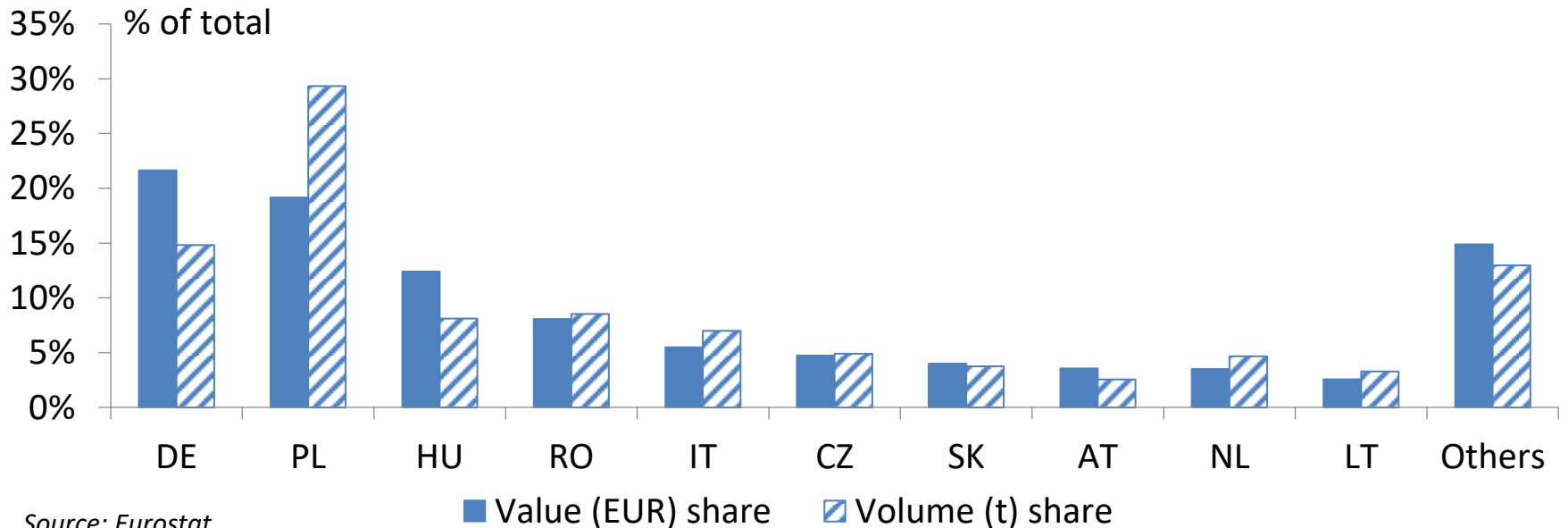


Source: Eurostat

- Total exports to EU: EUR 17.9 bn, 42% of UA total exports by value (EUR 39.4 bn)
- Share of road transport in EU exports:
 - 10% by volume (6.1 m tonnes)
 - 38% by value (EUR 6.9 bn)
- **Important role of road transport for EU exports, esp. for high-value goods**

Destinations of UA road-based exports to EU

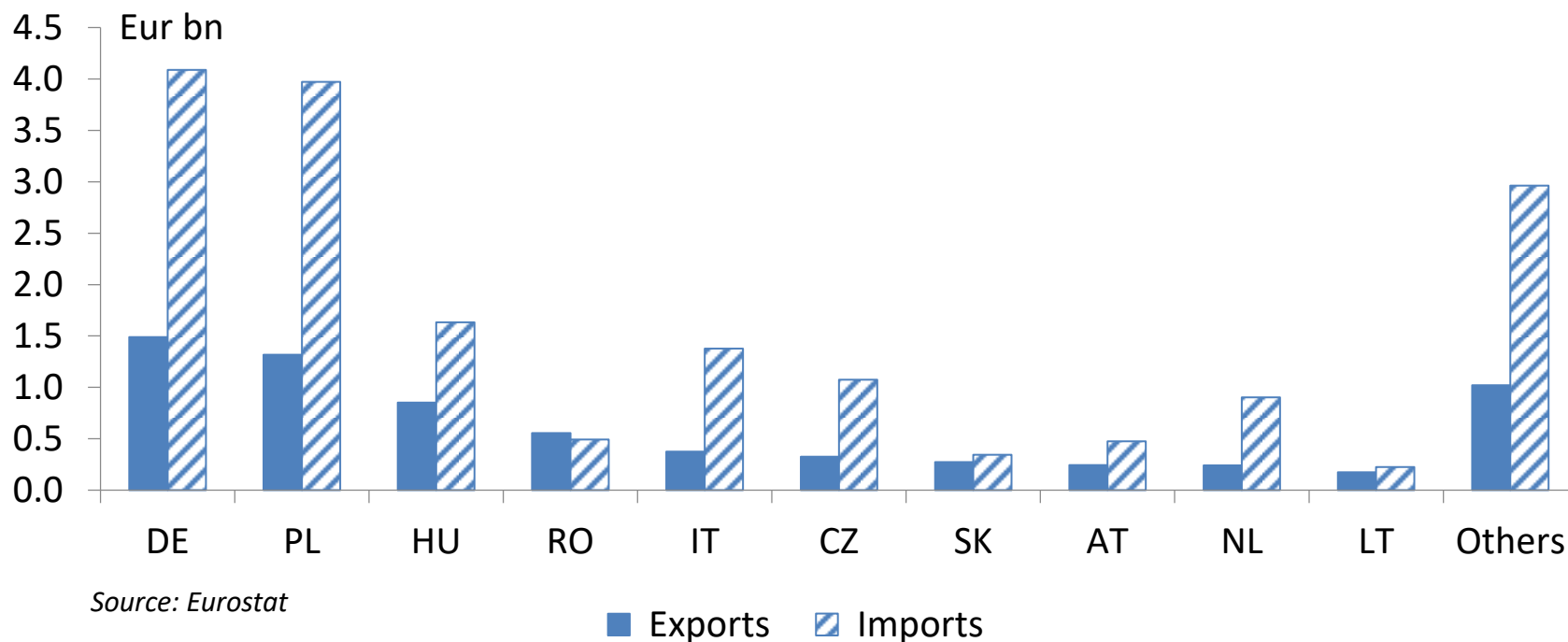
Ukrainian exports (road transport) to EU-28, 2018



- Exports to Germany largest by value:
 - 22% of total value of EU exports, EUR 1.5 bn
 - 15% of total volume of EU exports, 0.9 m t
- Exports to Poland largest by volume:
 - 19 % of value, EUR 1.3 bn
 - 29% of volume, 1.8 m t

Export and import by road with EU partners

Ukrainian exports and imports by road with EU-28, 2018



- Value of UA road imports from EU far larger than its exports
- Considerable value of Polish and German exports to UA by road!
- **EU partners should be equally interested in availability of cost-efficient road transport**

2. Transport permits for international road transport

Importance of transport permits

- Road transport of exports is an international service provision
- Road carriers must have a permit to operate in a foreign country

Different types of permit:

- Bilateral transport permit (focus of this Policy Briefing):
 - Issued between countries (e.g.: PL for UA 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
 - Some „multi“ permits for FR, NL in 2019
- ECMT licenses:
 - Valid in ECMT area (basically all Europe, including Turkey and Caucasus)
 - Valid for one year
 - Can be transferred between vehicles after completed trip

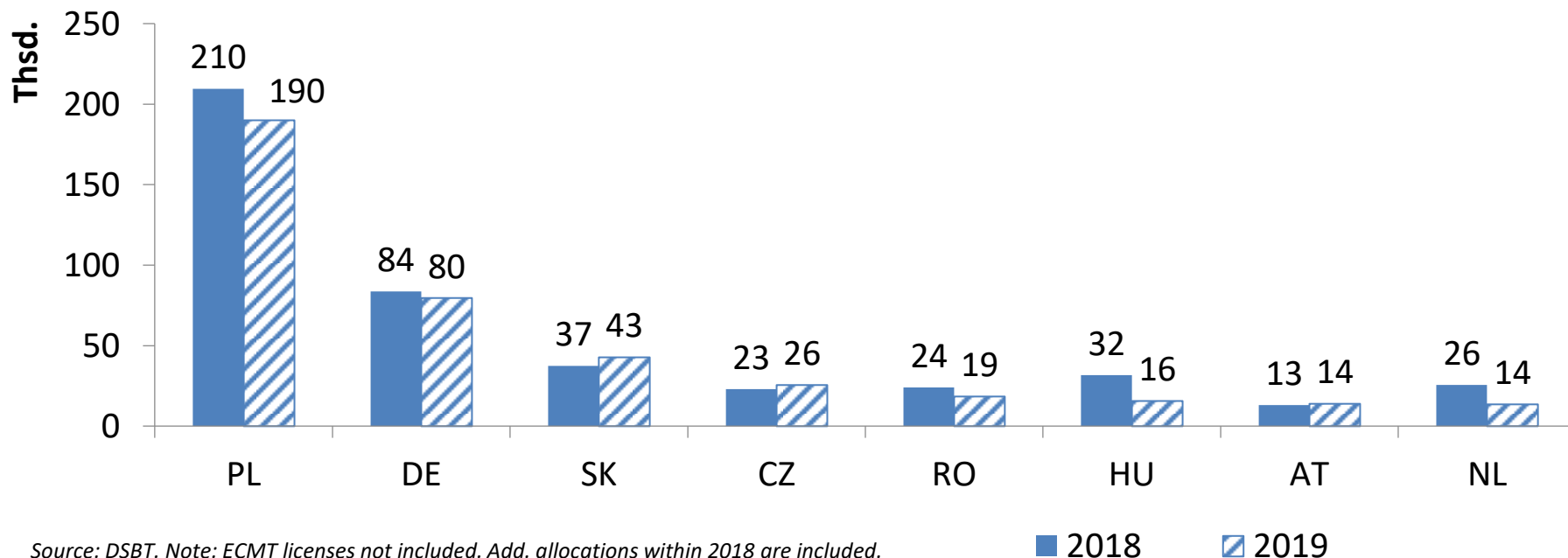
Procedure for buying and using bilateral permits

- Original documents transferred from country of origin to UA authorities
- Administration in UA is handled by the Ukrainian State Service for Transport Safety, UkrTransBezpeka (DSBT)

- Procedure for transport companies
 - Permit can be bought at a DSBT sales point when truck is loaded, after receiving customs clearance
 - Previously: Could buy multiple permits in advance
 - At border: Permit checked, one part remains with authorities of issuing country
 - Permit remains with truck for entire journey
 - After arrival back in UA, permit must be returned before next permit for truck can be issued (previously: 90 days for returning permit)

2.1 Allocations of bilateral permits to Ukraine

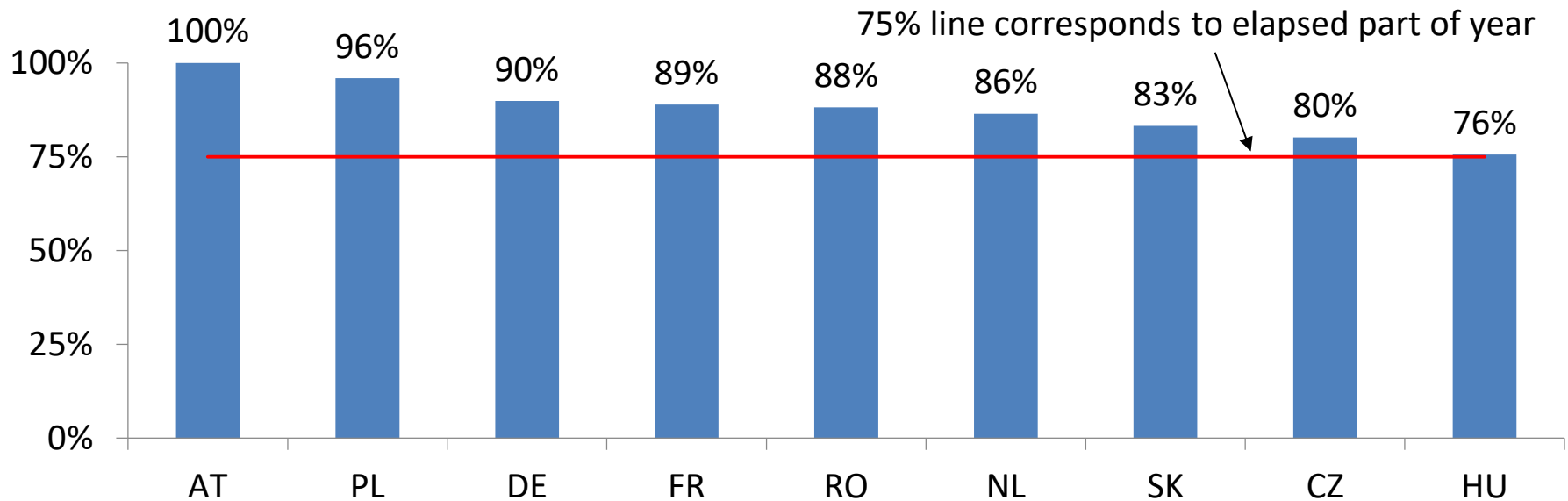
Total allocation of bilateral permits for Ukrainian hauliers, 2018 and 2019



- Allocations need to reflect trade and transit role of countries
- Most important transit country and trade partner: Poland
- Decreased allocations for Germany and Poland in 2019 vs 2018
- **Decreasing allocations from DE, PL while trade with EU is rising**
- **UA total exports to EU (value): +27% 2017/2016, +7% 2018/2017**

2.2 Usage of bilateral permits by Ukrainian trucks

Exhaustion rate: % of initial allocation issued in 2018 Q1-Q3



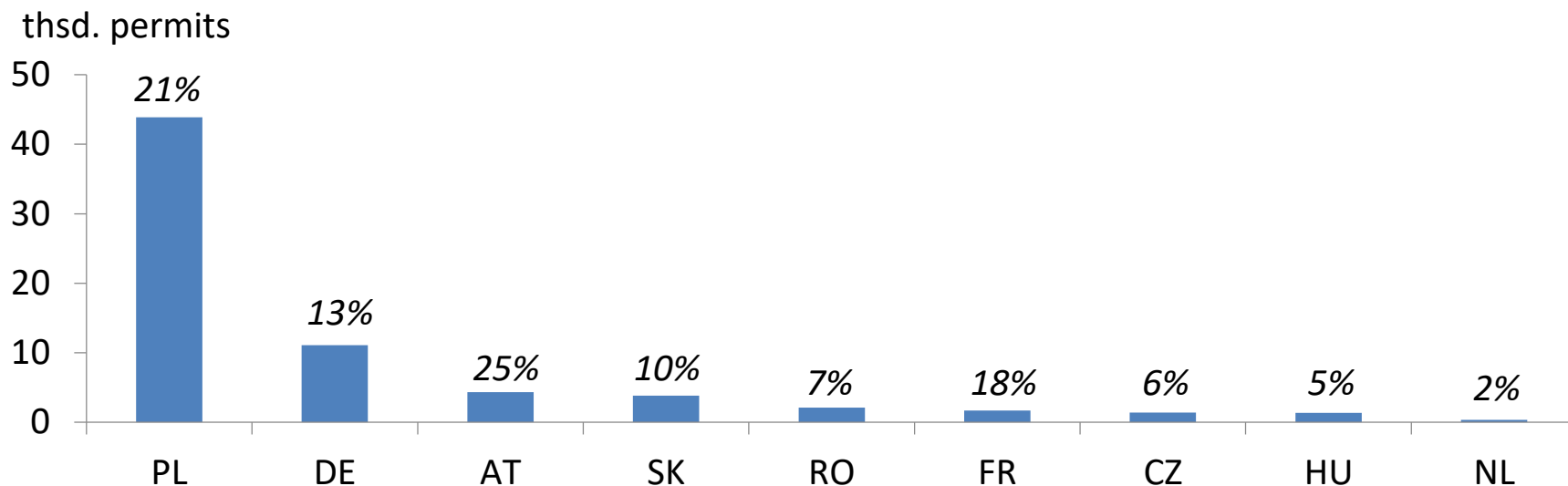
Source: DSBT, own calculations. Note: Calculation based on data on unsold permits on 3/10/2018

- For most countries, more than $\frac{3}{4}$ of permits sold in Q1-Q3 2018
- Add. permits later added for Poland, Germany, Netherlands (see Annex 2)
- Permits for Austria completely exhausted during September 2018
- **Exhaustion of permits before end of year likely => shortage of permits**

2.3 Estimated shortage of bilateral permits in 2018

Shortage in permits, 2018, calculated from permit sales data

Italics: Shortage as share of total allocation



Source: DSBT, own calculations

- Calculation based on sales rate before near-exhaustion of permits
- See Annex 3 for calculation details
- Shortage of bilateral permits for UA hauliers
- No reported shortage for hauliers from partner countries for UA
- **Large shortage for PL permits indicated in data**

2.4 Possible reasons of shortage

Inadequate allocation of permits

- Permit numbers must be negotiated
- Other countries try to „protect their own transport sectors“
- Reduced interest by Poland due to decay of transit through UA to Russia
- Partner countries should keep in mind importance of cost-efficient transport for their own exports to UA

Problems in permits sales in Ukraine

- Reports of intransparent sales process at DSBT
- May aim to artificially increase scarcity of permits to extort bribes
- Evidence: PL recorded much fewer permits used than sold by DSBT
- **Both reasons and combination of reasons possible**
- **Analysis of reasons is possible if data on usage (at border) of bilateral permits is made available**

3. Effects of permits shortage on trade

Role of foreign haulier companies

- Shortage only affects Ukrainian hauliers
- But: Hauliers from PL etc. are much more expensive
 - Not interested in UA market (bad roads, wait at border etc.)
 - Require higher prices than for comparable journeys in EU countries according to industry sources
- Shortage of permits for UA hauliers could constrain EU-UA trade through sharp transport price effect or unavailability of transport

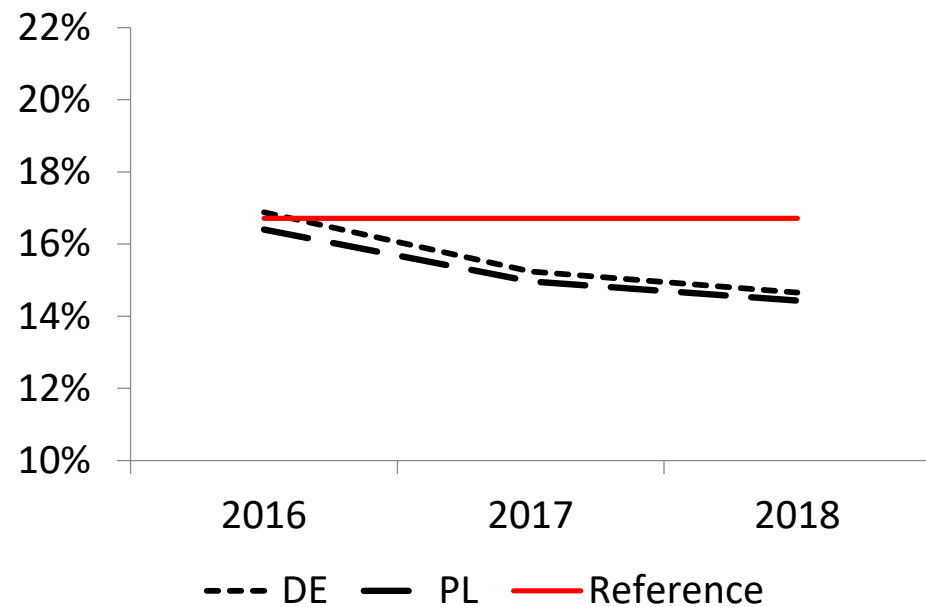
Effect of 2018 shortage on transport prices

- Reports from companies: Prices for trucks increased significantly end 2017/18
 - Example: Price for 20 t truck Kyiv-Warsaw
 - Normal: ca. USD 700
 - During scarcity ca. USD 2,000
- **In the following, we analyse whether road trade with EU partners was affected in late 2018, both for exports and imports with EU countries**

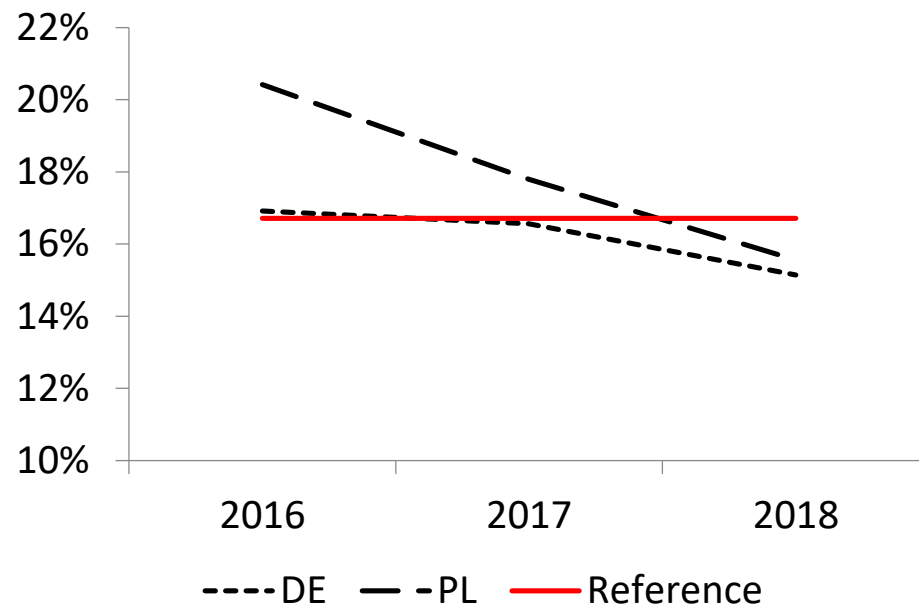
Effect on exports to EU: Exports to DE, PL

Illustration: November/December share in annual road exports to DE, PL

a) In volume (t)



b) In value (EUR)



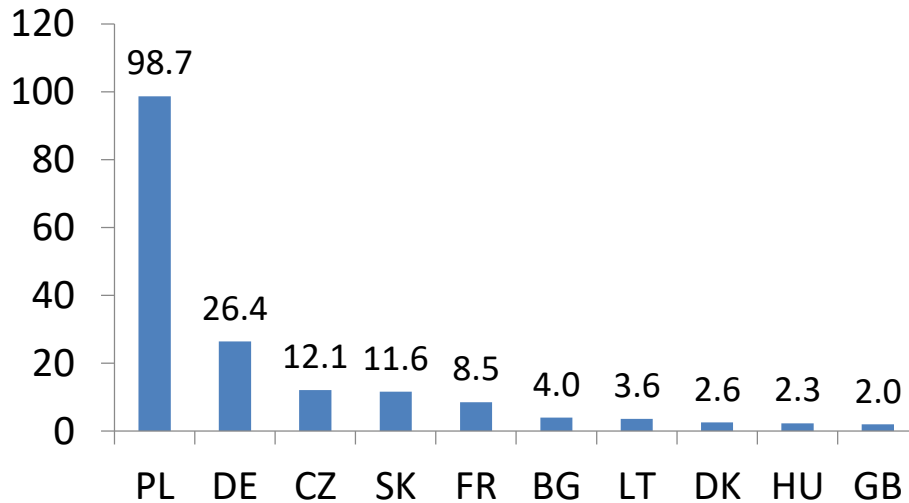
Source: Eurostat, own calculations. Note: Reference line indicates value/volume for uniform distribution throughout year

- Drop in UA exports in November/December 17/18 (permits shortage)
- No shortage was reported in 2016
- Volume and value shares for exports to DE/PL below 16.7% (predicted volume)
- Concentration on high-value goods when permits scarce, transport expensive

3.1 Effect on total exports of Ukraine to EU

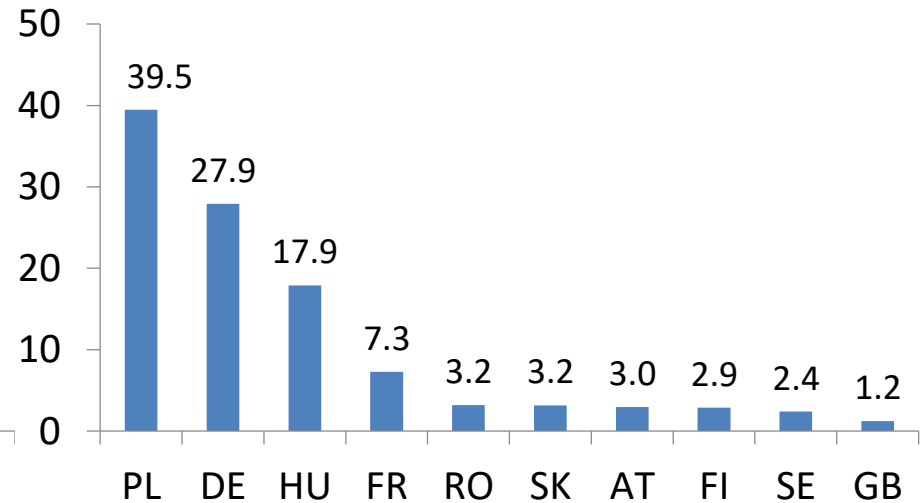
Top-10 of losses of exports in Nov-Dec 2018 by destination

a) In volume (kt)



Source: Eurostat, own calculations

b) In value (EUR m)



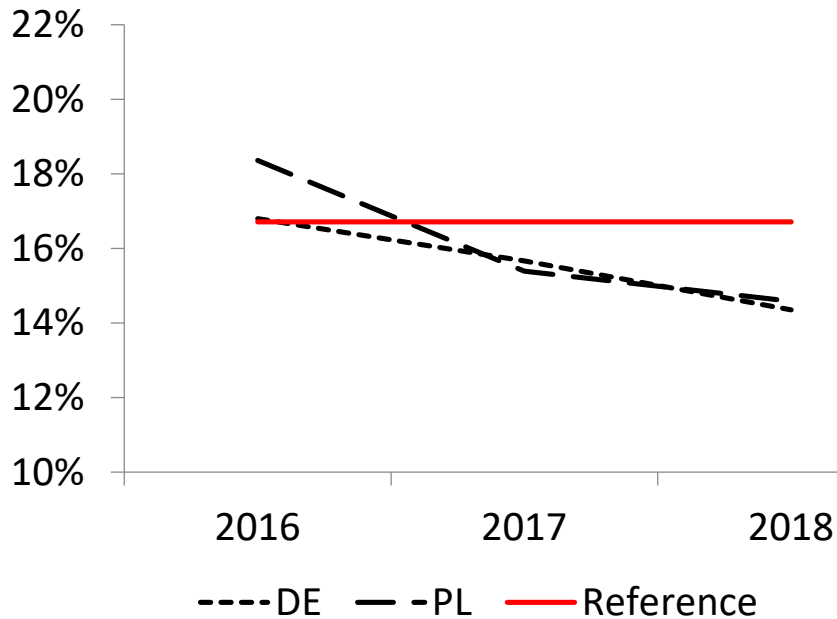
Source: Eurostat, own calculations

- **Total loss of exports to EU in Nov-Dec 2018:**
 - **EUR 109.7 m (1.6% of 2018 value)**
 - **176.1 kt (2.9% of 2018 volume)**
- Calculation based on seasonality before 2016, details in Annex 4
- **Exports to PL, DE strongly affected (value and volume)**

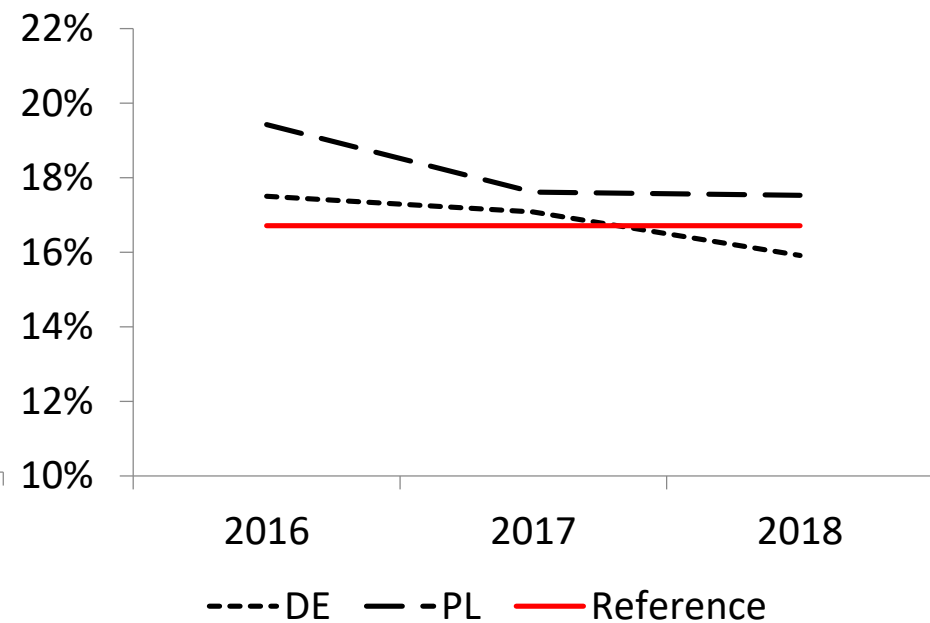
Effect of shortage on imports from DE, PL

Illustration: November/December share in annual road imports from DE, PL

a) In volume (t)



b) In value (EUR)



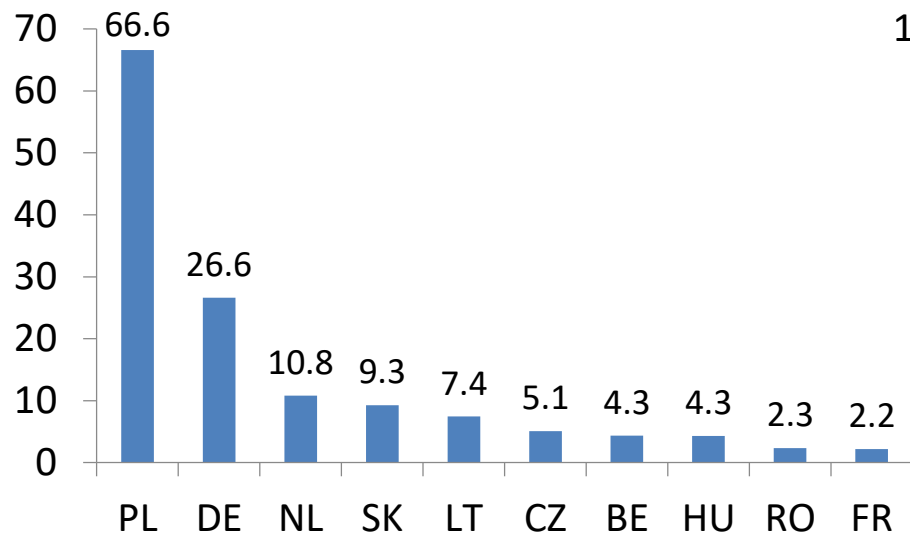
Source: Eurostat, own calculations

- Clear drop of Nov./Dec. import volumes to below 15% in 2018
- Import value still above year average, but lower in 2017/2018 than 2016
- Christmas season usually stronger than rest of year
- **Concentration on high-value goods in permits shortage for imports as well**

3.2 Effect on exports of EU countries to Ukraine

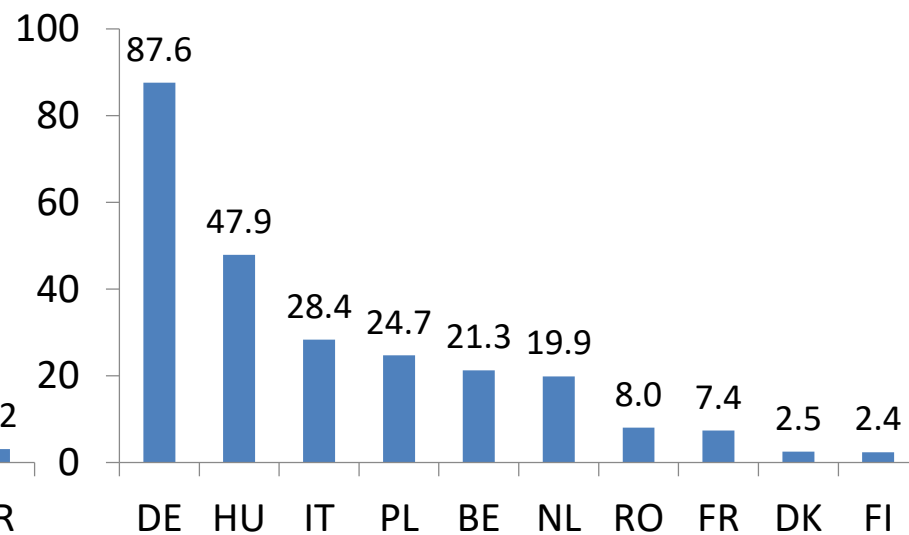
Top-10 of losses of imports in Nov-Dec 2018 by source

a) In volume (kt)



Source: Eurostat, own calculations

b) In value (EUR m)



Source: Eurostat, own calculations

- **Significant loss of imports to UA from EU**
 - EUR 253.9 m (1.5% of 2018 value)
 - 148.8 kt (2.7% of 2018 volume)
- **Main effect on PL (volume), DE (value)**

3.3 Aggregate effect on trade turnover

- Loss of trade turnover with EU:
 - - **EUR 363.6 m: 1.5%** of 2018 EU road trade turnover in value
 - - **324.9 kt: 2.8%** of 2018 EU road trade turnover in volume
- Now: **Noticeable, but not massive negative effect** of shortage of permits on trade with EU
- But: permits for key trade partners decrease while trade grows
- **In future, losses will get bigger** unless allocations increased and sales procedures in UA improved

4. Recommendations

- Urgently: analyse whether inadequate allocation or intransparency in allocation drives the shortage
- In any case: combat intransparency of permit allocation in UA
 - Short run: Mandatory, public-access database of allocated permits maintained in real time
 - Long run: Move towards fully automated, electronic system (need to agree this with partner country authorities)
- If allocations inadequate: Negotiate increases of permit allocations
 - Should be based on a forecast of trade, required truck trips, distribution between PL and EU trucks doing the shipping
 - Forecast of required number of permits is possible, given data on usage of permits by EU trucks
- Emphasise interest of partner countries in exports to UA
 - Narrow transport industry protectionism neglects broader economic interests of EU partner countries in growing trade

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Annex 1: Border crossings by trucks in 2017



Source: Ukrstat, Google maps

- Vast amount of crossings to PL due to trade with PL and transit trade with DE
- Crossings to Russia and Moldova likely to contain significant transit trade (e.g. Transnistria)

Annex 2: Added bilateral transport permits during 2018

- **2018, bilateral permits for PL, DE, RO, AT, NL exhausted before end of year**
- Permits were added during course of year:
 - 5,500 permits for Romania in August
 - 10,000 permits (2,000 universal, 8,000 transit) for Poland in October
 - 4,000 permits for Germany in October
 - 4,000 permits for Netherlands in October

Annex 3: Calculating the shortage of permits in 2019

- Source data: Number of unsold permits at different points in time provided by DSBT
- Data available for permits from 11 countries: PL, DE, NL, FR, SK, CZ, HU, RO, AT, BE
- We calculate the average rate of sales/exhaustion for each country before remaining permit volume became very small
 - 1/1/2018-3/10/2018 for PL, DE, FR, SK, CZ, HU, BE
 - 1/1/2018-18/06/2018 for RO
 - 1/1/2018-21/08/2018 for AT
 - 1/1/2018-10/09/2018 for NL
- Then calculate total required volume of permits for remainder of year by simple extrapolation
- Subtract remaining volume of permits including permits added as top-up later in year

Annex 4: Calculating losses in EU trade due to shortage

- 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
- We then calculate predicted volume/value for Nov+Dec 2018 using these shares and volume/value Jan-Oct
- Calculation is performed separate for each country, for imports and exports, value (EUR) and volume (t)
- Conditional aggregation (sum) of losses:
 - Volume loss:
 - countries in which losses occurred according to our methodology
 - not countries in which volumes in Nov/Dec 2018 were above prior years' averages (no reduction of loss sum through „negative losses“)
 - Value loss
 - Country with volume loss
 - Only actual value loss (no reduction of loss sum through „negative losses“)