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ROAD TRANSPORT: REFORM OF THE QUOTA AND ACCESS TO THE MARKET

**INTERNATIONAL ROAD FREIGHT TRANSPORT IN EUROPE - MARKET ACCESS AND THE
FUTURE OF THE LICENCE SYSTEM**

Summary of the Report of the Special Advisory Group

This document will be examined under item 3.2 "Road Transport: Reform of the quota and access to the market" of the Draft Agenda for the Moscow Council of Ministers.

Ministers are invited to discuss and take note of the document.

English - Or. French

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The report of the Special Advisory Group on International Road Freight Transport in Europe – Market Access and the Future of the Licence System [CEMT/CM(2005)16] has been written by Professor Maurice Bernadet of the L.E.T. in Lyon with the assistance of: Professor Brian T. Bayliss (University of Bath, UK), Professor Jan Burnewicz (University of Gdansk, Poland), Professor Günter Knieps (Albert-Ludwigs University, Freiburg, Germany), and Ms. Eva Molnar (World Bank and Corvinus University, Budapest, Hungary).

The views expressed in this report as a contribution for the Ministerial debate are those of the Special Advisory Group and do not necessarily reflect those of the Member countries or the Secretariat.

SUMMARY

The report provides a medium and long-term analysis of the principles that should govern access to the road freight transport market within the European area.

The **first part** of the report shows that the liberalisation of market access is a positive and inevitable development.

This liberalisation is positive in the light of the theory of the international division of labour, which shows that the liberalisation of international trade in goods and services leads to a situation that is on the whole beneficial to all countries. However, it also shows that in the short term the adjustments generated by liberalisation can adversely affect stakeholders in more developed countries because of lower costs from newcomers and encourage relocation of production to “poor” countries. This can explain the reluctance of carriers in “rich” countries to support a further extension of this liberalisation, which is currently limited to the European Economic Area. It should however be noted that consumers in “rich” countries benefit also from reductions in transport costs. «Rich» countries can also benefit significantly through their exports of high technology vehicles and equipment as well as through the provision of sophisticated logistic services to the “poor” countries. The argument of a supposed “inferior quality” of service from new entrants is not valid either as the imposition of strict environmental and safety standards requires them to purchase and use the highest quality vehicles, which are available only in the countries with the most advanced technology.

The liberalisation of market access is also inevitable, given the economic and political context in Europe which is characterised by:

- strong projected economic growth for the European countries outside the EU, and still higher growth in these countries' trade with EU-25, while road transport will continue to be important;
- the liberalisation of road transport within the EU, which is justified by solid arguments that can also be applied to relations between EU countries and third countries;
- the evolution and effective enforcement of international law (in particular, the freedom of transit provided for by the GATT).

The report also argues that while harmonisation is essential and improves the efficiency of liberalisation, waiting for harmonisation to be fully achieved will delay liberalisation indefinitely. Progress is needed in both areas.

The **second part** gives an overview of the current situation in ECMT, in which relations between countries in the European Union and those outside are characterised by the fact that there are many bilateral licences but only few multilateral licences.

The advantages and disadvantages of bilateral and multilateral systems are set out. On the one hand, bilateral systems allow States to protect national interests, to negotiate solutions to other problems, to manage the pace of change and to deal with enforcement and sanctions problems directly. On the other hand, bilateral systems lead to segmented markets, are not transparent, may be discriminatory, may influence trade relations and can be costly to manage.

This second part also sets out the criticisms usually made of the multilateral system, showing that some of these are not entirely relevant, but also acknowledging that others are justified and must therefore be corrected. The main weakness of multilateral systems like the ECMT one is the absence of legally enforceable control and sanction mechanisms. Countries need either to increase trust among them or provide more scope to ECMT to deal with infringements.

In any case, the report argues that all these quantitative systems are expensive to manage and open to abuse. Therefore a move away from quantitative systems to quality ones is preferred. Similarly, a gradual move from bilateralism towards multilateralism seems desirable. While recognising that many countries wish to maintain bilateral systems, the report argues that the ultimate objective should be to eliminate them.

On the basis of this overview, the **third part** of the report presents proposals, the spirit of which can be summarised as follows: European States must move towards greater liberalisation, but this process must be regulated by provisions that limit the disadvantages of liberalisation.

More specifically, this third part proposes the following, in a balanced manner:

- An objective: the gradual increase in the quota of multilateral licences, which will replace bilateral licences, so that by 2020 the liberalisation of international transport would be complete, with quantitative restrictions to market access being eliminated at that date.
- A strengthening of safeguards through progress in the following fields:
 - enforcement and penalties, by giving the ECMT a stronger role in these fields if the existing distrust between countries persists;
 - harmonisation of competitive conditions, in particular by imposing specific requirements for vehicles, staff and firms eligible for multilateral licences;
 - compliance with the intended purpose of multilateral licences in order to prevent them from being used primarily to engage in “cabotage” across the European Union, by limiting the number of trips that licence-holders can make between third countries;
 - apportionment of the quota amongst ECMT Member countries, through a pragmatic approach aimed at adjusting the number of licences granted to each country to its actual use of the licences received.

The report’s conclusions are based on two convictions:

- It is not possible, given the economic and political context in Europe, to maintain constraints as stringent as those that result when road transport is organised primarily on the basis of bilateral licences. Moving towards liberalisation is both necessary and inevitable. This can be achieved by gradually increasing the number of multilateral licences to be substituted for bilateral ones, . .
- Countries fearing that this liberalisation will take the form of unbridled competition and will unduly jeopardise the interests of their carriers must be given assurances that the “rules of the game”, which for that matter can be strengthened, will be complied with.

It will no doubt be difficult to strike a balance between these two concerns. But it is by seeking to strike that balance that we can hope to work our way out of a situation that today seems to be at an impasse.