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Road Transport Quotas and Liberalization of Road Transport Markets Between the Eu And Turkey

Sübidey Togan*

Abstract

The paper shows how road transport quotas imposed by the European Union Member States on road transport services trade between Turkey and the EU increases the trade costs restricting trade between the parties. There are basically three ways to eliminate the transport quotas imposed by the EU. First, Turkey could sign a Road Transport Agreement between the EU and Turkey. Second, it could conclude a free trade agreement covering among others the liberalization of road transport services between the EU and Turkey. Finally, it could try to make use of General Agreement on Tariffs and Trade and Trade Facilitation Agreement. But in each case it will have to adopt and implement the whole EU *acquis* on road transport.

Keywords: *Economic Integration, Trade Costs, Transport Costs, Liberalization of Road Transport Services*

JEL Classification: *F15, R4*

Karayolu Kotaları ve AB-Türkiye Karayolu Taşımacılık Hizmetlerinin Liberalizasyonu

Özet

AB üye devletlerinin uyguladığı karayolu kotalarının Türkiye ile AB arasındaki ticaret maliyetlerini arttırarak AB-Türkiye ticaretini olumsuz etkilemesini önlemek için Türkiye, AB ile Karayolu Antlaşması imzalayabilir, veya Türkiye-AB Gümrük Birliği'nin modernizasyonu çerçevesinde AB ile karayolu taşımacılık hizmetlerinin liberalizasyonu da içeren bir Serbest Ticaret Antlaşması imzalayabilir, veya da Gümrükler ve Ticaret Genel Anlaşması (GATT) ile Ticaretin Kolaylaştırılması Anlaşması'ndan yararlanarak Anlaşmazlıkların Halli Mekanizması'na gidebilir ancak, her üç durumda da Türkiye'nin girişimlerinde başarılı olabilmesi ülkenin AB'nin karayolu ulaştırması mevzuatının tamamını kabul etmesi ve uygulamasına bağlıdır.

Anahtar Kelimeler: *Ekonomik Bütünlük, Ticaret Maliyeti, Taşıma Maliyeti, Karayolu Taşımacılığı Hizmetlerinin Serbestleştirilmesi*

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* Prof. Dr., İktisat Bölümü, Bilkent Üniversitesi, e-posta: togan@bilkent.edu.tr.

1. Introduction

The European Union (EU) is Turkey's most important trading partner. In value terms while 31% of Turkish exports to the EU are carried by road, the share declines to 17% in the case of imports. On the other hand, in tonnage terms 24% of Turkish exports to the EU are carried by road, and the share declines to 14% in the case of Turkish imports from the EU. Since the EU-Turkey Customs Union (CU) of 1995 applies to industrial goods including the industrial components of processed agricultural products produced in the Community or Turkey, the CU Decision 1/95 of the EU-Turkey Association Council does not cover trade in road freight transportation services between the parties. As a result trade in road transportation services is quite restrictive, and hence trade costs between the EU and Turkey are high affecting the volume of trade between the parties.

The purpose of this paper is to study how barriers to trade in road transportation services between the EU and Turkey mainly due to the road transport quotas imposed by Member Countries of the EU can be eliminated. The structure of the paper is as follows. While Section 1 studies the road transport quotas between the EU and Turkey, Section 2 analyses the possible ways to eliminate the road transport quotas between the EU and Turkey, and Section 3 considers the results of quantitative analysis of the effects of elimination of road transport quotas between the EU and Turkey. Finally Section 4 concludes.

2. Road Transport Quotas

Road transport services operating between EU Member States (MS) and Turkey are regulated primarily by bilateral intergovernmental agreements signed between individual MS and Turkey. A feature of this trade is the application of a system of quotas, which authorize hauliers of the signatory parties to conduct transport operations, as long as they hold a permit for the country with which the bilateral accord has been concluded. As a general rule, permits are exchanged on a reciprocal basis, and the number of permits is set on an annual basis. There are several types of quotas or road transport licenses such as bilateral permits, transit permits, third-country permits, multiple permits, and return load permits. For example, to export goods from Turkey to Germany by road transport, the truck carrying the freight must have transit permits for all transit countries on the route from Turkey to Germany and a bilateral permit for Germany. Thus, the routes that connect Turkey to its most important trading partners in the EU such as Germany, Italy, France, United Kingdom and Spain require road freight operators to pass through the territory of other MS. This transit traffic is most concentrated in Greece and Bulgaria but extends into Slovenia, Austria, Hungary, Poland, Czech Republic, and other MS. Note that with the exception of Cyprus, Ireland and Malta all MS have concluded bilateral road transport agreements with Turkey. [World Bank (2014) and Pastori et al. (2014)].

Some MS such as Bulgaria, Greece and Romania have both free and payable transit permits. Once free permits are exhausted hauliers have to use the paid permits. While EU truck operators have access to enough permits to carry goods to and from Turkey, the same is not true for Turkish truck operators. For Turkish hauliers the principal issue is that demand for transit permits exceeds the supply provided by some MS such as Italy, Austria, Hungary, Slovenia, and Romania. Furthermore, the supply number of permits determined by MS including both bilateral and transit permits has been kept nearly stable over time, rather than growing in line with trade flows.

To avoid permit restrictions Turkish operators have found alternative routes by (i) using RO-RO services operating between western Turkish ports and Trieste in Italy and Toulon in France, which avoid transit through countries that impose particular constraints; and (ii) making detours, such as trips from Turkey to France that bypass Italy by taking a northern route. But such alternatives usually imply additional costs due to longer distance, time and charges for the use of the other modes.

3. Possible Ways to Eliminate the Road Transport Quotas between the EU and Turkey

Turkey, in order to increase access to the EU road freight transportation market, has basically three alternatives. First, it could reduce the trade costs associated with road transportation by signing a Road Transport Agreement between the EU and Turkey. Second, it could conclude a free trade agreement (FTA) on liberalization of services trade covering among others road transport services between the EU and Turkey. Finally, a third alternative is to try to make use of Article V of the General Agreement on Tariffs and Trade (GATT) and Article XI of the Trade Facilitation Agreement (TFA). Let us now turn to consideration of each of these alternatives in some detail. But first, consider what liberalization of road freight transportation services between the EU and Turkey entails.

We say that road freight transportation services between the EU and Turkey are liberalized if there are no restrictions imposed on the operations of the Turkish and EU trucking companies between the two parties. Turkish trucking companies should be able to carry freight between e.g. Istanbul and Frankfurt, and also between e.g. Frankfurt and Istanbul freely. Similar condition should apply for the EU trucking companies. Liberalization further requires that no restrictions are placed on freight transportation by the Turkish company between e.g. Frankfurt and Hamburg as well as between Frankfurt and Vienna (no restrictions on road cabotage by the MS), and no restrictions are placed on freight transportation by the EU company between e.g. Istanbul and Antalya (no restrictions on road cabotage by Turkey). In the jargon of World Trade Organization's General Agreement of Trade in Services (GATS) this refers to liberalization of cross-border supply (Mode 1 of GATS). In addition, liberalization requires that there should be no restrictions imposed on the establishment of Turkish trucking companies in the EU, and no restrictions on the establishment of the EU trucking companies in Turkey. In the jargon of GATS this refers to liberalization of commercial presence (Mode 3 of GATS). Finally, liberalization requires that Turkish road freight transportation service providers or Turkish employees of the Turkish trucking company should be able to move freely for relatively short periods (temporarily) from Turkey to the EU and also within the EU. Similarly, EU road freight transportation service providers or EU employees of the EU trucking company should be able to move freely for relatively short periods (temporarily) from the EU to Turkey and within Turkey. In the jargon of GATS this refers to liberalization of movement of natural persons (Mode 4 of GATS). Thus, liberalization of trade in road freight transportation services between the EU and Turkey involves the reduction of regulatory barriers to market access and discriminatory national treatment across cross border supply, commercial presence, and presence of natural persons modes of supply of GATS.[1]

Note that according to the EU *acquis* on road freight transportation the above requirements are satisfied in the EU among the MS with the exception of road cabotage. In the EU road cabotage, meaning the national carriage of goods for hire or reward carried out by non-resident hauliers on a temporary basis in a domestic economy, is restricted [European Parliament (2013)]. Road cabotage is governed by Regulation (EC) 1072/2009, according to which every MS haulier is entitled to perform up to three cabotage operations within a seven days period starting the day after the unloading of the international transport. When the haulier carrys out the cabotage operations in different MS only one cabotage operation is allowed in a given MS to be carried

1 GATS distinguishes between four modes of supplying services trade: cross border supply (mode 1), consumption abroad (mode 2), commercial presence (mode 3), and presence of natural persons (mode 4). While mode 1 refers to services supplied from the territory of one member into the territory of another, mode 2 consists of services supplied in the territory of one member to the consumers of another. On the other hand mode 3 refers to services supplied through any type of business or professional establishment of one member in the territory of another (i.e., FDI), and mode 4 includes both independent service suppliers, and employees of the services supplier of another member.

out within three days of entering that MS without cargo. Thus, road transport operations in the EU are not completely free among the MS. On the other hand, the Road Transport Agreement between the EU and Switzerland, which is not a member of the EU, provides for liberalization of road freight transport services subject to the restrictions imposed by Regulation (EC) 1072/2009. To achieve this kind of liberalization Switzerland essentially had to satisfy two conditions. According to the provisions laid down in the "Treaty on the Functioning of the European Union" the European Commission has external competence to negotiate and conclude international agreements in the area of transport, but that this competence has to be shared with the MS. In order to sign a bilateral road transport agreement with a non-EU state the European Commission needs to be authorized and empowered by the MS through the Council. In the case of Switzerland such an authorization was given to the European Commission. Furthermore, Switzerland had to harmonize its road freight regulatory framework to that of the EU. In particular it had to adopt and implement large number of EU Regulations and EU Directives on (i)Market Access and Competition; (ii)Prices and Fiscal Conditions; (iii)Social Conditions; (iv) Technical Conditions; and (v)Road Safety [Togan (2016)]. Switzerland after satisfying these two conditions signed the Road Transport Agreement with the EU in 2002.

Let us now turn to consideration of the case of Turkey. Turkey could sign a Road Transport Agreement with the EU similar to the bilateral Road Transport Agreement concluded between the EU and Switzerland as long as it satisfies two conditions. First, the European Commission needs to be authorized and empowered by the MS through the Council to sign a Road Transport Agreement with Turkey. Second, Turkey has to adopt and implement the whole EU *acquis* on road transport.

The second alternative to reduce the trade costs between the EU and Turkey is to conclude a FTA on liberalization of services trade between the EU and Turkey. Note that the prevailing EU-Turkey Customs Union (CU) of 1995 applies only to industrial goods including the industrial components of processed agricultural products produced in the Community or Turkey. Both the EU and Turkey are aware that the CU no longer meets the requirements of 21st century for trade relations. Consequently, both parties are interested in updating the EU-Turkey trade and investment relations. The updating will involve among others the liberalization of services trade between the EU and Turkey, and will most probably cover the liberalization of transportation services including road transportation. Adopting and implementing the EU *acquis* in services that will be included in the FTA will be a daunting task for Turkey, but this approach will definitely liberalize trade in road freight transportation services between the EU and Turkey.

The third alternative for reducing the trade costs between the EU and Turkey is to make use of Article V of GATT and Article XI of the Trade Facilitation Agreement (TFA). Article V of the GATT determines the concept of traffic in transit and lays down the conditions a member may impose on goods transported through its territory by another party to a foreign destination. Accordingly, the main purpose of the provision is to provide for the freedom of transit through the territory of each WTO member for transport to or from the territory of other WTO members. In order to ensure that this freedom is effectively present and enjoyed, Article V stipulates two essential requirements, i.e. not to hinder traffic in transit by imposing unnecessary delays or restrictions or by imposing unreasonable charges, and to accord most-favored-nation treatment to transiting goods of all members. On the other hand, Article 11 of TFA clarifies and improves GATT Article V on freedom of transit. Accordingly, the article associated with the freedom of transit stipulates that WTO members shall not impose non-transport-related fees or seek voluntary restraints on traffic in transit through a binding commitment. It includes various disciplines on inspection and guarantee schemes as mostly binding commitments. The TFA's Article 11 also forbids a disguised restriction on traffic in transit. Thus, Article V of the GATT 1994 and Article 11 of the TFA could serve as useful tool for Turkey to open trade in road freight transport services between the EU and Turkey in particular if they are clarified and tested following an effective interpretation by the WTO adjudicating bodies when invoked in a dispute initiated by Turkey or other Member countries of WTO [Artiran (2016)]. But unless Turkey adopts and implements the whole EU *acquis* on road transport, the MS will most probably be unwilling to open up trade in road transportation services between the EU and Turkey.

4. Quantitative Analysis of the Effects of the Elimination of Road Transport Quotas between the EU and Turkey

Ülengin et al. (2015), investigating the effect of bilateral road transport quotas on Turkish foreign trade with European countries via a gravity model, note that bilateral quotas have significant negative effect on Turkish exports by road transport, and that the quota effect on Turkey's exports has amounted to about 11 billion US Dollars. Çekyay et al. (2017) extending the study by Ülengin et al. (2015) investigate the effect of both bilateral and transit quotas on the Turkish export to European countries. They develop a fixed effect gravity model. The analysis requires a single value representing the restrictive effect of the transit quotas issued by the countries on the routes from Turkey to the considered European countries. The authors estimate the single values by using a max-flow model-based approach and use them in a gravity model to analyze the aggregate effect of the quotas. According to their results, both bilateral and transit quotas have significantly negative effect on Turkish exports by road transport, and that the quota effect on Turkey's exports has amounted to 13.6 billion US Dollars.

On the other hand Togan and Bayar (2016) concentrate first on the determination of trade costs in road freight transportation services between Turkey and MS, and thereafter they study the effects of reducing the trade costs in road transportation sector. Noting that Anderson and van Wincoop (2004) define trade costs as costs related to policy barriers [such as tariffs and non-tariff barriers (NTBs)], transportation costs (consisting of freight and time costs), contract enforcement costs, costs associated with the use of different currencies, legal and regulatory costs, and local distribution costs (such as wholesale and retail costs), the authors estimate the trade costs between Turkey and MS following the approach Chen and Novy (2011). Calculations using the Global Trade Analysis Project (GTAP) data base reveal that in Turkey tariff equivalents of trade costs in road freight transport amount to 154.5% and that in MS the tariff equivalents of trade costs varies between 105% for Belgium and 150% for Bulgaria. Next, the authors assume that Turkey and the MS simultaneously reduce the tariff equivalents of trade costs by half, and they using the GTAP model find out that liberalization of road transport services between Turkey and the EU increases Turkish real GDP while it has minor negative effects on EU GDPs.

5. Conclusion

The paper shows that road transport quotas imposed by MS on road transport services trade between Turkey and the EU increases the trade cost restricting trade between the partıes. There are basically three ways to eliminate the use of road transport quotas. First, Turkey could sign a Road Transport Agreement between the EU and Turkey similar to the bilateral road transport agreement concluded in 2002 between the EU and Switzerland. Second, it could conclude a free trade agreement (FTA) covering among others the lıberalızatıon of road transport services between the EU and Turkey. Finally, a third alternative is to try to make use of Article V of the General Agreement on Tariffs and Trade (GATT) and Article XI of the Trade Facilitation Agreement (TFA). But in each case it will have to adopt and implement the whole EU *acquis* on road transport.

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