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**REPORT OF THE HIGH LEVEL GROUP FOR THE DEVELOPMENT
OF THE MULTILATERAL QUOTA SYSTEM**

This report is submitted to the Ministers for information under point 6 of the Draft Agenda of the Ministerial Session to be held on 26 May 2011 in Leipzig, Germany.

The High Level Group was set up by Ministers in Leipzig in 2010 and chaired by Professor Brian Bayliss, University of Bath, United Kingdom.

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INTRODUCTION

Background

The ECMT Multilateral Quota System has been operating since January 1974 with the aim of both facilitating trade and improving efficiency in the international road freight transport market. It has developed over the years, responding to both changes in membership and transport policies, with membership more than doubling in the 1990s to over 40 countries. It has responded to growing concerns about the environment in its development of the green lorry concept with the overall aim of making the System a symbol of the highest quality in international transport.

The System provides a multi-lateral compliment to bi-lateral agreements. Multi-lateralism facilitates the realisation of the economic benefits of opening international markets and the ECMT System is a stepping stone in this direction. It is seen as a way to improve quality in the sector and open markets at the same time.

Following a review of the future of the Multilateral Quota the Council of Ministers adopted a series of measures in Moscow in 2005 aimed at stimulating the development of the system. These measures incorporated the following 4 Principles:

Principle 1: *The quota should become a symbol of the highest quality in international freight transport*

Principle 2: *The quota should continue to contribute to improving efficiency and opening markets*

Principle 3: *The quota should seek to strengthen and harmonise controls and sanctions*

Principle 4: *The quota of licences should be distributed on the basis of real needs and efficient use.*

These Principles are complemented by earlier decisions of the Ministers requiring that any reform of the quota:

- should be aimed at the reduction of empty runs as part of the efficiency principle;
- should not create discrimination between the rights of the different States;
- should not create additional bureaucracy in the management of the system but should rather simplify such management;

- should adhere to the principle according to which any measure of liberalization should be accompanied by measures which seek to raise quality and standardise the terms of competition.

Establishment of the High Level Group

In 2010, on the proposal of the Russian Minister a High Level Group was established by the Council of Ministers with the specific remit to examine the implementation of the Principles adopted in Moscow in 2005.

The composition of HLG is annexed.

Terms of Reference

In accordance with its Mandate the High Level Group agreed the following Terms of Reference:

- To examine the operation of the system and the implementation of the main principles of the Multilateral Quota development as agreed by the 2005 Ministerial Council in Moscow and assess the compliance of the system with these principles since then. Earlier strategic decisions by Ministers should also be taken into account.
- To make recommendations on any steps that might be taken to improve adherence to these principles. The Group should also consider the aims of the system and the adequacy of the principles to meet these aims and address the challenges of the future.
- Particular consideration should be given to the operation of the system on the Russian international road freight market following the major EU enlargement, to determine whether, and if so, to what extent, the principles for the Multilateral Quota are being infringed in traffic operated with ECMT licences involving Russia.

REPORT AND PROPOSALS OF HLG

The Current Operation of the System

The implementation of Ministerial Council decisions in 2005/2006 resulted in:

- a change in the distribution of licences between the countries due to the application of new distribution criteria, allocating more licences to countries in need.
- the introduction of two new vehicle categories: the EURO IV and V, which inter alia provided an opportunity to increase the number of usable licences in the System. It should be noted though that the real number of used licences has increased slightly compared to 2004.

- improved monitoring of the use of the ECMT licences in Member countries and enhanced statistical reporting, transparent allocation and online control facilities.

Despite this progress, an examination of the operation of the ECMT quota system unquestionably shows that, since 2006, the system has not satisfactorily complied with the principles defined in Moscow, which in the view of the High Level Group remain the central reference points for the development of the System.

It is evident that the distribution of licences between the countries remains unbalanced. The total number of licences in the basic quota has not been modified since the meeting of the Council in Moscow, although it is clear that certain countries are in need of licences. On the contrary, a restriction regarding the use of the licences has been introduced with, in particular, the 3-journey rule which took effect in 2006¹. In addition, very limited progress has been made concerning the accounting by the system of social conditions and the conditions for exercising the profession. Finally, the system of controls and sanctions in the Quota System are mainly the responsibility of the country where the vehicle is registered and there is little cooperation between the various national supervisory authorities.

The fundamental aim of the ECMT System is to gradually liberalise international freight markets at a high level of quality. However the ability of the current System to achieve that aim has been reduced due to a range of geo-political and economic factors. In recent years, there has been very little political support for liberalisation measures and some Countries have become more protectionist, an attitude undoubtedly reinforced by the recent economic crisis.

Russian concerns

Russia's particular concerns on the implementation of the Moscow Principles were outlined in an initial paper by their experts to the High Level Group², namely:

"It is considered that the 2005 Moscow Principles are still relevant but that the current system does not operate in accordance with those principles. In particular the following points are made with respect to the 4 Principles:

Principle 1: *The quota should become a symbol of the highest quality in international freight transport*

The principle is implemented only with respect to vehicles but not with respect to drivers and companies. This results in infringements.

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1. This restriction was introduced by the decision of Ministers already in 2005, for a trial period of one year, replacing the time based restriction introduced in 2004 also on a temporary basis.
 2. Russian views are provided in great detail in the background report prepared by the General Rapporteur.

Principle 2: *The quota should continue to contribute to improving efficiency and opening markets*

It is noted that the ECMT System has made a substantial contribution to market liberalisation but at the same time there has been a decrease in efficiency as reflected in the increasing numbers of empty journeys. Two factors in particular contribute to decreasing efficiency namely the increasing levels of bi-lateral movements and the obligation to return to the country of origin after 3 journeys.

Principle 3: *The quota should seek to strengthen and harmonise controls and sanctions*

It is considered that not enough is being done to improve the effectiveness and harmonisation of controls within the ECMT System and to unify sanctions.

Principle 4: *The quota of licences should be distributed on the basis of real needs and efficient use*

The current methodology for the quota allocation was approved by the Council of Ministers in 2005/2006. However, geopolitical and economic changes and changes in freight flows and trends necessitate a revision of the methodology. Only 60% of the total number of licences is issued to carriers.”

Proposed Reform of System

Trade is a means to greater prosperity and the ECMT System a means to facilitate trade. Although the System is small, accounting for around 5% of international transport in relevant markets, it is seen by the HLG as an important catalyst.

The HLG is convinced of the continuing value of the System both in opening markets and in fostering high quality transport. It believes that it is important for the System to continue, to develop and to adapt to changing circumstances.

The HLG is however of the opinion that it is appropriate to move on from the long-standing and often sterile debate on liberalisation and harmonisation. A debate frequently fired by protectionist aims. It believes it is important to focus on a system based on the concept of quality rather than harmonisation as such. In such a system harmonisation would be a corollary of fixed quality standards rather than a basic driver. This concept of quality encompasses not only the vehicle but also the drivers, the companies and the applicable rules. In this respect there is a strong case for expanding the narrow mandate of the Working Group so that it deals with all these aspects.

In such a context the reform of the Quota System must be global and must comprise a series of simultaneous actions in the domain of liberalisation and quality. The opening of the markets must be matched with an increase in the quality of transport operations and improved regulation of the rules governing the System.

The System requires a long term goal. The experience of the EU shows that the quest for parallelism between liberalisation and harmonisation inevitably leads to deadlock if an aspirational deadline is not fixed. 2025-2030 was suggested by the majority of the HLG members as the date for the achievement of a transport market which is as liberalised as possible and which operates according to rules which are largely harmonised with respect to quality. A minority considered that it was not possible to fix such a date.

Quota Allocation

The HLG is strongly of the opinion that the current allocatory mechanism does not meet the requirements of Principle 4 of the 2005 Moscow Principles, in that it does not reflect real needs and efficient use. HLG Members consider that the current 10 criteria pose problems and think they should be modified in order to better reflect real transport needs and diminish the number of unused licences. The number of these criteria should also be reduced and the system simplified. However some HLG Members think that there is a great deal of work required to redesign these criteria, obtain data, recalculate, get agreement and apply these revised criteria. They doubt that this work would lead to significant results and ask for a completely new methodology to allocate licences between countries. They suggest that the system could better move towards a high quality one based much more on needs and should look for automatic mechanisms for the redistribution of the quota and a gradual increase in the basic quota, linked to the enhanced quality standards in the system.

As a compromise, and in order to improve rapidly the functioning of the system, the HLG recommends that:

- the 10 criteria that were discussed by the Working Group on Road Transport (WG) at its meeting on 9-10 September 2010, be used to allocate licences in 2012;
- the WG be asked to review new methodologies to better and automatically allocate licences according to real needs and reduce significantly the number of unused licences, and decide on the best one to be applied from 2013;
- the creation, as of 2012, of a **common pot** into which the countries which do not use all their licences could return part of these unused licences which would then be redistributed to the countries which do not have enough licences. This redistribution would be made on the basis of reinforced qualitative criteria. The system which is proposed provides for both a certain automaticity with regard to the allocation of licences to the common pot, as past experience shows that a redistribution mechanism which operates solely on a voluntary basis does not work, and also a guarantee to the countries which transfer their unused licences to the common pot for redistribution that they can request additional licences if they so require within the stock of the agreed number of basic licences. It offers the advantage of enabling a redistribution of licences based on the real needs of the different countries and promoting quality transport operations due to the criteria imposed for the use of the redistributed authorisations.

On a practical level, the High Level Group suggests that the redistribution mechanism to be implemented operates as follows:

- To determine the number of licences which could be redistributed, an inquiry will be carried out towards the middle of each year in order to find out the needs of each country for the following year. The countries must duly justify these needs, in particular when they exceed the number of licences granted the previous year or when the number of licences which were unused during the previous year is a lot higher than was expected.
- In the event where the needs expressed by a country are less than the number of licences granted to such country pursuant to the procedure and criteria which are currently in force, part of the unused basic quota of licences would automatically be placed in the common pot and the countries would reserve the use of the rest of the unused authorizations, unless they decide voluntarily to place some of these licences in the common pot.
- The HLG was divided between those at the one end who considered all unused licences should be put in the pot and those at the other end who considered only a small proportion should be made available for re-allocation. As a compromise, the HLG recommends that 25% of the unused licences be automatically allocated in 2012 to the pot which will also include licences voluntarily placed in the pot.
- The redistribution of the available licences would be carried out as follows:
 - only the countries which used 100% of their licences the previous year and which have not implemented territorial or any other restrictions in the previous year, could benefit from the redistribution;
 - the redistributed authorizations could only be used for transport operations carried out by EURO IV or V vehicles equipped with a digital tachograph³.
 - normally with a reallocation of 25% of the unused licences, there would be enough additional licences in the pot to satisfy the needs. If not, and in order to avoid lengthy discussions, the additional licences should be distributed according to the existing system based on the ten criteria.
- The mechanism of the common pot would in principle disappear in 2013 if the WG could agree on a new methodology to allocate licences according to real needs. If such a decision were delayed, the common pot system would have to be extended for one or more additional years. The WG should consider the share of unused licences to be placed in the pot, the majority of the HLG Members recommending that in such a case this share be progressively

3. The Russian experts indicated that, since for non-EU countries the digital tachograph for newly purchased vehicles became mandatory only from 31/12/2010, the above requirement should not be cited as a criteria for allocation of licences to EURO IV and V trucks.

increased in conjunction with progress in quality of transport operations performed with ECMT licences.

Reservations and Restrictions

The HLG considers that removal of all reservations and restrictions which are hampering the functioning and the development of the Quota System should be pursued in order to open up international road transport markets and improve their efficiency. The HLG recognises that such a change cannot be realised immediately but should be linked to progress in the quality of transport operations. In such a context the HLG recommends the following approach:

- The Reservations expressed with regard to the conditions for the application of the various provisions of the Guide should be lifted as a priority. For example, the reservation on the first trip imposed by certain countries should be abolished since it is contrary to the ministerial decisions and to the terms of Article 3-16 of the Guide, as confirmed by the opinion from the OECD legal services. Such a provision is particularly penalizing for the structurally importing countries or those situated on the periphery of the area covered by the ECMT. In this field the HLG recommends that action be taken to make the provisions of the Guide as binding as possible.
- The territorial reservations expressed by a certain number of Countries should be lifted as soon as possible. In order to initiate the lifting of such reservations, the WG should initiate a review process of these reservations with a three yearly assessment. The particular situation of the countries which have put reservations in place should be examined and the reasons which initially justified such reservations be assessed to determine if there are still valid in the present situation where all economies are more and more interconnected.
- The Three-trip Rule, which was introduced by the Ministers in 2005, should be made progressively more flexible in line with progress in the quality of transport operations performed with ECMT licences. For example, one could consider that the three-trip rule could be supplemented by a five-trip rule for EURO IV and V vehicles equipped with digital tachograph.

Quality Measures

A. Measures to promote the use of the best performing vehicles

The HLG proposes:

- Reinforced priority be given to the most technologically advanced vehicles, this being assessed not only in terms of the environment (as has been the case thus far) but also in terms of safety (with, in particular, the obligation of a digital

tachograph). These vehicles should benefit from multiplying factors far higher than in the past for fixing the number of licences actually distributed from the basic quota.

- The implementation of provisions which ensure a gradual transition with regard to the introduction of new types of vehicles. The very high pace at which technologies evolve and the appearance of new types of lorries have the effect of reducing the amortization period of vehicles and lowering the profitability of investments in new vehicles if, very rapidly, these vehicles no longer benefit from preferential treatment within the multilateral quota system.

B. Measures to promote multimodal transport

Multimodal transport is considered as a way to promote quality transport operations and to reduce negative impacts on the environment. The HLG recommends that a study be undertaken to see if a link could be established between the number of licences allocated and the use of such licences for multimodal operations. In this respect the WG should be invited to examine the possibility of introducing measures such as special licences for multimodal transport or a specific multiplier for licences used for multimodal transport.

C. Measures aimed at promoting better quality transport on a social level

A clear link must be established between the development of the multilateral quota and the application of the provisions relating to social conditions and the exercise of the profession. In order for such a reform to be introduced, information systems must be developed which enable the monitoring of what is actually happening in this domain on the ECMT transport markets.

The recommended measures include:

- The establishment of minimum standards for working time within the road transport sector, which would be applied in all ECMT countries provided that these standards are compatible with those which currently govern maximum driving times and minimum rest times within the framework of the AETR which could eventually be readjusted.
- The reinforcement and the pursuit of the harmonization of the rules which govern access to the market as well as the training of drivers:
 - The provisions which relate to access to the profession have not been reviewed since consolidated Resolution n°2000/1 concerning the rules to apply to international road freight transport. Since then, the regulations within the EU have evolved and at least an upgrading within the ECMT is necessary to bring them in line with the provisions which are currently in force. It would be particularly desirable that only the haulage companies which comply with these reinforced standards are able to receive ECMT licences. Most recently,

the EU reached an agreement on the “conditions for exercising the profession” and thought should be given to the possibility of extending the provisions of this agreement to all of the countries which participate in the quota system.

- With regard to drivers, the rule according to which the driver must be employed by the haulage company which holds the licence must be subject to the labour law rules and to the collective bargaining agreements which fix remunerations of the country where the company is located could be applied by introducing for the ECMT quota the requirement of a driver attestation based on the practice used by the EU.
- Standards should be fixed for the training of drivers, with adherence to such standards being an element which is taken into account for the distribution of the ECMT licences.
- More globally, the possibility of granting preferential treatment within the multilateral quota system to the best companies in the social domain should be examined. The IRU Academy certificates of professional competence for managers and drivers could serve as an indication.

D. Measures concerning the control of breaches and the sanctions applied

If the operation of the system is to be improved, it is indispensable that the breaches of the rules which apply to the quota (including those which concern the characteristics of vehicles) are better detected and that controls are reinforced. It could be expected that breaches are better detected due to better control procedures and that they are better reported thanks to an efficient information transmission system. The appropriate sanctions, however, must be taken. Controls are only one step in a procedure which must begin with the detection of violations and finish with their sanction.

Whatever control systems are implemented, the High Level Group considers it important, however, to underline the necessity to strike the right balance between more efficient controls relating to the principal provisions of the multilateral quota system (environment, forged documents, adherence to social regulations) and excessive controls which risk giving rise to vested interests, abuse of powers, corrupt practices between drivers and control agents and which have an adverse effect on the fluidity of traffic.

The High Level Group recommends that, in the domain of controls/sanctions, particular attention be given to the following measures and believes that their implementation by all Member countries could lead to improved harmonisation and facilitate further opening of markets:

- First, measures could be taken so that the mutual assistance regime provided by the Guide actually functions with systematic transmission of information to the ITF secretariat for subsequent dissemination to all of the Member Countries. In reality, it is the entire system for the collection and processing of the data relating to sanctions and violations which should be redefined with a strict application of the rules of the Guide relating to the obligation incumbent on the States to transmit the

required information within the given time limits. More generally, the HLG recommends that the status of the Guide be reinforced in order to make this text as binding as possible.

- Concrete measures could be taken to reinforce cooperation between the national control bodies. It would, in particular, be desirable that provisions of the Guide are followed in a harmonized manner and in good faith and restrictive interpretations avoided. Logbooks could be also reviewed and modernized (and perhaps computerized) in order to simplify their control by the competent authorities and make it easier to collect statistical data and facilitate the task of completing them for hauliers.
- Greater responsibilities with regard to control and sanctions could be conferred on the Secretariat without overriding the competence of the national legal bodies. This is why the latter should have the necessary means to:
 - receive and carry out a detailed analysis of the reports established by the States on the manner in which they have distributed the licences; failure by the States to provide the required information or the fact that the distribution did not comply with the principles and rules adopted by the ECMT could be sanctioned by a reduction in the number of licences granted to such country the following year;
 - assist the national monitoring agencies (generally, the transport inspectors) to improve their management system and to harmonize their information system to ensure better sharing of information and the networking of data;
 - gather information on the sanctions applied in the different countries in the event of the breach of the rules provided by the quota Guide, and to adopt a classification of violations of the same type as the one developed within the EU for violations relating to driving time and rest periods.
- The establishment of a link between the development of the multilateral quota and the application of regulations concerning social conditions and access to the profession as proposed in point C of this section, implies not only an improved collection of information on the violations committed in this domain, but also harmonized sanctions which the following measures could facilitate:
 - a classification of these violations according to their degree of gravity could be established based on the classification adopted by the EU;
 - the previously formulated proposals to improve the control and sanction system for violations of the provisions contained in the multilateral quota Guide could largely be transposed to the regulations relating to social matters and access to the profession.

IMPLEMENTING THE REFORM OF THE SYSTEM

Working Group activities

The Working Group on Road Transport (WG) appears to spend a great deal of its time on detailed technical discussions. This means that much less time is available to discuss the many important issues in road transport policy.

The WG at present has a formal mandate to discuss only the quota and its development. This makes it difficult to demonstrate progress on raising quality in the road transport sector apart from the standards of the vehicles themselves. Since some Countries insist that harmonisation or additional quality measures should be implemented before any quota increases are given, it seems necessary also that these measures should be discussed in the WG. It is therefore suggested that the Working Group's terms of reference be broadened to allow it to discuss all methods of improving quality in the road transport sector in Europe.

The delegation of decision-making to the Working Group by Ministers has been successful to the extent that the distribution of licences was agreed within the WG and carried out for the period to 2010. This positive development allowed the Management Board time to deal with the many issues related to setting up the Forum and getting it operational. It is clear that the WG should continue with all technical and practical decision making. However it also appears that there were few decisions in the Working Group to open markets; in fact the trend was rather in the opposite direction. In this respect, political direction is needed from Ministers to provide clear guidance on the direction of policy. Quota allocation methods that are as automatic and mechanical as possible and decided for a period of several years are to be preferred. Such procedures will make decision making easier and the work of the Working Group more useful to policy. Views on the need for additional statistical data were divided with some calling for much more detailed monitoring of the system through additional collection and logbook sampling and others arguing that the cost and effort of data collection was excessive. The latter group wondered why such detailed statistical scrutiny of this system was needed compared to the very limited examination of the much larger bilateral based system. Finally, the consultation procedures and the role of representatives of national road haulage associations in the Working Group's activities need review and clarification. The working group is an intergovernmental one, which should take account of the views of the profession, but which should also represent the economic and trade interests of the Countries.

In summary, the HLG recommends that a new mandate should be given to the Working Group on Road Transport. This mandate should ask the Group to:

- Work simultaneously on the quantitative and qualitative aspects of the multilateral quota with the broad aim to contribute to achieving an open and high quality road transport sector across the continent, by, for example, 2030.

- In particular, work to improve all qualitative aspects of the operation of the system including, driver training, social rules, quality of the companies, access to markets and enforcement of rules. New ideas, like using licences in multimodal operations should also be studied;
- Draw up a new methodology for allocating licences according to needs which should apply from 2013;
- Review the territorial reservations in order better to understand the reasons for them and see to what extent they can be lifted or relaxed;
- Continue to look for ways to simplify the system and improve its efficiency. This should include studies on:
 - Statistical needs for the system;
 - The possible computerisation of the data collected (licences and logbooks);
 - The way the ECMT licences are distributed in the different countries in order to reveal and disseminate best practices;
 - Proposals to reinforce the status of the Guide and make it more binding.
- Continue consultation with the profession at an international level, whilst underlining the decision making responsibility of the member Governments;
- Study the possible geographical extension of the quota system to neighbouring countries.

CONCLUSIONS

The HLG's mandate was to examine the implementation of the four Moscow principles and in particular to examine the consequences for Russia. In doing so the HLG has attempted to take a broad and more strategic view of the operation of the Quota System. Nevertheless, the system is a practical one and these strategic reflections and recommendations are built around making improvements to the present system.

The Group is agreed on the following:

- In the absence of a global open market for road transport, the Multilateral Quota continues to play a valuable role, both in the practical advantages it offers and in its role as a catalyst and a symbol for an open and high quality system. A more positive vision for the system is needed in this sense.
- It is important to continue with the system and to develop it quantitatively and qualitatively. Both elements have to be seen as interdependent.
- The aims of Ministers for the system, as set out in the four Moscow principles and other Ministerial statements remain valid and should be reiterated.
- The implementation of these four principles however has been uneven resulting in departures from the principles.

- The system needs improvement under each of the four principles and proposals are set out here to achieve them.
- The system will be greatly facilitated by removing the reservations and restrictions it contains. Countries are invited to engage in a new dialogue in this respect.
- In the short term, the HLG recommends that a share of unused licences be redistributed to Countries that need them. A mechanism for this – including quality aspects – is set out.
- In the medium term, a new method is needed to allocate licences more in line with real needs.
- In the longer term the political aims should be for an open system at high quality and dates, for example 2030, should be set for this.
- The Road Group needs a new start and a broader mandate so that it can deal with all aspects of quality in the Road transport sector as well as the practical aspects of distribution of licences.
- Russia, as a rapidly growing economy with extensive trade, benefits from the system. Russia's economic and diplomatic aims will be served best by working to open markets and increase the quality and competitiveness of its international hauliers.

ANNEX: COMPOSITION OF THE HIGH - LEVEL GROUP

CHAIR: Mr. Brian Bayliss, Professor of Business Economics, University of Bath, United Kingdom

MEMBERS:

Mr. Suat Aka, Deputy Undersecretary, Ministry of Transport and Communication of Turkey

Mr. Nicolay Asaul, Deputy Minister of Transport, Russian Federation

Mr. Paolo Costa, Member of the ITF Advisory board and former MEP, formerly Chair of the Transport Committee in the European Parliament

Mr. Michael Harting, Director General Land Transport, Federal Ministry of Transport, Building and Urban Development, Germany

Mr. Tadeusz Jarmuziewicz, Secretary of State, Ministry of Infrastructure of Poland

Ms. Eva Molnar, Director UNECE Transport Division

Mr. Jean-Claude Schneuwly, Director International Affairs, DETEC, Switzerland

Mr. Jack Short, Secretary General, International Transport Forum (ITF)

Mr. Henk van der Wal, CEO, Van der Wal Holding B.V, Netherlands

Russian EXPERTS

Mr. Vadim Donchenko, Director General, Scientific and Research Institute for Road Transport (NIIAT), Russia

Ms. Victoria Gerami, Professor, Moscow Road Transport Institute (MADI)

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Mr. Alain Rathery, Consultant