

Task A – Executive Summary

Collection and Analysis of Data on the Structure of
the Road Haulage Sector in the European Union

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Task A

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Executive Summary

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Introduction

This report provides a detailed description of the structure, trends and factors that underline the current road haulage market in Europe. It is intended that the report will assist in the evaluation of the effectiveness of controls and the degree of harmonisation in the road haulage market and ultimately support the development of the Commission's obligatory report to the European Council and European Parliament required under Article 17(3) of Regulation (EC) 1072/2009 on common rules for access to the international road haulage market.

In undertaking the market review AECOM conducted a detailed literature and data search, reviewing over 300 documents produced by governmental and non-governmental organisations, private businesses and academics. The Eurostat database has been used to provide statistical evidence to corroborate findings and conclusions. Whilst much information is available through official national and EU statistical sources, the nature of the topics under investigation have demanded a large degree of primary research and collection of empirical evidence.

In addition, the study has been informed and specific areas of investigation identified by the High Level Group (HLG) of experts established by the Commission to assess the state of the EU road haulage market and make recommendations about what course of actions should be pursued to further integrate the market. The AECOM study team worked closely with the HLG, in particular with the analysis of the Group's questionnaire seeking views from stakeholders on a range of market issues including quality in the road haulage sector including; social issues; enforcement; road user charging; driving restrictions; and cabotage. Evidence taken at the three hearings conducted by the HLG (Shippers and Forwarders, Social Partners and Public Hearing) has also been incorporated into this report.

The interviews and consultation undertaken by AECOM were used as opportunities to address the information gaps identified in the literature and data review and to secure other key information. Under the direction of the HLG, semi-structured interviews were conducted with 21 hauliers and 8 transport trade associations across 10 countries (Netherlands, France, Hungary, Poland, Germany, Portugal, Denmark, Bulgaria, Belgium and Norway).

Market Situation

The European road freight sector enjoyed spectacular growth between 1995 and 2007, with activity as measured by tonne kms almost tripling within the period. Growth was faster in the EU-12¹ compared to the EU-15², although the vast majority of activity in road transport still remains within Western Europe.

The economic crisis of 2007/8 precipitated a sharp decline in activity that brought the road haulage sector into a situation of overcapacity. There was a fall of 2% in 2008 and another 10% drop in 2009 as measured in tonne kms. In general, the road freight industry is now a demanding environment across the EU due to factors such as rising fuel prices, disparate cost structures and rising customer power in contracting. In 2010, road freight transport activity in Europe recovered slightly and rose 3%. Nevertheless activity in the EU is still estimated to be about 9% below 2007/8 levels.

The modest recovery has not been uniform as the last few years have seen a significant difference in the fate of those hauliers within the EU-15 compared to the EU-12. EU-15 hauliers were on average still 13% below 2007 levels in 2010, but their colleagues from the EU-12 were on average already 8% above pre-crisis levels by 2010. Romania has experienced the sharpest fall in activity of all states (50% between 2007 and 2010), but it is atypical. The EU Member States that were most successful in recent years have been Poland, Bulgaria, Slovakia and the

¹ EU-12 means the collection of 12 Member States that all joined the EU after the 1st May 2004. Member States belonging to the group of EU-12 are: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia.

² EU-15 means the collection of 15 Member States of the EU prior to the accession of 10 new Member States on 1st of May 2004. Member States belonging to the group of EU-15 are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.

Czech Republic. The vast majority of countries that saw a decline were Western European countries such as Austria, the Netherlands, Denmark, Ireland, Belgium, France, Spain, and Portugal.

The largest market segments within the EU are the national markets (i.e. transport that does not involve a border crossing) with goods moved by domestic hauliers. These national markets (that exclude cabotage undertaken within that country) account for 67% of all road freight transport in the EU. In the EU-15 the proportion is 78%, and the national markets of Germany, France, Spain, Italy and the United Kingdom account for 80% of all national markets within the EU. Not surprisingly, protecting these markets from competition from foreign firms that seek to address the markets through cabotage is a key concern of many domestic hauliers in these countries.

Legislation

There is a comprehensive set of EU wide legislation that seeks to control quality and safety aspects of the international road haulage market, impacting both on access to the market and operational standards. There are important stakeholders in the road haulage 'chain of command' that fall to the margins of the scope of much of the regulatory framework, notably the freight forwarding community. These entities enjoy the ability to manage and profit from haulage activity often without having mandated liability for standards or safety and thus could be viewed to have a distorting affect on the market. Whilst this must have a bearing on market conditions, there is general consensus that both legislation and self-regulation should be used to manage quality aspects of the supply chain. Shippers and forwarders in particular have spoken out against over regulation, arguing that market forces are the key to improving quality and conditions in road transport services.

Enforcement

Whilst the overall number of enforcement checks performed by enforcement agencies on the haulage industry across the EU does appear to be increasing, there is considerable variation between Member States in the frequency of checks and in the severity of the penalties imposed for infringements. The large number of agencies in different Member States and the variable level of activity would seem to be a large factor in this issue. Different levels of penalties and variable interpretation of legislation appear to be significant barriers to the creation of a fair and level 'playing field' for all operators.

In order to overcome this barrier, the Commission has proposed to harmonise and enhance enforcement policies to ensure hauliers are subject to standard checks and infringements. It is the view of the Commission that sanctions for infringements should be proportionate, non discriminatory and be effective. Not only are the fines levied against hauliers from one Member State to the next different but the authorities are pursuing enforcement by employing different methods. Some Member States are actively targeting particular segments of the road haulage market such as foreign operators.

To achieve harmonisation of enforcement, the Commission is advocating a standardised approach to the training of enforcement officers across Member States in order to facilitate a standardised application of legislation. The Commission is also advocating the exchange and distribution of information more systematically across enforcement agencies. The "European Registers of Road Transport Undertakings" (ERRU) and national registers should be used by Member States to better target checks at operators' premises. Existing rate systems also serve the purpose (currently for social rules and tachograph provisions) of targeting checks on companies with higher risk ratings, resulting from infringements committed/detected. The overall aim of this initiative is to ensure inspections are more quickly targeted and less burdensome in terms of administrative tasks. Recent reports show that there have been improvements in enforcement with regards to data collection and reporting discipline. Other improvements highlighted include the application of the rules by professional drivers and transport undertakings.

Safety

The EU objective is to reduce the number of road incident fatalities and the aim is to make this zero. Whilst efforts have been made that in turn have yielded a reduction in fatalities, these are still fatalities occurring.

HGVs, given their numbers, are considered to be involved in a high proportion of incidents that result in fatalities as a result of their large and heavy characteristics. It must be noted that HGV drivers are professional drivers who are highly skilled in their vehicle's operation and this must have an effect on reducing the risk of an incident occurring. When an incident occurs that involves a HGV, the incident is usually very serious.

Foreign drivers face a number of additional difficulties when driving on unfamiliar roads which may increase their likelihood of being involved in an incident. These include:

- Cultural and behavioural factors
- Poor/restricted view of the road and other road users
- Fatigue and increased mental load

Legislation has been introduced to reduce the risk of certain incident causes occurring. For example, drivers hours' regulations limits the number of hours a driver can drive and stipulates mandatory rest periods. This is to reduce the number of incidents that are caused due to fatigue.

Training has been administered to drivers that can help to improve safety. There are technologies available which have the effect of reducing the chance of an incident occurring, or if an incident does occur, reduce the chance of a fatality or improve the chance of survival.

Driver Rest Areas

Lorry parks provide an essential service to the road freight industry. They are important in terms of road safety, preserving local amenities, reducing crime, and addressing the general needs of HGV drivers. They also help to ensure compliance with the European Union (EU) Drivers' Hours Rules. Research has indicated that drivers who choose to park overnight in lay-bys often do so in order to save on the cost of parking in a lorry parking facility, either because the use of secure parking is not reimbursed, because the decision is in the drivers' hands or because a suitable truck park is unavailable. The availability of good quality secure parking varies by Member State and particular shortages were reported in Germany, Poland and southern England.

Costs

Hauliers face many costs as a result of their operation, with drivers and fuel being the two largest expenses. Both fuel and driver costs can vary throughout the Member States and can often vary significantly enough to compel hauliers to flag out from their original base in one Member State to the cheaper Member State. The ability of a haulier to be able to take advantage of a lower costs base country for the registration of their fleet is a major factor influencing their ability to compete effectively in their chosen markets. However, taking advantage of sometimes difficult to enforce areas of Community legislation, such as minimum wage rates can be seen as unfairly exploiting legal loopholes and can distort both domestic and international haulage markets.

It should be noted that Member States that have higher fuel costs tend to have higher driver wages. For example Denmark has higher than average driver wages as well as higher than average fuel costs. Conversely, Poland has lower than average driver wages and also lower than average fuel costs. By way of comparison, Denmark has a higher than average GDP. Driver wages have increased across Europe but they are still higher in the west than in the east of Europe.

Hauliers in the hire and reward market are often price takers rather than price makers for highly competitive work that yields low profit margins. For this reason, hauliers are always looking at ways to improve margins by reducing operational cost. Efforts to improve productivity and competitiveness have been made in areas such as reducing empty running, outsourcing unprofitable work and sourcing cheaper fuel. But a lack of funds to invest in improvements, including staff up-skilling, is a barrier. Raising finance is difficult for hauliers as the road transport industry is classed as high risk by lenders. Any finance that is raised is often levied at high interest rates due to the

risk involved. If hauliers are struggling to raise finance then this impacts on their ability to function as a business. If this is allowed to continue then it could affect how the industry is made up and how it operates.

Any increase in costs (such as fuel or driver wage increases) will affect the profitability of an operation. Many hauliers simply struggle to pass on cost increases to the client.

Contracting

Road haulage relationships are complex. Ultimately the industry invariably self determines the best solution to maintain service levels at best cost. A decline in average shipping weight and an increase in average shipping distance has meant that the nature of transport is changing throughout Europe with the need for consolidation becoming increasingly apparent and therefore growth of large supply chain organisations.

Recent years has seen the rise in size and importance of pan European logistics providers such as DHL, Schenker and Norbert Dentressangle. Companies such as this provide complete transport solutions but most rely heavily on subcontracting work to smaller entities and owner-drivers who provide low margin traction only services. There are several types of relationship and dependencies, including small hauliers that work exclusively for the larger company, others that do a significant amount and those that do an occasional load on the 'spot' market. One area of strategic alliances that has been growing over recent years has been collaboration between hauliers to create pallet or parcel networks. This enables national distribution to be conducted by a partnership of regional hauliers.

Subcontracting in transport happens for many reasons including; cost saving; covering a peak in demand; a particular service not suited to the main operation; specialised cargo requirements; and serving a particular destination or region, particularly where there is little prospect of a backload. Companies will out-source non-profitable work to smaller companies, particularly in Eastern Europe. They are able to do this because these companies may have lower operating costs which in turn allow them to turn a profit on the cheaper job. Whilst extensive subcontracting practices provide a responsive resource, this level of fragmentation in the market can lead to an imbalance in the ability of small operators to fully recover costs such as fuel price increases. Fuel surcharge agreements are levied on some contracts but they can be difficult to action. Payment terms, where the buyer takes longer to pay the carrier, has been a feature of the industry in the last decade, and this situation has been exacerbated by the economic recession.

It is difficult to establish the exact extent of sub-contracting in the road haulage industry, it can be seen from interviews conducted by the study team with hauliers that some are entirely reliant on the outsourcing of traction, whilst others entirely win their own work directly from shippers and carry out the work with their own vehicles and drivers. From this 'snap shot' of operations we can estimate that overall perhaps 30% of European haulage business is sub-contracted. The freight forwarding sector suggests that it is responsible for two-thirds of all European road cargo.

The impact on the market of the apparent increase in the volume of haulage undertaken without formal contract on the 'spot' market is not entirely clear. On the one hand it facilitates a responsive market, but on the other creates a barrier in terms of long term surety for hauliers and the ability to plan and invest in operations.

Whilst terms and conditions between the shipper and carrier are laid down by the international CMR Convention, and evidenced during transport by a CMR consignment note, much 'business' (up to 40% in countries like Holland) is conducted 'on trust' and without contract. Where there is a contract, most are relatively short term – typically for one year and overall there is a general trend towards shorter term contracts. Although the lack of a long term contract or indeed any contract at all may generally be alright because most business relationships work on trust, the ability to obtain a formal, longer contract could enable the transport company to secure funding to invest in more modern systems, new warehousing and equipment. This lack of certainty for the future is inhibiting investment in innovation.

Cabotage

Cabotage is one of the most contentious issues in road haulage in the EU as many see it as an essential method of improving efficiency whereas others consider the negative effects on domestic markets as unacceptable. Analysis has shown that the vehicle, tax and fuel are considerably more harmonised than driver costs across the EU. Low labour costs can lead to a so called 'race to the bottom' in labour standards; this can have a negative impact on society and does not necessarily lead to optimum use of resources. However, there are safeguards in place relating to minimum wage requirements to limit this and there are also positive effects resulting from these low labour costs such as further market integration and job creation in Member States where increases in activity take place. Another positive impact is that transport operators have to find other ways to improve efficiency in order to remain competitive and this can only be a good thing for the environment.

Whilst the true impact of the 2010 rule changes on cabotage have yet to be determined, it seems apparent that cabotage operations, either through planned work schedules and strategic choices, or on a more ad hoc basis, have increased in volume and are more often carried out. However their total volume remains limited to a very small share of the total EU transport market. Responses to the HLG questionnaire have shown a mixed reaction to whether the changes have been useful to them and indeed some two-thirds suggested that the current regime actually limited flexibility and efficiency.

Without full liberalisation of the market, the addressable cabotage market will remain limited in most instances to traffic suited to carriage by standard international freight vehicles.

Whilst legal cabotage operations can help hauliers to improve their fleet and vehicle efficiency, lack of enforcement of cabotage provisions is problematic for local hauliers. Many of the haulier interviewees recounted instances of alleged illegal cabotage operations and indeed the current rules do seem to present enforcement challenges and can be flouted by those rogue operators intent on operating outside the current limitations.

Efforts to harmonise social costs should reduce the cost advantage enjoyed by EU-12 hauliers to some extent and this may reduce the proportion of cabotage they perform. However, the overall cabotage trend is likely to continue as this offers hauliers from both new and old Member States an opportunity to improve margins and efficiency.

Road User Charging

Although an increasing number of Member States are putting in place road user charging systems, there is a clear and recognised problem with the diversity of current road user charging systems in place. The lack of interoperability between systems and differences in charging principles cause increased burdens for hauliers and administrators and represent a clear barrier to what could be described as a harmonised road charging system.

However, a distance based charging system is generally accepted as an ideal solution in the long term. This type of system also receives the most support from industry as it is recognised as the fairest way to charge vehicles. Furthermore, distance based schemes have shown to be the most effective in reducing empty running and vehicle kilometres. Finally, any road user charging system should ensure fairness and transparency for goods vehicles and other road users.

Drivers and Staff

Driver shortages are a fundamental problem in the road haulage sector in the EU. The economic meltdown of 2008 and ensuing recession collapsed the demand for truck drivers. However, now that the economy is showing signs of recovery and demand is approaching levels of those seen in 2007 the industry is presented with a shortage of truck drivers across the EU. There are a number of factors influencing these shortages namely; lack of attractiveness of the profession, the number of qualified drivers available and high average driver age.

Policy measures have sought to build on minimum legal requirements through training (Driver CPC), however, this alone is not fulfilling the ambitions of a new 'Supply Chain Service' focussed industry, nor is it generating the job

benefits that may entice new employees. While the Working Time Directive has sought to improve safety within the sector, the industry still perceives it as a barrier to activity and a limit to the higher remuneration of its drivers. Similarly, with national service having been rescinded the pipeline of new drivers looks increasingly limited against an aging driver population.

To address the issue, training must reflect the needs of the employers whilst achieving wider Member States' objectives. Crucially the issue of driver training funding for new recruits must be addressed – either through apprenticeships, or through an alternative funding mechanism. Ultimately, perhaps, as in the past the market will supply sufficient drivers to meet the needs of the sector, which itself will respond to market forces with improved working conditions and productivity. Instead the barrier to focus on is not the supply of drivers but the supply of skilled, productive and safe drivers.

Cross-border employment of drivers is an important trend with regard to drivers and staff. There is a perception that some aspects of competition induced by cross-border employment of drivers are unfair, and potentially even illegal. The available evidence suggests that there is at least the potential for such activity however the only general certainty with regard to much of the competitive activity in the market is that much of it is legal if unpopular in certain quarters.

The 'Posted Workers Directive' may provide a model for addressing a particular issue of lower cost labour. This would reduce the cost advantage enjoyed by hauliers from "low cost" Member States in carrying out international road haulage and cabotage operations. It was anticipated that this important piece of Commission's policy framework could support the concept of a cabotage system based on controls for the driver rather than the vehicle. However, it is apparent for this Directive that in terms of its scope and national application the Directive does not actually adequately facilitate this measure.

Vehicle Specification

The road freight sector adapts very well to rules and regulations and specifies a wide variety of vehicles to meet the needs of its customers. Regulation (EC) No 1230/2012 on type-approval of motor vehicles applies to all new vehicles put on the market in the EU, and amends the previous system in place since 2007 which already introduced an EU type-approval system, in addition to national type-approval standards. In addition to this Directive 1996/53/EC superseded Directive 1985/3/EC and the weights and dimensions in Annex I are binding in national and international transport, unless Member States decide to amend them in national transport (and then only under certain conditions). There is a proposal by the European Commission to amend Directive 1996/53/EC which lays down for certain road vehicles circulating within the Community the maximum authorised dimensions in national and international traffic and the maximum authorised weight in international traffic. The aim of the amendment is to allow more energy efficient, aerodynamic vehicles to be put on the market. The revision of the Directive also offers an opportunity to improve road safety by improving the streamlining of the cab, allowing a reduction of the driver's blind spots, adding an energy-absorbing structure in case of shocks, as well as increasing the driver's safety and comfort.

Hauliers are constantly seeking ways of increasing vehicle productivity, which may also lead to quicker replacement of vehicles. This can be done by increasing the number of loads per day, improving the vehicle fill, and improving the vehicle planning. One particularly effective measure highlighted was to man the vehicles over a double shift and thus have them in operation as much as possible and so covering a large mileage in a short space of time. This would mean the vehicle would be replaced sooner and newer vehicles are less polluting. According to data collected from Eurostat this was indeed the case with the age of vehicles particularly in the EU-12 reducing with their increasing participation in international transport. Vehicles of five years old or less were found to account for 60% of the total tonne/kilometre with those over ten years old accounting for only 13%.

Regulation (EC) No 1230/2012 and Directive 1996/53/EC applies to all new vehicles put on the market in the EU and outlines that trucks should be of maximum 16.5m (one point of articulation) or 18.75m (one or two points) in length, 40 tonnes in weight and 4m in height. For intermodal traffic, 44t was the maximum. Directive 1996/53/EC

has been amended in some Member States with regards to the modular concept, and limits of 25.25m and 60t are commonplace. Developments suggest that there is growing support for 25.25 metre trailers albeit there will be a limited market for them mainly in motorway trunking. The positive field tests on vehicle use, infrastructure capacity, etc. have lessons for Europe.

Use of Technology

Competition has seen an increase in innovation in a number of sectors in the road haulage market, particularly in relation to Just in Time logistics. There are opportunities to improve fleet efficiency in a variety of ways such as load matching, vehicle scheduling systems, fuel management systems and newer, more efficient vehicles. However, uptake of these technologies is not universal with a lack of access to finance or ability to scope out and implement improvements particularly hampering small and medium sized hauliers. Larger, more cash-rich companies are generally better able to gain a competitive advantage over smaller organisations for the introduction of new technology and innovation, therefore further increasing the efficiency of their fleets.

Other Comments and Observations

The growing awareness of the environmental impact of road transport, in terms of climate change and pollution has led to initiatives being introduced to encourage modal-shift from road to more sustainable transport modes and restrictions on vehicles entering the most polluted areas. Truck bans and low emission zones (LEZs) have both been introduced at various locations in the EU to restrict the operation of trucks in certain areas and times for a variety of reasons, including noise, pollution, carbon emissions, and congestion.

This naturally has a significant impact on hauliers, who are required to update their fleet to less polluting vehicles, accommodate higher operating costs due to tariffs and rerouting, amend work schedules, and reassign deliveries. And whilst these measures impact on all operators serving a particular market, they can have significant cost implications and thus a wider economic impact and there can be secondary effects, such as the displacement of older more polluting vehicles to other locations and operations. Thus when authorities are planning curfews and restrictions the totality of their affects must be fully considered.

Similarly, the requirement of local authorities to manage scarce highway space in urban areas has resulted in a plethora of parking and loading restrictions and effective enforcement regimes. This ensures that delivering consignments to urban areas by road can be difficult and in some cases costly, affecting profitability and delivery times.