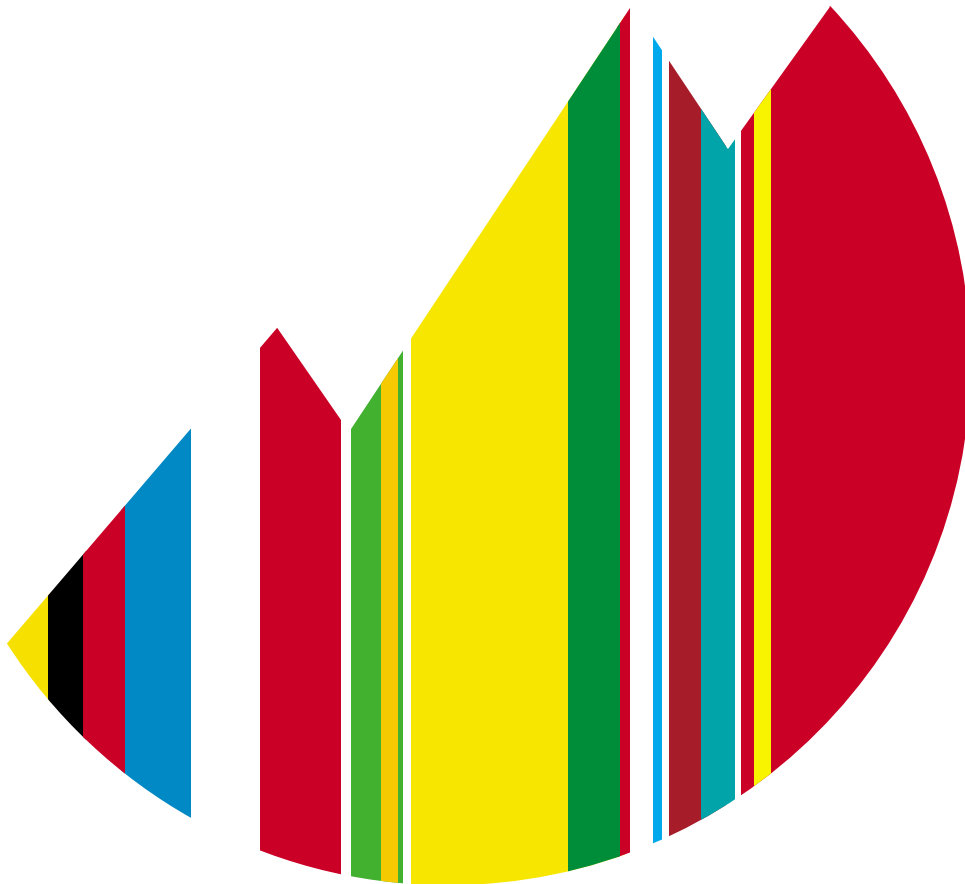




# Competition in East-West Road Transport Markets

**Providing Opportunities for All**

*Executive Summary*



# Competition in East-West Road Transport Markets

## Providing Opportunities for All

An executive summary of a study by NEI, NL,  
commissioned by the IRU under the title

**Pilot Study on East-West Road Transport Productivity**

A Compilation of Information on  
and Investigation into Productivity, Profitability  
and Cost Structures in Road Transport

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NEI Transport

**The framework**

The last decade of the 20th century brought about great changes in the European road transport market. With the very positive opening of markets and the imminent enlargement of the European Union, the first decade of the 21st century is not going to be any less eventful for the transport industry. In these circumstances, with the intention to gain a deeper insight into recent and expected developments, the IRU commissioned this study by the Dutch research institute NEI.

**The issues**

**Do** competition and market shares in the transport market reflect the perceived strengths and weaknesses of transport operators in the European Union (EU) and Central and Eastern Europe (CEE):

- **CEE:** lower wages, therefore lower cost levels, but also lower productivity, compared to
- **The EU:** higher wages and cost levels, but also higher productivity and often enhanced quality as well as mature, operational logistic concepts and networks?

**What** do we know about differences in profitability between transport operators in EU and non-EU countries (CEE)?

**Is** there a convergence of framework conditions between EU member and candidate countries?

**Do** operators from EU and non-EU countries compete in the same markets?

**Can** and should a monitoring system, featuring appropriate indicators for market shares and conditions, support a smooth transition of transport markets during enlargement?

The industry is striving for an integration of East-West transport markets in which all players have a fair chance, using their own strengths and making strategic alliances and decisions. The wider objective is not to divide but to unite the European transport industry.

**The trends**

• **Logistical concepts progressively introduced**  
 The shift from traditional haulage to logistics/supply chain management is a universal trend, however more advanced in developed economies such as those in the EU. The trend is similar in Eastern Europe, only following with a certain time lag. It is acknowledged that competition between EU and CEE international hauliers is not so much in the same markets but rather for different markets.

EU logistics providers mostly concentrate more and more on warehousing, distribution and value added logistics, while traditional “traction” is contracted out to lower cost carriers, mainly but not exclusively from CEE (Figure 1).

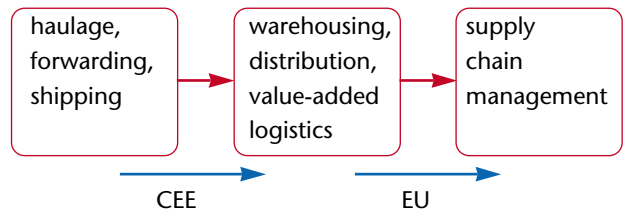


Figure 1: Trends in transport

EU hauliers turn to specialisation also to escape from the fierce competition in the common (non-specialised) haulage market. Organisational rather than operational skills will increasingly constitute the decisive factor in road haulage and logistics. The top end of the market will achieve higher returns through supply chain management (SCM) and e-business rather than the physical process of transport. As transport companies in CEE countries make efforts to become more involved in logistics, EU companies will try to keep their competitive advantage through their capital strength and organisational skills, drawing on highly educated and experienced staff.

• **Increasing network approach to transport systems**  
 A network approach rather than single route haulage operations is a key notion in modern transport planning. It requires pivotal points throughout the market area and relies heavily on capital-intensive investments including in information and communication technologies. In this respect, EU operators have a distinct lead over their CEE colleagues

**• Ongoing modal shifts in favour of road transport and emerging intermodal transport**

Integrated transport planning includes the use of various modes of transport in intermodal transport concepts, making use of the railways, inland waterways and short-sea shipping in combination with road transport. While both in the EU and CEE the modal shift from rail to road is uninterrupted, in EU countries intermodal transport is gradually gaining ground. Intermodality requires advanced planning techniques, constituting an advantage for EU operators.

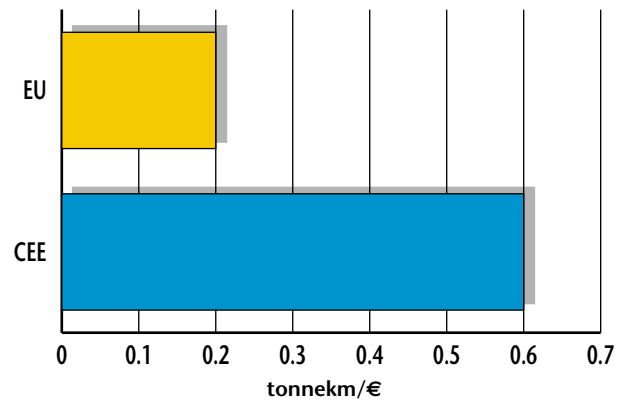
**• Diversity and specialisation as well as segmentation increasing in transport markets**

Fragmentation of production and its spatial dispersion calls for increasing specialisation in transport markets, in terms of special treatment of commodities, packaging and handling, and quality control. In this respect, the EU has a time advantage.

**• Transport intensity differences between West and East still exist**

Transport intensities differ largely between EU and CEE (Phare) countries (Figure 2). The ratio of CEE is significantly higher, suggesting a different GDP and less efficient spatial production structures as well as

a diminishing but still strong presence of low-value/high-volume goods in the “demand basket” for transport services. It is expected that these ratios will converge in the long run.



Source: Eurostat, 1999

Figure 2: Freight transport intensities (tonne km/GDP, 1995)

**Interpreting competition**

The competitive position of EU and CEE hauliers is the result of the balance between price, competence and quality of service (Table 1).

	EU	CEE
Strengths	<ul style="list-style-type: none"> <li>• Higher productivity due to:                             <ul style="list-style-type: none"> <li>- Knowledge of logistics</li> <li>- Information communication</li> </ul> </li> <li>• Capital strength</li> <li>• Sophisticated marketing skills</li> </ul>	<ul style="list-style-type: none"> <li>• Low wages</li> <li>• Language skills in CEE</li> <li>• Drivers' willingness to travel</li> <li>• Knowledge of local conditions in CEE</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• High operating costs</li> <li>• Driver language/cultural problems in CEE</li> </ul>	<ul style="list-style-type: none"> <li>• Older, less reliable fleets (mainly domestic)</li> <li>• Lack of financial resources</li> <li>• Limited knowledge of logistics, marketing and EU markets, information and communication systems</li> </ul>
Opportunities	<ul style="list-style-type: none"> <li>• Increasing demand for logistics</li> <li>• Further development of intermodal transport</li> <li>• Co-operation with CEE operators, networking</li> <li>• Requirement for greener fleets</li> </ul>	<ul style="list-style-type: none"> <li>• Entering logistics markets</li> <li>• Co-operating with EU operators</li> <li>• Intermodal transport</li> <li>• Relations further east</li> <li>• Requirement for greener fleets</li> </ul>
Threats	<ul style="list-style-type: none"> <li>• Lack of drivers for long distances</li> <li>• Increasing wages, taxes</li> <li>• Permits etc.</li> <li>• Overcapacities</li> </ul>	<ul style="list-style-type: none"> <li>• Competition with high quality &amp; high productivity EU operators</li> <li>• Increasing tolls, taxes, wages</li> <li>• Permits, etc.</li> </ul>

Source: based on NEA, Co-operation Opportunities in East/West Road Freight Transport, on behalf of IRU, 1999

Table 1: SWOT<sup>1</sup> analysis of the competitive position of EU and CEE operators

<sup>1</sup> SWOT = Strengths, Weaknesses, Opportunities and Threats

• **Shares in the pure haulage market**

The average value per tonne of goods carried by road from the EU to CEE is more than twice than that from CEE to the EU. However, the volume carried from the EU to CEE is slightly more than half that going in the other direction (Table 2). It is estimated that CEE hauliers have currently captured more than eighty percent of the total East-West road haulage volume. When it comes to pure haulage, the cost difference is apparently decisive in the shippers' choice. The available data do not disclose what the EU share is in the organisation of transport: forwarding, logistics and supply chain management, but a dominating role can be assumed.

	Volume (Million t)	Value (billion €)	Average value per tonne (€)
EU > CEE	13	35	2'700
CEE > EU	22	26	1'200

Source: NEA, 1999

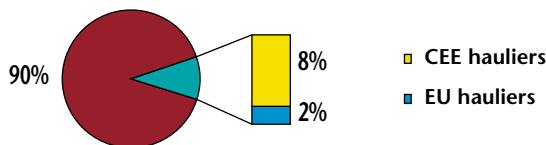
Table 2: Volume, value and average value per tonne in East-West road transport (1994)

• **Do not forget out-flagging**

Larger EU companies, active in East - West trade and having better access to capital resources, have established footholds in CEE, through branch offices, joint ventures or take-overs, through which transport and logistics are organised. Thus, the judgement of market shares purely based on the nationality of the registration plates might easily be erroneous and misleading.

• **Level of penetration**

Finally, how serious is the penetration of CEE hauliers into EU international transport markets? East-West transport in total EU international road transport volume (tonnes) is modest, some ten percent by volume (Figure 3), though growing more rapidly than the total market. In value terms, the amount carried by CEE hauliers is much less, some three percent only.

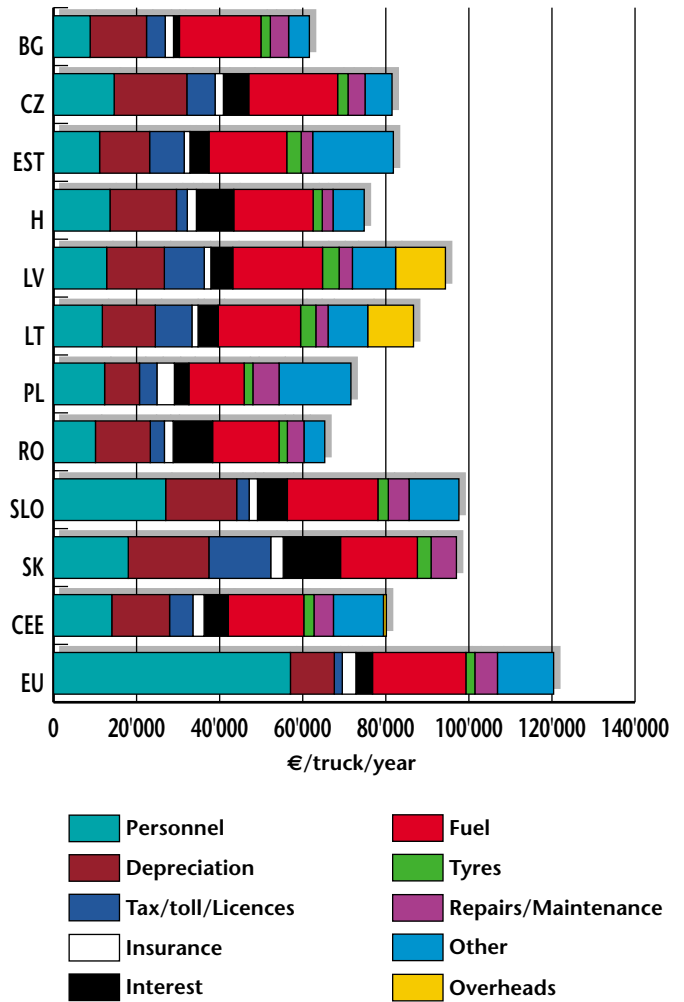


Source: Eurostat, 1999.

Figure 3: Share of East-West transport in total Western European international road transport (1998) (tonnes,%)

**Cost levels and structures vs. productivity**

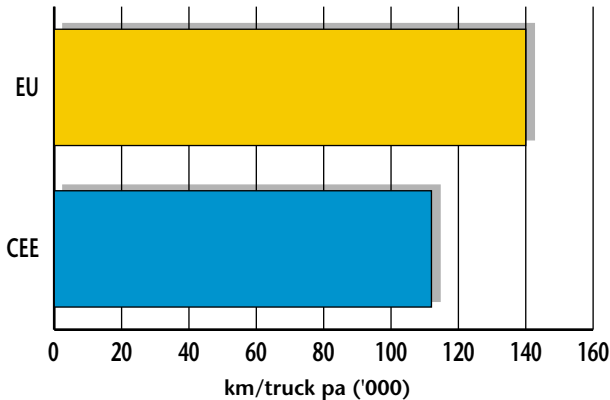
The costs of a CEE haulier are on average some sixty percent of those of an EU haulier. To a large extent, the gap can be attributed to labour cost (wage) differences. On average, wages in the EU are 5 times the CEE average (Figure 4).



Source: Phare Study "Costs and Benefits of Enlargement", Halcrow/NEI, 1999

Figure 4: Annual cost level and structure of operating a typical truck in international road freight transport (1998)

For productivity in road haulage, no unique definition exists. In the present context, the most straightforward indicator seems to be the mileage performance of a typical truck in international road transport (Figure 5).

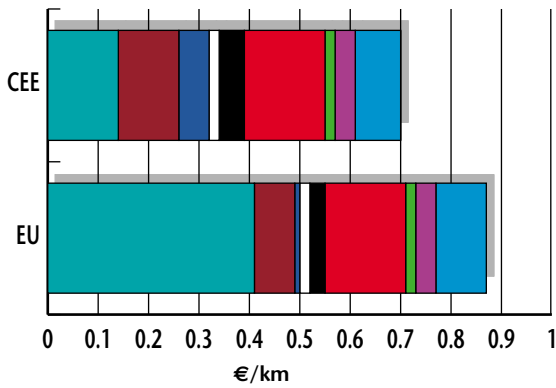


Source: Halcrow/NEI, 1999

Figure 5: Average mileage per truck per annum in international transport (1998)

The current difference in productivity, in the range of 25–30 percent, is substantial. After accession, operational conditions will converge and CEE performance will approach EU levels.

The higher annual performance (productivity) of EU hauliers reduces the cost gap, when comparing costs per kilometre of EU and CEE operators (Figure 6).

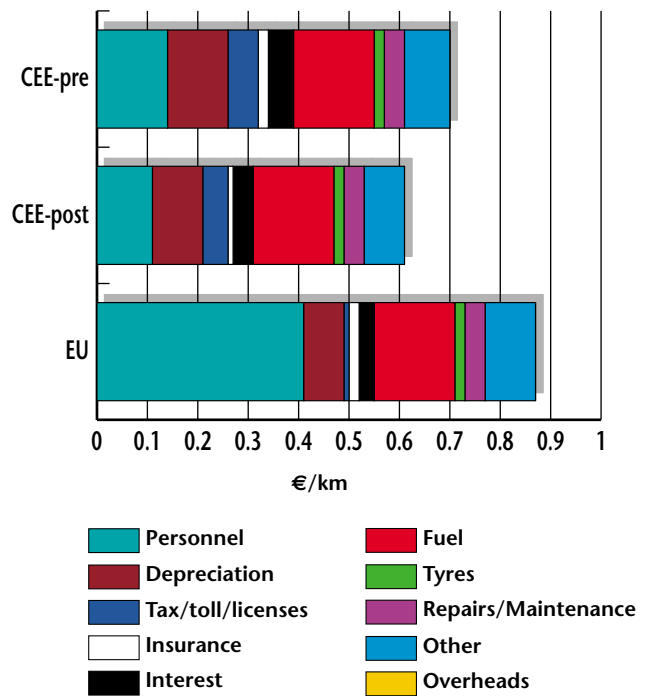


Source: Halcrow/NEI, 1999. NEI calculations

Figure 6: Costs per kilometre of EU and CEE hauliers (EU and CEE average, 1998)

The difference of 20 – 25 percent is still considered decisive in the market for “common” carriers (no special conditions for transport, just carrying the cargo from A to B).

Upon accession, as a result of imminent legal harmonisation, on the one hand, costs for CEE hauliers will increase; on the other hand, their annual km-performance is also expected to go up. Overall, the competitive position of CEE hauliers in East-West transport (in the traction market segment) is expected to be maintained or even improved if EU costs levels remain the same or increase (Figure 7).

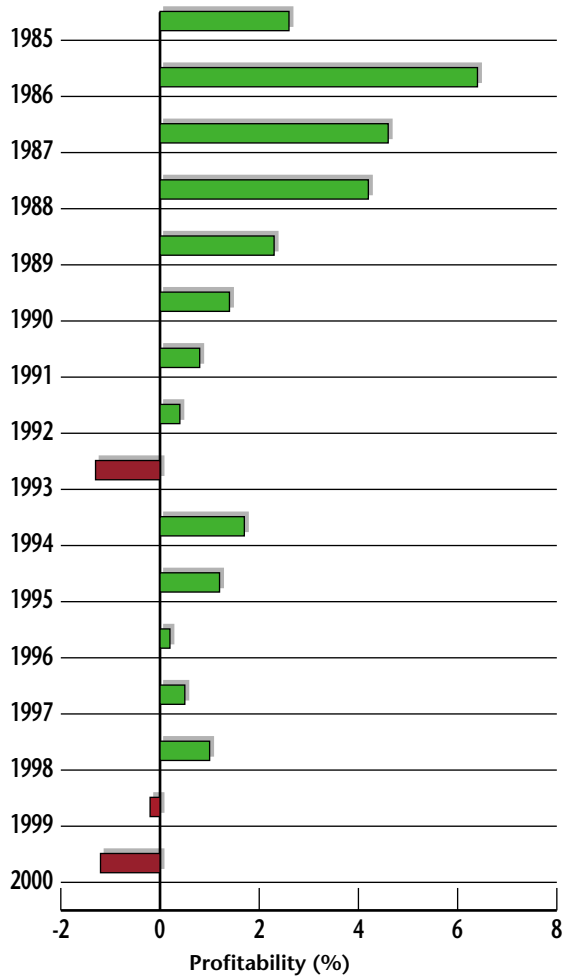


Source: Halcrow/NEI, 1999. NEI calculations

Figure 7: Pre- and post-accession costs per km for CEE international hauliers, compared to EU costs per km (1998 estimates)

### Profitability matters

Profitability of (international) haulage displays a volatile nature. For instance, in the Netherlands profits varied between 6.4 and (-)1.3 percent during the past two decades (Figure 8). It certainly deteriorated in the 90s as compared to the previous decade.

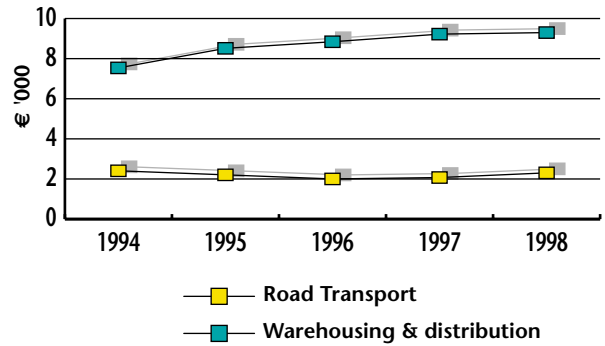


Source: TLN, 2000. \* forecast

Figure 8: Profitability of Dutch international road hauliers

Generally, the profitability of international haulage seems to be on a downward trend in the EU, reaching critical levels in some segments. In view of the significant cost advantage, the profitability potential of CEE hauliers on at least the cost side appears to be more promising, in the traction segment of the market in particular. However, it has not been possible to gather reliable data to support this contention.

EU hauliers are gradually turning to more profitable market segments, particularly in the provision of integrated logistics services. The share of "warehousing and distribution" in the turnover of large EU companies is rapidly increasing and their value-added and profit per employee are significantly higher than in "pure" transport (Figure 9).



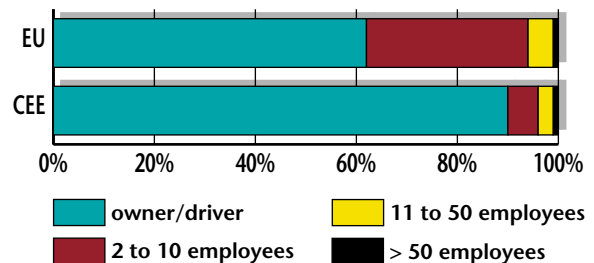
Source: KPMG, 1997; KPMG, 1999. NEI calculations

Figure 9: Profit per employee per activity of the largest transport companies in Europe 1995-1998

### Defining market prospects

Economies of scale and scope will set the conditions for road haulage and logistics market developments. Economies of scale can be obtained simply through company growth, possibly combined with increased specialisation in specific segments of the road haulage market. Economies of scope emerge from the inclusion of more elements of the logistic chain, moving from haulage to full Supply Chain Management, as well as from developing complex and extended international networks of integrated service providers.

Concentration within the industry is a prerequisite to achieve benefits of scale. Only larger companies with appropriate financial resources may employ the full range of logistic services. The typical "one-man owner/operator" organisation of road haulage, particularly in CEE, is not the appropriate infrastructure to engage in logistics. In the EU, as a result of a slow concentration process, the share of larger firms is higher than in CEE (Figure 10).



Source: Halcrow/NEI, 1999; Eurostat, 2000. NEI calculations

Figure 10: Size distribution of road freight transport companies (1998)

## Recommendations

### • *Market monitoring indicators and observation needed*

Due to still existing important differences in cost levels, partly counter-balanced by the productivity factor in East-West transport, which could induce damaging market disturbances when opening further road transport markets, there is a need for appropriate sector information for the benefit of policy makers, the transport business and their associations, so that they may be prepared if/when adverse market developments occur.

One could think of a “monitoring” or “early warning” system. It should be based on statistical indicators, which are straightforward and transparent, and generally accepted by all parties involved. Such indicators can be divided into two groups:

- *Business information:* indicators on cost level and structure as well as productivity and profitability
- *Market information:* indicators on demand (commodities, volumes, values), supply (companies, vehicles, capacities, load factors) and the interaction of the two (price information)

Due segmentation of markets is required to obtain a good picture of competition in the sector.

Very little statistical information is available to make a consistent and detailed East–West comparison. Two types of sources constitute a good starting point for feeding a monitoring system: trade/industry surveys and Customs statistics.

At a later stage, this data collection system could be extended and turned into a comprehensive monitoring system covering three levels of aggregation, namely:

- Economic and Trade statistics
- Transport sector statistics
- Business statistics

### • *Specific recommendations to the EU and national Governments:*

No direct policy interference in markets is advocated to support the likely developments. Rather, Governments and the EU should further harmonise the general legislative framework by which a “level playing field” is established on which normal competition may yield benefits for all players.

However, EU and national government policies should be concerned with a balanced development, along the lines drawn above. Market distortions (oversupply, price-cutting/dumping) could occur, requiring timely and proportionately limited Government measures in case of absolute necessity. A smooth transition to facilitated market access should be aimed at, with regard to EU enlargement in particular.

Effective transport policies should be based on solid information. In this respect, the statistical base in CEE is weak and progress in this respect is slow. To support specific transport policies, a dedicated information system (“early warning crisis monitor”) is required.

### • *Specific recommendations to Road Transport Associations:*

Facilitate market developments, particularly those enhancing co-operation (partnerships, alliances, joint ventures, participations, etc.) between CEE hauliers and EU logistic providers, support smaller companies, which cannot rely on their own networks, and act as an information and partnership gateway.

Act as the intermediary between the sector and Governments when it comes to specifying the legislative framework, the development of a statistical database, and drafting the components of a crisis monitoring system.

## Final considerations

The two phenomena “convergence” and “difference” are characteristic of the present state of the East-West transport market. This market is very diverse and distinct market niches do exist, in which all hauliers and logistics providers offering specific services can acquire competitive positions. New transport markets and services are continuously under development and there are profitable opportunities along the entire supply chain.



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