

HVTT18: Trends in the European Road Haulage Market and the implementation of the 1st Mobility Package

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Abstract

The “1st Mobility Package” was adopted by the European Commission in 2020 to bring the European Road Haulage sector to the next step of the Single Market, striving for a level playing field in the operational, economic and social conditions of road freight transport. Following the expansion of the EU into Eastern Europe in 2005, and the integration of vastly different economies into the existing market, policy measures were needed to ensure a level playing field for operators from all EU countries. This included rules on social conditions for drivers (wages and social security benefits, overnight stays, returns home, ...), on the place of establishment of companies and the relation to the place of operations (cfr. “letterbox companies”), and the maximum amount of transport operations than can be performed by non-national drivers on the territory of other Member States (cabotage). This paper provides an overview of the recent trends in the European road haulage market, the main principles of the new rules, and their preliminary impact on the sector.

Keywords: Europe, 1st Mobility Package, Social rules, Social Conditions, Drivers, Cabotage

1. Introduction

Following the expansion of the European Union into Eastern Europe in 2005, and the integration of vastly different economies into the existing market, policy measures were needed to ensure a level playing field in the road haulage sector for operators from all EU countries.

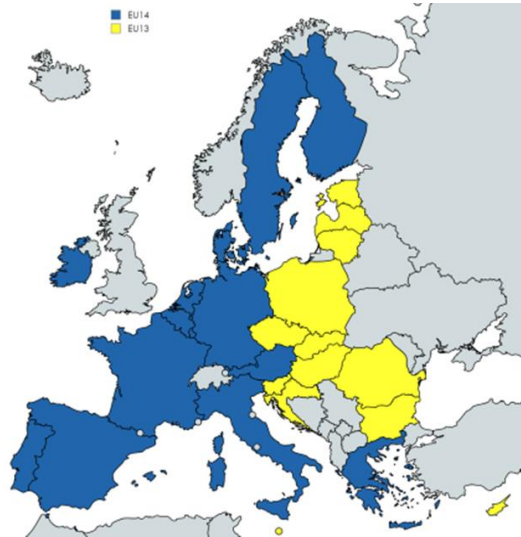


Figure 1: EU14 (member before 2005) and EU13 (joined in 2005 or later) countries

The 1st Mobility Package (MP1) was adopted by the European Commission in 2020 to bring the European Road Haulage sector to that next step of the Single Market, striving for equal opportunities and fair terms in the operational, economic and social environment of the road freight transport sector.

The package included rules on social conditions for drivers (wages and social security benefits, overnight stays, returns home, ...), on the place of establishment of companies and the relation to the place of operations (cfr. "letterbox companies"), and the maximum amount of transport operations than can be performed by non-national drivers on the territory of other Member States (cabotage).

Since the initial introduction of those rules in 2009, several rounds of adaptations/finetuning have taken place, under ever changing economic conditions and the progressive integration of those Member States. The latest round of adaptations came with the 1st Mobility Package.

This paper reflects the findings of a project for the European Commission that aimed to provide input to an assessment of the evolution of the Road Haulage market as a result of the Mobility Package, and from an overall perspective, to make an overview of the current status of that market.

This paper will start with an overview of some statistics on the road transport market (volumes, year by year and country by country evolutions, number of companies, size of companies, wages and benefits), to demonstrate different trends. Furthermore, the paper will also give a review of how different types of actors (operators, shippers, drivers, enforcement agencies) have dealt with these rules in their daily practice, and which differences there have been in the application of those rules in different countries.

2. Trends in the European Road Haulage market

2.1 Total road freight activity

The development of road freight activity in the EU14 (EU members before 2005) and EU13 (joined in 2005 or later) is very different, as illustrated by Figure 2 (aggregated evolution) and Figure 3 (shift per country between reference years 2008-2010-2015-2023). Important to note is that these figures represent transport performed by operators registered in the reporting countries (and not transport activity on the territory of the reporting country).

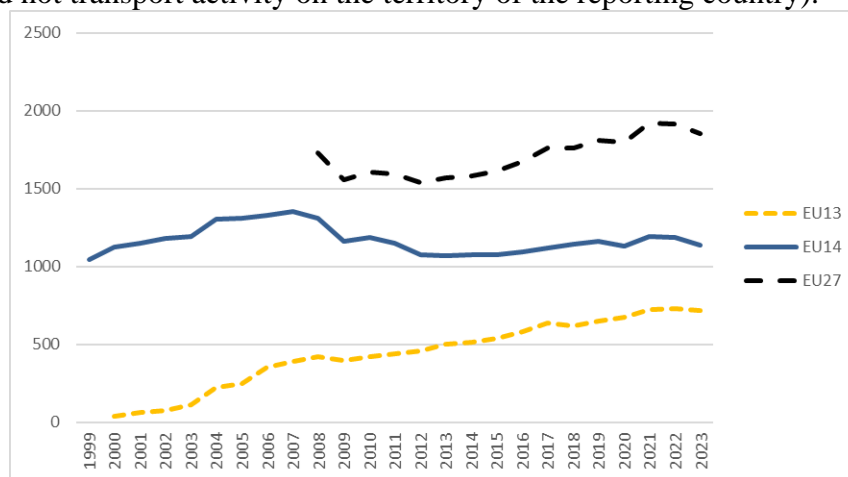


Figure 2: Total road freight transport activity, billion tkm (source: Eurostat)

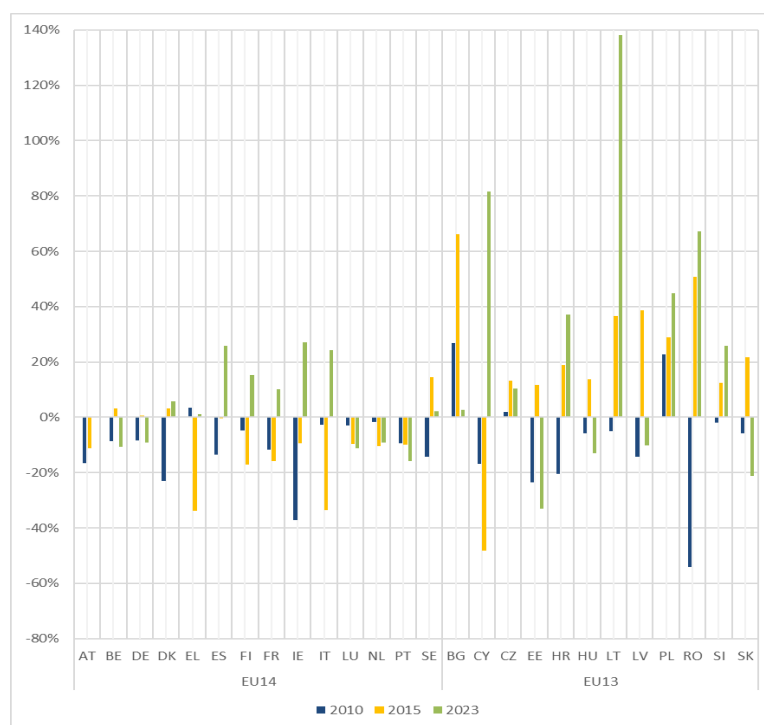


Figure 3: Evolution of road freight activity in tkm in different European countries, relative difference 2008-2010 (blue), 2010-2015 (yellow), 2015-2023 (green) (source: Eurostat)

While the EU14 market is about the same size as 25 years ago (blue graph of Figure 2), the EU13 market has grown considerably. The economic crisis of 2009-2011 was a turning point: growth in the EU14 stopped, and most countries had lower activity in 2010 and 2015 than they had in 2008 (blue and yellow bars). Meanwhile, in the EU13, there was a dip in activity during the crisis, but growth quickly restarted and continues until today. Countries like Lithuania and Bulgaria are prime examples.

2.2 International transport activity

The driving force behind the continued growth in the EU13 is international transport, which consists of bilateral transport (transport between the reporting country - where the operator is from - and another country), cross-trade (transport between two countries that are not the operator's home country) and cabotage (domestic transport within a country that is not the operator's home country), which represents over 2/3 of all EU13 activity, but only 1/5 in the EU14. From Figure 4, it is clear that a large part of the post 2005 growth in the EU13 comes from cross trade and cabotage activity. EU rules state that drivers performing cabotage and cross trade activities should be paid according to the wage scales of the countries they drive in, rather than at the wage of their home country (average driver wages in the EU13 are around 1/3 of those in the EU14, with the difference between the lowest wage country, Bulgaria, and the highest wage country, Denmark, more than factor 10 - € 5800/year vs. € 61 845/year).

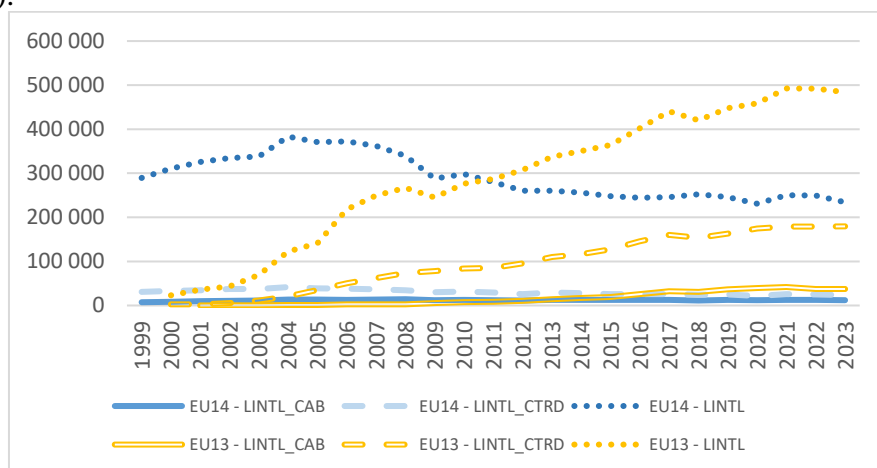


Figure 4: evolution of total international transport volumes (LINTL), submarket cabotage (LINTL_CAB) and submarket cross-trade (LINTL_CTRD) in tkm (Source: Eurostat)

Cabotage activity in particular is a contentious topic, as operators from EU14 countries believe it is unfair competition in their domestic markets, given that differences in wages and social conditions allow EU13 operators to charge much lower prices and thus undercut local operators in the EU14.

In practice, more than ¾ of cabotage activity takes place in Germany and France, and almost all (98.5 %) in the EU14 in total. In terms of the operators performing cabotage in 2023, over ¾ of tkm are performed by EU13 countries (up from 60% in 2015), lead by Poland (45 %) and Lithuania (14 %). The largest performer of cabotage activity from the EU14 is Spain (5.4%). In Germany and France, around 7% of all domestic transport is performed by foreign operators.

2.3 Market structure

Number presented below are collected from Eurostat or Member State reports to the European Commission.

Companies

There were around 570 000 companies active in road freight transport in the EU in 2021. 320 000 of them are established in the EU14, 250 000 in the EU13. Spain has the largest number of operators (107 000), followed by Poland (102 000). Around 320 000 of those (56%) have a so called 'community licence' which allows them to perform international transport, up from 270 000 in 2010 (+22%). Romania (14%), Germany (13.9%) and Poland (13.4%) have the largest shares of the community licences.

Each vehicle active in international transport for one of these companies need to carry a 'certified true copy' of that licence. Over the same period, the number of certified true copies increased from 1.7 million to 2.4 million (+40%), indicating that fleet size per company is increasing. The largest shares are for vehicles from Germany (18%), France (16%), Poland (13%) and Romania (9%), which suggests companies from EU14 countries typically have larger fleets than operators from EU13 countries.

Employment

In 2021, some 3.34 million people were employed by road freight transport companies registered in the EU27, representing 2.63 million full time equivalent paid positions (FTE). Poland has the largest group of road freight transport workers at just under 0.5 million, followed by Germany (0.44 million), France (0.42 million), Italy (0.37 million) and Spain (0.34 million). The second largest group of transport workers from the EU13 (after Poland) is Romania at 0.17 million.

The number of employees per company varies considerably between Member States. The largest companies on average in 2021 are found in Luxembourg (19.1 employees), Lithuania (15.8 employees), and Germany (12.6 employees). Cyprus and Malta are among the Member States with the smallest average number of employees (2.8 and 3.1 respectively), likely due to their isolated location, but the smallest companies are found in Greece, at just 2.6 employees per company, and even this is an increase from the 2015 figure of 1.7 employees. For the EU27 as a whole, the 2021 average company size is 5.9 employees, up from 4.3 in 2008 but relatively stable since 2013.

While Eurostat does not contain information on the distribution of company size, sector representatives indicate that the landscape consists to a large degree of very large logistics service providers, who then subcontract large parts of their activities to much smaller operators (1-5 vehicles). According to (Ricardo, 2021)'s survey, 35% of hauliers rely "always or normally" on contracts with freight forwarders or forwarding agents. A further 17% work "very often" in subcontracting. This means that 1 in 2 haulier companies work at least very often as subcontractor.

Market concentration

Different sources were consulted for an assessment of the evolution of market concentration. Large sector reports of commercial nature, such as (Mordor Intelligence, 2023) and (Fraunhofer, 2021), provide mainly revenue or employment information, and do not distinguish between different types of logistic activities. Using assumptions on the share of land transport in revenue and employment, we estimate that the 6 largest companies represent around 20% of total sector revenue and 14% of employment. Similarly, sector based

comparisons of market concentration provided by (Eurostat, 2024) indicate that the transportation and storage sector (which includes road transport) is among those with the highest (and increasing) market concentration.

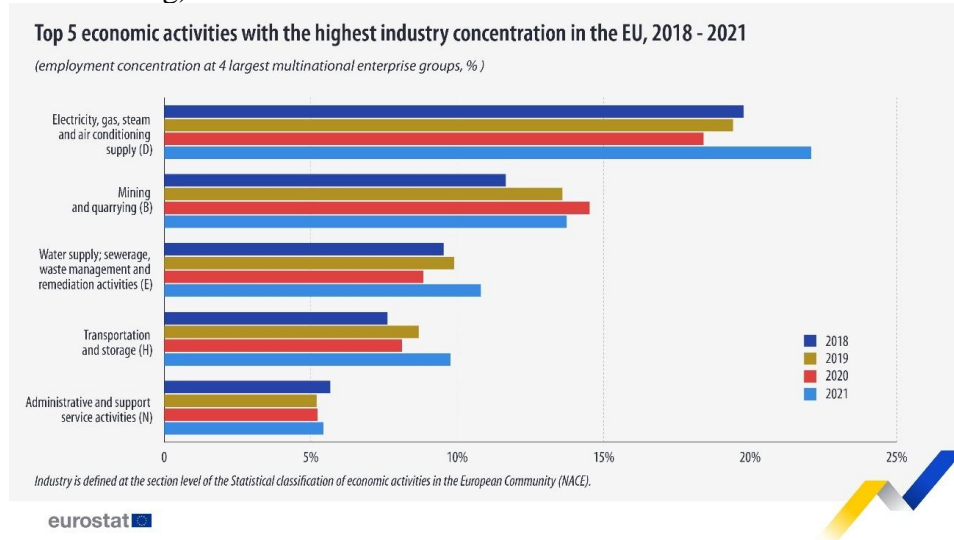


Figure 5: EU concentration index 2021 (source: Eurostat)

A survey conducted among road freight sector representatives as part of this project confirms that market concentration is indeed increasing, but there was no agreement on the level of concentration.

From this market structure and from stakeholder consultation, we conclude that for the largest part, the EU road haulage market, like in most other global regions, consists of a large number of small operators, competing intensely with razor-thin profit margins, for the subcontracts of the larger logistics players or directly from shippers. The large players have market power over the small actors, who are forced to keep their prices (and costs) low. The driver shortage is indicative of this power imbalance in the market: despite the shortage, cost pressure keeps wages down, combined with service requirements that lead to time pressure, which severely limits the attractiveness of the profession.

2.4 Other aspects affecting the level playing field

Wage differences between countries and a market structure based on large companies subcontracting to small operators competing on price led to poor social conditions for transport workers, transport companies flagging out to member states with cheaper labour, and an increase in the share of third country drivers, whose wages are even lower (e.g. Lithuania has a population of 70 000 foreign drivers – representing 2.5% of the 2.8 million total population).

Legislation was adopted to mitigate the effects of these differences between Member States (including Regulations 1071/2009 and 1072/2009). This included (among others) obligations to report when drivers are active in cabotage and cross trade activities (also called “posting”), and pay them according to the labour conditions of the host country; to restrict the amount of cabotage to maximum 3 operations in the 7 days after entering the country via a bilateral operation; and to ensure that companies established in a member state indeed have a close link to that member state, by conducting regular operations there (as opposed to “letterbox companies” that only exist to avoid higher wage costs in other countries), and are managed by a certified professional of good repute.

However, these rules were insufficiently enforced according to stakeholders, leading to the persistence of perceived unfair practices and price differences between operators from different countries, mainly because of the complexity of the rules and the inability or unwillingness of member states and enforcement agencies to do so. For example, (Kummer & Schramm, 2016) estimated that 21.7% of national transport in Austria was cabotage, whereas the official figure was just under 8%. The difference between those figures represents operations not reported as cabotage, likely performed by underpaid drivers at lower prices than compliant operators can offer.

As a result, Mobility Package 1, containing adaptations to these rules to make them clearer and easier to enforce, was adopted in 2020 to address the main issues.

3. Mobility package 1

3.1 Revised rules

The 1st Mobility Package had as its main objective to ensure good implementation and enforcement of the road transport legislation, providing a balance between the social protection of drivers and the freedom of operators to provide cross-border transport services.

Among its provisions, it included:

- The extension of the common rules concerning the conditions to be complied with to pursue the occupation of road transport operator and for access to the international road haulage market to vehicles between 2.5 tonnes and 3.5 tonnes GVW (whereas before it was limited to vehicles of 3.5 tonnes and above);
- Strengthening the rules regarding posting of drivers and their enforcement, including a mandatory regular return home of the driver, and minimum requirements for the accommodation of drivers outside the vehicle during their weekly rest periods;
- Strengthening the rules regarding the stable and effective establishment of road transport operators to combat the phenomenon of “letterbox companies” and reduce the risk of systemic cabotage, including the mandatory regular return home of the vehicle (which was annulled by the European Court of Justice in October 2024);
- Provisions to allow better enforcement across borders through improved availability of information on transport operators (through the use of the European Register of Road transport Undertakings – ERRU);
- Revised rules on the performance of cabotage, to include a 4 day “cooling off period” after the performance of the allowed 3 operations in 7 days, during which no additional cabotage operations could be performed;
- An extension of the liability in case of infringements to social rules to include consignors, freight forwarders, contractors or subcontractors, in case where they knew, or, in light of all relevant circumstances ought to have known, that the transport services that they commission involve infringements.

As part of the procedure to follow up the implementation of MP1, the Commission committed itself to the publication of mandatory status update reports every two years. This work represents the first iteration of the expression of this commitment.

3.2 Impact of the revised rules

Statistics

Given the time needed for operators and Member States to adopt the new rules in their daily practice, and to collect relevant statistics, only a very limited amount of data is available to assess the impact of the new rules, and even then, they are mostly suitable as the first point of a new time series, rather than a way to compare with previous years. This includes for example data collected on the amount of community licences for operators working with vehicles between 2.5 tonnes and 3.5 tonnes GVW.

Reception of the new rules by stakeholders

As a result of the limited amount of statistics available, most of the assessment of the impact of the new rules was done based on stakeholder input, which was collected through interviews with EU level organisations and a survey among their members and individual companies.

Generally speaking, stakeholders representing transport operators (IRU, UETR, CLECAT), transport workers (ETF) and enforcement (CORTE) welcomed the new rules and what they intend to achieve, but were also cautious regarding their implementation in practice.

Working conditions

Operator associations highlight the problem of the divergence in social standards between Member States (e.g. differences in wages), but also the difficulty in ascertaining what they are, as information is often not available, or only in the language of the country in question. This has created a substantial administrative burden for operators. In addition, the fact that posting rules only apply to wages paid to drivers have to be according to the rules of the host country, but not to social security payments, which still leaves a considerable discrepancy between EU14 and EU13 in total labour costs.

Letterbox companies

While the rules to tackle this phenomenon are considered potentially effective, their practical implementation through enforcement will be critical. Enforcement agencies working on road transport still mostly focus on roadside checks rather than on the home location of companies. The responsibility for these types of controls lie more with labour authorities, which are not necessarily very effective in every Member State. The flexibility for Member States that remains in the rules (e.g. in the precise definition of a letterbox company) still allows for loopholes and distortion of competition.

Cabotage

Stricter limits to cabotage are considered protectionist by mostly EU13 countries that do cabotage in the EU14, and are said to go against the principles of the Single Market. EU13 countries have also pushed for the repeal of the provisions for the return of the vehicle (though mainly on procedural grounds), which was decided by the European Court of Justice in October 2024.

However, stakeholder associations consulted believe the rules on cabotage and the cooling-off period are good measures for preventing social dumping.

The operators association believes that the extra administrative burden has led to a decrease of the growth of cabotage activities, and that companies are relocating ; one point that was

highlighted in particular is the complexity to prove what was done during the cooling-off period.

The issue with the different interpretation of certain aspects of the rules also applies to cabotage. Enforcement is inconsistent between countries. Additionally, different sanctioning practices between countries also lead to an imbalance of competition.

Other social rules

Enforcement is mostly focused on driving and resting times, for which Tachograph readings are available. The location of the weekly rest or the return home of the driver is still mostly left unchecked.

A gap in the social rules is the treatment of third country drivers. Rules regarding posting do not apply to them, often leading to poor working conditions for them.

3.3 Conclusion

It is still very early in the implementation phase of MP1, allowing for very few strong conclusions. Based on the experience with these rules concerning the conditions to be complied with to pursue the occupation of road transport operator and for access to the international road haulage market, the main critical aspect for levelling the playing field in the road transport sector is enforcement. The rules are many and complex, for operators to comply with and for government agencies to enforce. Differences in interpretations of rules between Member States add to the complexity for operators, particularly those from EU13 countries who perform most of cross trade and cabotage operations addressed by the rules.

Focus of enforcement is mostly on driving and resting times, and less on compliance with cabotage and posting rules, which requires consultation of additional sources. However, several stakeholders believe that by better enforcing posting rules and ensuring drivers are paid a fair wage, the need for difficult provisions such as the cooling-off period, would disappear.

4. General Conclusion

International road freight transport activity in the European Union is increasing year on year, and particularly operators from “new” Member States are expanding their market share, driven by lower base salary costs for drivers in those countries. Rules were established from the start to avoid unfair competition, forcing operators to pay drivers according to wage scales of the country they drive in when performing cabotage or cross-trade activities (by “posting” them to those countries), and limiting the amount of cabotage operations than can be performed in a given timeframe. However, in large due to insufficient enforcement, sector representatives believe that cabotage and cross trade activities are severely underreported, based on their experience in the field and small sample research. Better enforcement is required to reach a level playing field for operators from all countries - and to obtain statistics that show a more correct picture of the actual market situation. Further policy action could put more emphasis on setting clearer common guidelines for enforcement agencies, possibly including the use of information technology (e.g. from road toll management systems) for detection and measurement.

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