

CNR EUROPEAN STUDIES

The Bulgarian RFT sector - a summary

Version of 15 December 2016

Bulgaria is one of the European Union's most recent members. Despite being bottom of the table in economic terms, the country is currently developing rapidly, boosted by the EU's "catch-up" effect. Its still fragile economy and the transport sector in particular, aspires to form a bridge between East and West, for example by linking both EU and non-EU European countries with the Middle East.

Bulgaria has a thriving road freight transport (RFT) sector, which has taken full advantage of free movement since the country joined the EU. The sector has become a driver of economic growth and a symbol of the country's adherence to the West. However, it suffers both from its outlying location at the south-eastern edge of the EU and from the weakness of the Bulgarian and neighbouring domestic markets. Nonetheless, while the Bulgarian RFT sector was strong in the Middle East in the past, the statistics suggest that it has adapted to the country's new politico-economic environment.

How does Bulgaria's RFT sector overcome the difficulties associated with its distance from the centre of the EU? How did it respond during the financial crisis of 2008? What is the secret of its international success compared with traditionally strong players like the German and Spanish RFT sectors? Where does it stand in relation to other eastern European RFT sectors, which lie closer to western production and consumption centres? What are its strengths and how does it manage its weaknesses?

To answer these questions, Le Conseil National Routier (CNR) conducted its first study in Bulgaria in 2016. The full report, available on the CNR website, www.cnr.fr under the section Publications/Europe, was conducted in partnership with Moreus consultants.

This document provides a summary of the study's key points, draws a comparison with the French RFT sector and, by harmonising the calculation methods, enables comparisons to be made with other European RFT sectors CNR has studied over the last ten years or so. For any further information about CNR's European studies, please contact Alex Ugurlu at CNR, a-ugurlu@cnr.fr.

Economic framework and transport infrastructure

Having been impoverished by years of communist rule and then affected by political instability in the Balkans, in the late 1990s Bulgaria set its sights firmly on the West. The country was well aware of its weaknesses and took the plunge of joining the European Union, whose standards were poles apart from its own situation in the beginning.

During the integration process, Bulgaria was obliged to radically reform its regulations in a short space of time, put an end to corruption and prepare its economy to adapt to the new liberal environment of the European single market. It finally became a member of the EU in 2007, at the same time as its neighbour Romania. Today, the country does almost two thirds of its foreign trade with other EU members and relies primarily on private European investors for its continued development.

The country's greatest structural problem is its ageing population and the exodus of its young people into western Europe. In 1990, at the end of the communist era, Bulgaria's population was 8.7 million, as opposed to the current 7.2 million: a drop of almost 20%.

In terms of transport infrastructure, the country has worked hard to finalise construction of its major east-west road routes. In the future, it plans to link Romania to Greece (north-south route) and aspires to become a major regional intersection. Meanwhile, however, many of its other infrastructures remain in a poor state, restricting the development of other modes of transport.

The country's economy centres around the capital Sofia, but other centres, mainly of tourist and port activities, such as Burgas and Varna (Bulgaria's two largest Black Sea ports) are beginning to attract investment.

Activity growth and structure of Bulgaria's RFT sector

The road freight transport sector is flourishing in Bulgaria. In spite of the economic problems the country experienced during the 2008 financial crisis (with a growth rate of -4.5%), its RFT sector always continued to grow. Since the financial crisis ended in 2011, the sector has seen even faster growth and pressure is starting to be felt in the driver market.

The domestic RFT sector saw a significant downturn between 2008 and 2010, and after returning to pre-crisis levels in 2013, has remained stagnant since. Meanwhile, the country's international RFT sector has broken all records. In the seven years from 2008 to 2015, Bulgaria's international RFT activity tripled, while the French international sector's activity shrank by half over the same period.

RFT* evolution in France and Bulgaria								
Transport Total								millions of t-km
	2008	2009	2010	2011	2012	2013	2014	2015
France	206,304	173,621	182,193	185,685	172,060	171,472	165,255	153,580
Bulgaria	15,322	17,742	19,433	21,214	24,372	27,097	27,854	32,297
Domestic Transport								millions of t-km
	2008	2009	2010	2011	2012	2013	2014	2015
France	181,879	156,021	164,325	168,242	156,079	155,712	151,112	141,242
Bulgaria	7,122	6,306	6,120	6,518	6,286	7,192	6,826	7,132
International Transport								millions of t-km
	2008	2009	2010	2011	2012	2013	2014	2015
France	24,425	17,600	17,868	17,443	15,981	15,760	14,113	12,339
Bulgaria	8,200	11,436	13,313	14,696	18,086	19,905	21,027	25,125

* in EU + Norway + Switzerland + Liechtenstein

Source: Eurostat

As regards the structure of the "haulage and storage" sector, just under 20,000 businesses and 150,000 employees operate in the industry. The RFT sector alone accounts for almost two thirds of these operators. Two trade associations, NSBS and AEBTRI, defend the sector's interests. Labour unions are relatively weak.

The most striking point to emerge from the 2016 study of Bulgaria's RFT sector concerns the way in which movements are organised. Since Bulgaria's neighbours to the West are Serbia and Macedonia, both non-EU members, Bulgarian hauliers travel north to get around these countries, thus avoiding customs checks and wasted time. They go through Romania and on to Hungary, before reaching western Europe. To the East, their neighbour Turkey, with its sizeable domestic market, is said to "artificially" pile on roadside inspections and red tape, in order to protect its market and monopolise the route to the Middle East, which used to be the Bulgarian hauliers' preferred market. To cope with these restrictions, Bulgarian hauliers have specialised in freight between third countries, namely the EU's 6 or 7 most developed countries, all in western Europe. This means that Bulgarian lorries only return to base 4 or 5 times per year, primarily for maintenance and administrative formalities, such as the roadworthiness test. The lorries are operated in the most lucrative markets, whose own RFT sectors are often less competitive due to the wide gap in labour costs. This is the case in France, for example. Bulgarian drivers do long European trips lasting up to 3 months. They are sometimes sent home by plane for their rest periods and replaced by other drivers, while the vehicle does not return to Bulgaria.

It is also important to point out that most of the major western European haulage companies have a presence in Bulgaria through their subsidiaries and account for much of the investment that goes into the sector. These subsidiaries, which benefit from Bulgarian tax concessions with vehicles registered in Bulgaria and driven by Bulgarian drivers, are gradually gaining market share in international freight in western Europe, to the detriment of the local sectors. In a free European single market offering cheaper labour than China, competitive offshoring of this nature is inevitable.

Operating conditions and costs

The following data on the operating conditions and costs of a typical haulage business in Bulgaria were obtained from interviews with hauliers based in the country's various provinces and with Bulgarian drivers. These results are then compared with CNR's findings in France.

In Bulgaria, vehicles are often purchased in the most basic version or with few optional extras and are then operated intensively. Their annual mileage is at record levels, at over 150,000km per year with a lone driver, or up to 190,000km per year if the operator uses double manning. Vehicles are often purchased on a lease basis, on 5-year contracts with the option to buy. In almost all the cases we encountered, the option to buy is used, which enables hauliers to keep their vehicles a further 3 years. Interest rates in the region are relatively low, at around 2.5–3%. Vehicles are operated until they reach approximately 1,200,000km on the clock, at which point they are sold on within the Bulgarian domestic market or in other eastern European countries for use in their domestic markets.

On top of the vehicle ownership costs, maintenance and repair costs also appear to be quite low. This can be explained by the very low cost of labour in Bulgaria, where the vehicles are serviced and maintained regularly each time they return to base. The major hauliers often have their own garages and the smaller ones club together to run joint garages. Generally speaking, they try to avoid costly repairs by the manufacturer.

Of all their other costs, the cost of driving personnel constitutes the main competitive advantage for the Bulgarian RFT sector, given that the personnel cost per vehicle is three times lower than in France. The gap is even wider with the Belgian, Dutch and Italian markets, where Bulgarian hauliers do a good deal of their business.

As regards fuel management, Bulgarian hauliers only fill up partially in their own country because of the way movements are organised. During long trips into western Europe, they try to fill up whenever possible in countries where fuel is cheaper, such as Luxembourg. However, this is not always possible, and more expensive fill-ups, such as those in Germany, are also included in their "average basket". As we have no statistics on fuel costs for the Bulgarian RFT sector, the comparison table below uses the same unit cost for both sectors, based on the median situation in Europe.

Lastly, the HGV tax is particularly high in Bulgaria and can be as much as 2,000 euros in some municipalities.

Comparison of operating conditions and costs excluding structural costs, for a 40-tonne HGV 2015 values			
	unit	France	Bulgaria
Yearly mileage of vehicle	km	114,970	150,600
Number of operating days	days/yr	230	262
Semitrailer/tractor ratio		1.38	1.30
Driver cost	€/yr	46,744	15,859
Driver/tractor ratio		1.07	1.07
Yearly cost of vehicle financing and possession	€/yr	14,694	10,535
Average consumption per 100 km	litres	32.1	30
Fuel cost. 2015 average (1)	€/litre	1.08	1.13
Fuel cost	€/yr	33,724	41,286
Tyres	€/yr	3,219	4,400
Maintenance-repair	€/yr	8,692	3,800
Tolls	€/yr	9,036	13,000
Insurance (vehicle)	€/yr	2,239	3,000
Axle tax and other vehicle taxes	€/yr	516	1,254
Synthesis – cost price (except structural costs)		122,136	94,244
Cost/mileage ratio per annum	€/km	1.06	0.626
Base 100 France		100	59

(1) after partial recovery of TICPE in France. Same unit cost used for both countries.

Source : CNR european studies

Employment conditions and driver employment costs

The minimum wage in Bulgaria is 214 euros gross per month, making it the lowest minimum wage in Europe. Bulgarian drivers receive a slightly higher sector-based rate, raising their minimum wage to just under 220 euros. While drivers' wages are often declared strictly according to this minimum in the provinces, they can be double that rate in urban areas such as Sofia, Plovdiv, Burgas or Varna. On top of this very low salary, Bulgarian hauliers pay low annual bonuses, usually as a reward for the best drivers.

As in many eastern European countries, a Bulgarian driver's basic salary is topped up to a much higher level by travel allowances. The statutory minimum daily travel allowance is 27 euros. Social security contributions and income tax are not payable on travel allowances, up to a ceiling of 54 euros per day. HGV drivers therefore get paid between 35 and 48 euros in allowances per day, usually for 6 days a week, or 25 days a month. They are calculated either according to the mileage the driver covers (usually at a rate of 0.08–0.09 euros per km) or as a fixed rate per day's driving.

According to CNR's estimates, Bulgarian drivers working only on international trips can receive 1,050 euros in monthly travel allowances, in other words three times as much as their fixed salary. The 18.5% employer's social security contributions are therefore only payable on a quarter of the driver's wage. At 56 euros per month out of total wages of 1,350 euros, this makes an effective rate of 4.1%.

As regards working conditions, there are no collective agreements for the RFT sector and HGV drivers are therefore basically covered by general and specific Bulgarian and European welfare rules. Bulgarian drivers often work the maximum number of hours, in other words an average of 48 hours per week, and the maximum of 90 hours' driving over 2 consecutive weeks. Working at this pace, they drive for 1,978 hours every year, work 242 days over almost 46 weeks and cover over 140,000km.

It is worth mentioning that pressure in the driver labour market is pushing wages upwards. In this extremely flexible, competitive market, some employers are paying high daily travel allowances to attract drivers, but then refuse to pay the allowances when the vehicle is not on the road. This leaves drivers with no income for several days while waiting in lorry parks across Europe, forcing them to look for a load to carry in order to get back on the road.

Comparison between the cost of drivers in France and in Bulgaria, 2015 values			
	Unit	France	Bulgaria
Gross salary (miscellaneous bonuses and overtime included), subject to social contributions nor to income tax	€/year	29,136	3,636
Travel expenses and other elements of remuneration not subject to social contributions nor to income tax	€/year	8,780	11,550
Employer contributions (% of gross salary)*	%	30.3%	18.5%
Employer contributions in absolute terms	€/year	8,828	673
Annual cost total	€/year	46,744	15,859
Number of actual working days per year	day/yr	215	242
Working time per year	hour/yr	1,544	1,978
Annual mileage		107,449	140,800
Cost of one hour's work	€/h	30.27	8.02
Base 100 France		100	26
Cost per kilometre	€/km	0.44	0.11
Base 100 France		100	26

*after Fillon deductions in France

Source : CNR European Surveys

This first CNR study in the Balkans reveals a sector enjoying unbridled growth, which can be a social "jungle" at times. Bulgarian hauliers are ahead of the game in terms of lowering transport costs, achieving a cost per kilometre of around 0.65 euros, or around half the cost observed in France. They are therefore gaining ever greater market share in western Europe, as illustrated by the country's RFT sector activity statistics.