

CNR EUROPEAN STUDIES

Road freight transport in Latvia

Abstract

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As a state of north-east Europe, Latvia gained independence in 1991, after 50 years of Soviet occupation. It then became a democratic republic under the constitution adopted the following year. Latvia joined the European Union (EU) in 2004 and the eurozone in 2014. Its strategic geographical location allows it to maintain close relations both with the countries of the European Union and with Russia, as well as with other countries in the Commonwealth of Independent States (CIS), including Belarus and Ukraine.

In economic and social terms, Latvia experienced three years of recession following the global economic crisis. In 2011, following a strict austerity policy, the Latvian economy gradually returned to growth.

In 2016, despite a decline in total activity, Latvian road freight transport (RFT) remained stable. Latvia is positioned in 16th place among European freight flags in terms of total international activity and in 10th place for cross-trade RFT activity. The Latvian sector benefits, in particular, from the geographical location of the country in terms of increasing its East-West activity, as well as its North-South freight activity with Scandinavian countries via the use of ferries.

In order to better understand the place of the Latvian sector in the European context, the CNR carried out a study on the Latvian RFT sector in 2017. It was conducted in collaboration with the research firm, Moreus, which is an expert in RFT in the countries of Eastern Europe. The complete version can be viewed on the CNR website at: www.cnr.fr, in the CNR/Europe Publications section. This document provides a summary of the main points and draws a comparison with the French RFT sector. For further information, please contact CNR's European survey department.

Economic framework and transport infrastructure

With a population of almost 2 million, Latvia relies on domestic demand to boost growth, stimulated by wage increases. Its external trade is also marked by a geographically regional dimension, with the countries bordering the Baltic Sea occupying an important place.

The growth of its GDP, + 2.2% in 2016 and then + 4.5% in 2017, remains above the European average after having experienced three years of recession during the economic crisis. The fall of unemployment rate is correlated with growth. It has been steadily decreasing since 2011, reaching 9.6% in 2016 and 8.7% in 2017, thereby returning to its pre-crisis level. Forecasts for 2018 also look good, with the Latvian economy appearing to be gradually regaining its competitiveness within the European Union, particularly in relation to its Baltic neighbours and other countries in the CIS.

In terms of infrastructure, rail occupies a very important place in Latvia, something which is a specificity of Baltic countries. It represents 76.6% of the country's domestic land freight transport. Various work is currently in progress in the railway sector, with the "Rail Baltica" project, the rail link connecting the Baltic countries to Poland, the aim being to extend it to other Member States of the EU. In terms of shipping, the main Latvian ports mostly handle goods in transit. The Latvian government's 2014-2020 programme aims to ensure the development of these ports and their role at the international level. The road network, with more than 73,590

kilometres of roads (motorways, national, regional) is mostly of good quality and offers the road sector the infrastructure needed for its development.

Activity growth in Latvia's RFT sector

The Latvian RFT sector is maintaining its ranking with respects to other European sectors and is continuing its growth internationally.

In 2016, according to the latest available statistics, the total Latvian RFT sector had a growth rate of 4.5%, close to the average EU RFT growth rate of 4.8%. The national activity of the Latvian sector remains low, accounting for less than 20 % of its total RFT activity. 80% of RFT activity in the sector thus takes place internationally. However, the Latvian sector saw a decline in its activity in 2016: -2.5% in its total activity and -4.3% in its international activity.

RFT* evolution in France and Latvia										
Transport Total										million of t.km
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Ratio t.km/GDP 2016
France	206,304	173,621	182,193	185,685	172,445	171,472	165,225	153,580	155,843	70
Latvia	12,344	8,115	10,590	12,131	12,178	12,816	13,670	14,690	14,227	571
Domestic Transport										million of t.km
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Ratio t.km/GDP 2016
France	181,879	156,021	164,325	168,242	156,449	155,712	151,112	141,242	144,205	65
Latvia	2,536	2,149	2,561	2,646	2,616	2,803	2,740	2,753	2,807	113
International Transport										million of t.km
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Ratio t.km/GDP 2016
France	24,425	17,600	17,868	17,443	15,996	15,760	14,113	12,339	11,638	5
Latvia	9,807	5,966	8,029	9,485	9,562	10,013	10,929	11,937	11,420	458

* in EU + Norway + Switzerland + Liechtenstein

Source: Eurostat

The Latvian sector stands out for its highly developed cross-trade RFT activity, which alone accounts for 40% of the sector's international activity. Latvia's cabotage activity represents 7% of its international road transport and it has increased significantly since 2014. Today, it is an important growth niche. The countries most concerned by this Latvian cabotage are France and Germany.

Operating conditions and costs

In the framework of its international studies, the CNR organises interviews with local carriers and drivers in order to evaluate conditions and operating costs and to observe the market. In 2017, the CNR met face to face with approximately 10 representatives of companies and around 20 drivers at car parks in northern Poland.

As in Lithuania, the Latvian sector stands out in terms of fuel supply. Latvian carriers are taking advantage of their travel to Russia, Belarus and Ukraine to buy fuel at much lower prices than those in the EU. Latvian companies are thus able to reduce their fuel bill by 20 to 30%. The fuel purchased at a lower cost is then used for part of the journeys in the European Union. According to the findings of the CNR, almost 30% of the fuel used by Latvian carriers is from outside the EU, mainly from Russia, with an average cost per litre of €0.55/L incl. VAT (non-recoverable VAT). For the remaining 70%, they prefer to buy in Poland (average price €0.846/L), which accounts for 50%, and the rest in Latvia (average price of €0.864/L).

The weighted average cost for purposes of comparison is therefore €0.761/L.

Furthermore, according to the managers of the companies interviewed, the consumption of their vehicles (almost exclusively Euro 6 vehicles), varies between 24.5 litres and 31 litres per 100 km with a clustering around 28 litres. This low consumption is due to the advantageous topography in the main countries crossed, namely Poland, Germany and Benelux and the almost systematic use of motorways.

Comparison of operating conditions and costs excluding structural costs, for a 40-tonne HGV 2017 actualised values			
	unit	France	Latvia
Yearly mileage of vehicle	km	114,100	138,000
Number of operating days	days/yr	230	265
Semitrailer/tractor ratio		1.40	1.20
Driver cost	€/yr	47,758	18,911
Driver/tractor ratio		1.06	1.06
Yearly cost of vehicle financing and possession	€/yr	15,261	11,539
Average consumption per 100 km	litres	31.5	28.0
Fuel cost. 2017 average (1)	€/litre	0.9108	0.761
Fuel cost	€/yr	32,737	29,397
Tyres	€/yr	3,195	2,880
Maintenance-repair	€/yr	8,786	3,525
Tolls	€/yr	9,624	12,400
Insurance (vehicle)	€/yr	2,248	2,850
Axle tax and other vehicle taxes	€/yr	516	674
Synthesis – cost price (except structural costs)		122,990	83,340
Cost/mileage ratio per annum	€/km	1.08	0.604
Base 100 France		100	56

(1) after partial recovery of excise duties in France

Source: CNR European studies

Concerning the other operating costs, the annual cost of owning of a vehicle remains lower than in France, which is explained, notably, by more intense and longer use as well as by higher resale prices due high demand in the second-hand market in countries in the east of the EU. The observed residual resale value of a tractor with a mileage of more than one million kilometres in the used market is €17,000.

The cost of hiring Latvian drivers is relatively low, at €18,911/year. Latvian carriers do not hesitate to hire foreign drivers, including Ukrainians, Belarusians and Filipinos, in response to the growing need for drivers.

The costs of maintenance and repair are particularly low compared to those observed in France, € 3,525/year in Latvia versus €8,786/year in France. These low costs are explained mainly by advantageous maintenance contracts negotiated as part of the credit lease and by labour that is inexpensive.

The cost of tyres is low, taking into account the annual number of miles covered. On average, this cost represents €2,880/year for every 140,000 kilometres driven. Latvian carriers now tend to favour low-cost tyres made in Asia, because this type of tyre, which normally requires changing every 150,000 km on average, is apparently better suited to the Eastern European roads where they often operate.

Lastly, the axle tax is higher in Latvia than in France: €674/year versus €516/year. In Latvia, a vignette is required for the use of toll routes, express ways and A motorways (A1 to A15, P5 and P80 motorways) and the selling price of a yearly vignette for an HGV of more than 12 tonnes (Euro IV and over) is €711. It is included in the "toll" cost line of the table.

Employment conditions and driver employment costs

Like most Eastern European countries, there is no collective agreement in the Latvian RFT sector. However, a minimum wage is set at the national level and applies to the RFT sector. It amounted to €380 in 2017 and was raised on 1 January 2018 to €430/month, i.e. a significant increase of more than 13% in one year.

As regards driver remuneration in Latvia, two types of situation have been observed. Latvian companies prefer to have their drivers specialise in one of their main markets: either in the East or the West. Thus, they seem to

achieve greater productivity and benefit from the superior knowledge of the roads in the East of their foreign drivers, who are often from Belarus or Ukraine. The salary calculation method is thus modified according to the type of driver.

Latvian companies claim that they pay their Latvian drivers €500 to €600 gross per month, which they then top up with bonuses while continuing to comply with the national rule that prohibits the amount of travel allowances exceeding gross remuneration. Furthermore, they pay drivers of foreign nationality at the official average Latvian wage for all sectors in order to comply with national regulations, i.e. 50% more in terms of fixed wages than Latvian drivers. In practice, there are tensions within companies between foreign and Latvian drivers. In reality, however, drivers sent to the eastern part of the EU receive lower allowances, which roughly balances the overall cost of the two types of driver profile. The Western profile is outlined in the table below.

A large majority of the drivers met declare that they receive between €1,200 and €1,300 net remuneration per month. To arrive at this amount, they explain that they are subject to their company's internal calculations that differ from the sum of the fixed salary and allowances. 60% of them claim that their salary is calculated as a mileage bonus, i.e. between €0.95 and €1.20 per kilometre.

Comparison between the cost of drivers in France and in Latvia 2017 actualised values			
	Unit	France	Latvia
Gross salary (miscellaneous bonuses and overtime included), subject to social contributions nor to income tax	€/year	29,544	8,760
Travel expenses and other elements of remuneration not subject to social contributions nor to income tax	€/year	9,114	8,041
Employer contributions (after deduction of state aids)*	%	30.8%	24.09%
Employer contributions in absolute terms	€/year	9,100	2,110
Annual cost total	€/year	47,758	18,911
Number of actual working days per year	day/yr	217	228
Working time per year	hour/yr	1,580	1,950
Annual mileage		107,642	130,000
Cost of one hour's work	€/h	30.23	9.55
Base 100 France		100	32
Cost per kilometre	€/km	0.44	0.15
Base 100 France		100	33

*after Fillon deductions in France

Source : CNR European Surveys

According to CNR calculations, the cost of an hour of driving by a Latvian driver is around €9.55, or 32 % of the cost of a French driver. The share of employer contributions is lower in Latvia than in France: 24.09% versus 30.8%, and this represents only €2,110/year in absolute terms versus € 9,100/year for a French driver. In the end, the cost per kilometre of a Latvian driver remains very low, i.e. 33 % of the cost per kilometre of a French driver.

Notably, during the interviews, some drivers stated that they often exceeded European limits on East European roads in order to achieve mileage targets set by their employer.

In conclusion, Latvia has maintained its position on the road freight transport market in Europe thanks, in particular, to its competitiveness and flexibility. The competitive advantages of the sector, i.e. a low cost per hour of driving (€9.55 per hour all inclusive), very low fuel costs, in addition to a high annual mileage per vehicle, are the key factors in the growth of the Latvian RFT sector both in the West and the East, particularly in the Russian and Belarusian markets, and in the South and North with its Baltic and Scandinavian neighbours.