

## EUROPEAN CNR STUDIES

# Road Freight Transport (RFT) in Luxembourg - summary

24 April 2014 version

Luxembourg, this small country at the crossroads of France, Belgium and Germany, is a particular case in the landscape of the European RFT. Supported by a favourable tax treatment in several areas, Luxembourg has often been identified by the neighbouring countries as a convenience flag. Are such accusations well-founded? Are they evolving? How did the entry of the new European Union members have an impact on the Luxembourg flag?

To answer these questions and develop for the first time both the economic and administrative aspects of Luxembourg's RFT, CNR carried out a field study between June and December 2013. The Luxembourg survey mainly focuses on RFT-specific business taxation and social regulations. It is followed by a report on the operating conditions, cost prices and driver costs.

The Luxembourg RFT study was carried out in partnership with our transport expert Philippe Auquière from the *Conseil Energie et Transports* consulting firm. It is available on CNR's web page: [www.cnr.fr](http://www.cnr.fr) heading: CNR Publications Europe. This document offers a synthesis that underlines the capital points and compares them with French RFT. For any further information, please contact Mr. Alex Ugurlu at the CNR, [a-ugurlu@cnr.fr](mailto:a-ugurlu@cnr.fr).

### **Economic framework and transport infrastructures**

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A veritable crossroads between the North and South of Western Europe, Luxembourg is home to just over 500,000 residents including some 220,000 foreign inhabitants. In addition, the country offers jobs to about 150,000 crossborder commuters, out of which over 50% are French. This small cosmopolitan country is better renowned for its financial market and banking institutions, than for its RFT and logistics sectors. However, the country endeavours to develop these activities, which are expected to be a major opportunity to diversify its economy.

Luxembourg airport has specialised in airfreight. The Cargolux Company serves nearly 90 destinations worldwide and employs a staff of 1,500. The port of Mertert, which is built on the river Mosel at the German border, is the country's main river port. Its development is crucial for the petroleum sector, for which the port is a key gateway into the country. The traveller activity of rail transport is developing, but the freight sector has been declining steadily since the beginning of the 2000's. The Bettembourg multimodal terminal deals with the piggyback system and the Lorry-Rail subsidiary operates the 1,050 km-long Bettembourg - Le Boulou line. A new Bettembourg – Istanbul line via Trieste is being reviewed.

As for road transport, the 152 km-long motorways connect Luxembourg with France, Belgium and Germany. In the centre of the road network is Luxembourg City. According to statistics, there are almost twice as many motorways per capita as in France. Yet, these motorways suffer from chronic congestion as it is overcrowded in particular by cross border commuters.

At macroeconomic level, the results issued by the IMF and the World Bank show that the country heads the table in terms of nominal GDP per capita with about 80,000 €, followed by Qatar and Norway. 46% of the GDP is generated by the financial sector. The European institutions, the airspace sector as well as the establishment of the European head offices of several Internet giants (Amazon, Skype, PayPal, Apple iTunes...) have contributed to the diversification of Luxembourg's economy.

Considering the magnitude of the financial sector, the country was severely impacted by the 2008 financial crisis (-5.3% growth rate in 2009). The country's fiscal position deteriorated and its debt increased from 6.7% in 2007 to almost 25% in 2013, while remaining quite sustainable. Unemployment is still contained below the 7% mark.

**Organisation and evolution of the RFT sector in Luxembourg**

It is not easy to analyse the country's RFT sector because of its small size, as most of the so-called "international" transport operations are actually inter-regional exchanges. The relatively important (proximity) cabotage operations are also believed to be the indirect consequence of the land-locked position of the Grand Duchy in the midst of its main economic partners. It amounts to 20% of the country's international transport activities.

RFT has remained stable over the years, and the very bad 2012 figures should be interpreted with great care because of a likely change in statistical methodology, which is still to be confirmed.

<b>RFT* evolution in France and Luxembourg</b>							
<b>Transport Total</b>							<b>million of t-km</b>
	2006	2007	2008	2009	2010	2011	2012
France	211,445	219,212	206,304	173,621	182,193	185,685	172,060
Luxembourg	8,807	9,562	8,965	8,400	8,694	8,835	7,950
<b>Domestic Transport</b>							<b>million of t-km</b>
	2006	2007	2008	2009	2010	2011	2012
France	182,753	191,388	181,879	156,021	164,325	168,242	156,079
Luxembourg	544	548	555	530	574	650	1,044
<b>International Transport</b>							<b>million of t-km</b>
	2006	2007	2008	2009	2010	2011	2012
France	28,692	27,824	24,425	17,600	17,868	17,443	15,981
Luxembourg	8,263	9,014	8,410	7,870	8,120	8,185	6,906

\* in EU + Norway + Switzerland + Liechtenstein

Source : Eurostat

In this sector there are almost 470 Companies, over 8,000 employees including 7,250 drivers. It is administered under the Ministry of sustainable development and infrastructure. The Customs and Excise Administration plays a major part in transport as, in addition to its traditional missions, it carries out roadside inspections with the Grand Duchy police and since 2011 has been allowed to recover road fines. The Customs officers also check with Companies how establishment permits were obtained, the first and necessary step to start a business in Luxembourg. The Eurovignette, which was created in 2008 to replace the old paper vignette, is managed by the Ministry of Finance. It amounts to 1,250 € / year for a 40-Tonne HGV of the Euro-2 class and over.

The labour and engineering inspectorate (ITM) is answerable to the labour Ministry. It upholds the rule of labour law and is responsible for all health and safety issues.

Although it is not easy to quantify the scope of the phenomenon, Luxembourg sometimes appeared between 1998 and 2007 as a first step to the relocation of French and Belgian Companies, that could transfer part of their international activities in order to remain competitive against their Western competitors (such as Germany and the Netherlands). These recent years, reinforcement of controls and most of all redefinition of the French and European cabotage regulations are thought to have put an end to the trend. A number of Companies are even reported to have returned to France to operate on their domestic market.

To attract investment, Luxembourg offers:

- Easy business setup,
- High productivity thanks to a 40-hour/week working time and 25 business days paid leave,
- Very favourable tax system, especially in social matters with a mere 14.9% under employer social contributions.

The counterpart is relatively high wages. In Luxembourg, the minimum gross salary is 1,874.19 € per month based on 173 hours of effective work. In RFT, the mandatory collective agreements provide for a minimum salary of 2,215.81 € for drivers, increased according to their seniority in the Company.

### Operating conditions and costs

The interviews CNR conducted with the local RFT Companies and drivers working for them highlighted the following aspects of Luxembourg's RFT:

- The drivers – mostly of foreign origin – have chosen to work for Luxembourg Companies not only because higher wage levels are offered, but also for the comfortable working time. As a matter of fact, most drivers get back home for the weekend on a regular basis and spend very few nights away.
- The RFT sector has a strong international activity, but almost only in the bordering regions, i.e. Saarland in Germany, Lorraine in France and the Luxembourg province in Belgium.
- Most Companies are affiliated to a larger foreign group and the employees often state they had worked for the same group prior to being hired by the Luxembourg subsidiary.
- The *modus operandi* is often dictated by the parent Company. The number of senior executives employed in Luxembourg is often reduced to a minimum.

The following table summarises the results obtained via both the interviews and desk-based research. It compares them to the French standards originating from CNR's annual 40-tonne long-distance survey. The Luxembourg figures have no statistical value. They reflect the situation deemed typical by CNR's experts.

<b>Comparison of operating conditions and costs excluding structural costs, for a 40-tonne HGV 2012 values</b>			
	unit	France	Luxembourg
Yearly mileage of vehicle	km	112,700	127,000
Number of operating days	days/yr	230	232
Semitrailer/tractor ratio		1.36	1.30
Driver cost	€/yr	44,616	47,006
Driver/tractor ratio		1.07	1.05
Yearly cost of vehicle financing and possession	€/yr	13,577	13,719
Average consumption per 100 km	litres	33.9	32.5
Fuel cost. 2012 average (1)	€/litre	1.12	1.10
Fuel cost	€/yr	42,794	45,279
Tyres	€/yr	3,381	3,700
Maintenance-repair	€/yr	8,227	9,300
Tolls	€/yr	8,644	9,000
Insurance (vehicle)	€/yr	2,639	3,500
Axle tax and other vehicle taxes	€/yr	516	710
<b>Synthesis – cost price (except structural costs)</b>		<b>127,517</b>	<b>145,658</b>
Cost/mileage ratio per annum	€/km	1.13	1.06
Base 100 France		100	94

(1) after partial recovery of TICPE in France

This table analysis shows that the operating costs both in France and in Luxembourg are broadly similar. Yet, a French Company establishing in Luxembourg does not generate any specific economy in absolute terms, other than the cost of fuel per litre. However, it allows for greater flexibility in driver and fleet management, thus increasing productivity. Indeed, a Luxembourg HGV is driven 15,000 km more than a French vehicle, i.e. 13% more kilometres for an extra cost of only 5%. Overall, the cost per kilometre in Luxembourg is 6 points below the French index.

## Driver employment and cost conditions

At social level, according to common labour law, the 40-hour weekly working time and paid leave are below standards in Luxembourg. The social protection system is fairly liberal as well. Social contribution rates are low (14.9% for employers and only 12.45% for employees) and usually only apply to the fixed part of incomes. Consequently, overtime premiums are neither subject to charges nor to income tax. There is a wide range of tax reliefs that reduce the apparent rate of employer contributions to 12.5% for standard driver profiles. On the other hand, these low contributions often result in reduced schemes in terms of health insurance, retirement and unemployment. As an option, employees very often complete their social coverage via private organisations. According to experts, the Luxembourg nationals should spend 4% to 5% of their incomes to reach the level of the French health insurance cover. However, family allowances are more generous in Luxembourg and are triggered as from the first child.

CNR calculations show that on the one hand the RFT drivers' gross salaries are 40% higher in Luxembourg than in France. On the other hand, the low amounts of travel allowances and the reduced contribution rates mitigate this extra wage cost. In the end, Luxembourg drivers cost only 5% more than French drivers, but in return their driving time is 11% longer and their driving distance is 15% farther than their French counterparts.

Comparison between the cost of drivers in France and in Luxembourg, 2012 values			
	Unit	France	Luxembourg
Gross salary (miscellaneous bonuses and overtime included)	€/year	27,300	37,991
Travel expenses	€/year	8,826	4,256
Employer contributions (after deduction of state aids)*	%	31.1%	12.5%
Employer contributions in absolute terms	€/year	8,490	4,759
Annual cost total	€/year	44,616	47,006
Number of actual working days per year	day/yr	216	220
Working time per year	hour/yr	1,572	1,738
Annual mileage		105,327	120,750
Cost of one hour's work	€/h	28.38	27.05
Base 100 France		100	82
Cost per kilometre	€/km	0.42	0.39
Base 100 France		100	92

\*after Fillon deductions in France. Employer contributions don't apply to overtime work in Luxembourg, which reduces the apparent employer contributions rate to 12.5%, compared to the official rate of 14.9%.

Source : CNR European Surveys

In conclusion, the hourly cost of a Luxembourg driver is 5% below that of a French driver. This, in addition to more flexible social regulations, a dynamic economic environment and a beneficial tax system, makes Luxembourg more competitive than France. However, the effects of Luxembourg's competitiveness remain limited to the nearby regions because of the small size both of the country and of its RFT sector. Over the long term, the country uses its financial wealth to build up a more complex, diverse and less fragile economic fabric, by providing indirect aid to the other sectors such as RFT, in a number of forms including lower labour costs.