EUROPEAN CNR STUDIES

Road Freight Transport (RFT) in Italy - summary

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The previous version of the Italy CNR survey carried out in 2009 and issued in 2010 reported the Italian flag in the process of modernisation, but evolutions in the transport economic landscape, such as the recent removal of compulsory road charging or competition of the Eastern European countries, were threatening its future. The survey did not integrate the impact of the financial crisis that had just erupted in the United States.

Four years after that survey, CNR is again considering the Italian flag whose closeness, size and complexity have motivated CNR's choice. Indeed, it is of paramount importance to understand the factors that govern the Italian flag which, unlike the French flag, has been more directly faced with Eastern European competition in difficult economic times for the last 5 years. The new survey, which was carried out between October 2013 and February 2014, compares pre- and post economic crisis conditions and updates the knowledge of this neighbouring flag that has often been compared to the French flag. In addition to the survey summary, this synthetic document provides a comparison with France of the operating conditions, cost prices and driver costs.

The Italian 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 heading: CNR Publications Europe. For any further information, please contact Mr. Alex Ugurlu at the CNR, a-ugurlu@cnr.fr.

General economic framework

Fourth European country in terms of population size and GDP, Italy's economy yet seems to be weakened in a difficult context, not only since the beginning of the series of economic crises between 2009 and 2013, but above all since the tough transition to tertiary economy that was initiated by the end of the 1980's.

Indeed, Italian economy relies on SMEs, which are often family-owned, rather small, and ill-adapted to an increasingly global and open economy. These companies – the performance of which had made the country successful between 1950 and 1980 - now seem to be faced with competitiveness issues. In addition, the drop in domestic demand these recent years does not facilitate their recovery. However, Italy was able to preserve dynamism in manufacturing industries, thus again contributing to over 20% to the domestic gross added value thanks to the appearance of industrial groups in the sectors of energy, metallurgy and luxury clothing. Tourism accounts for 10% of the GDP.

A number of discrepancies between regions still persist:

- The North-West including Milan, Turin and Genoa, a wealthy industrial region;
- The Eastern Centre, with Rome in the South and including Florence, Bologna and Veneto, profits from both a significant industrial fabric and a very strong tourist activity;
- The "Mezzogiorno" in the South, suffers from a lack of infrastructure and is undermined by a highly-developed black economy, resulting in high unemployment rates.

As for transport, fragmentation has permeated all sectors. There are a dozen international seaports which are unable to compete with the major European ports, two international airport hubs, Milan and Rome, and a railways sector - one of the most open in Europe – that accounts for no less than 33 active hauliers.

Organisation and evolution of the RFT sector in Italy

In the 2010 study, the statistical data that had suffered from a methodological break did not point to the unease the RFT professionals had often mentioned. With the benefit of hindsight, statistics can today illustrate the drop in the Italian RFT activity. Indeed, according to Eurostat, RFT activity has dropped by over 30% since 2008. International RFT, which accounted for over 20% of total activity in 2004, has been divided by 3. Domestic activity, which seemed to withstand the crisis in 2009 and 2010, was severely hit over the following two years. Eventually, between 2008 and 2012, it dropped by 25%.

RFT* evolution in France and Italy							
Transport Total							**million of t-km**
	2006	2007	2008	2009	2010	2011	2012
France	211,445	219,212	206,304	173,621	182,193	185,685	172,060
Italy	187,065	179,411	180,461	167,627	175,775	142,843	124,015
Domestic Transport							**million of t-km**
	2006	2007	2008	2009	2010	2011	2012
France	182,753	191,388	181,879	156,021	164,325	168,242	156,079
Italy	155,425	152,406	151,823	145,610	149,248	127,681	111,785
International Transpo							**million of t-km**
	2006	2007	2008	2009	2010	2011	2012
France	28,692	27,824	24,425	17,600	17,868	17,443	15,981
Italy	31,640	27,004	28,638	22,018	26,528	15,161	12,230

* in EU + Norway + Switzerland + Liechtenstein

Source : Eurostat

According to the sector's experts, just the smaller hauliers, local VSEs and artisans called "padroncini" still resist, especially due to local patronage and community relationships. Transport SMEs are believed to suffer most.

This situation is explained by a combination of several factors in addition to the prevailing economic gloom:

- Small industries disappear in the face of international competition. On the other hand some large, more powerful industrial groups are emerging. They have great needs for transport but give preference to those larger RFT Companies that optimise their costs. In a very fragmented RFT market, with three times as many Companies as in France, all Italian RFT SMEs that cannot deal business directly and are deemed too costly anyway, are therefore excluded. The only remaining subcontracting owner operators are the low-cost Eastern European flags or the "padroncini" that eventually manage to survive by lowering their margins.
- Competition from the Eastern European countries is very fierce in Italy due to its immediate vicinity. With low labour costs, the Eastern European hauliers have surged into the Italian international transport market, thus leaving to the Italian hauliers only cross-border operations. In order to tackle Eastern European competition, some Italian hauliers do not hesitate to resort to practices on the fringe of legality.
- The implementation of new restrictions such as the increasingly generous collective agreements and the "costi minimi" system impairs the Italian Companies' competitiveness and penalises them with respect to their European competitors.
- Domestic transport, which seemed to be less affected, suffered significant drops in 2011 and 2012. The rather liberal implementation of cabotage and secondment is often referred to as the main cause of this trend.

Operating conditions and costs

Since 1974, an equivalent of the Mandatory Road Pricing had been existing in Italy until 28 February 2006, when the 21 November 2005 legislative decree - which liberalised transport prices - came into force.

A new Act was voted in 2008 legislating on "the operational cost of a road haulage Company on behalf of third parties", aka "costi minimi". In this way, the price displayed in the contract of carriage should cover the minimum operating costs precisely calculated by the *road transport Observatory* for various types of vehicles, according to their GVW and the distance travelled. As this domestic device is supposed to protect local Companies by preserving their margins, the "costi minimi" only apply to those contracts signed in Italy. Therefore, within the scope of a single European market, the Italian hauliers find themselves deprived of their bargaining power. A number of them have managed to circumvent this issue thanks to subsidiaries located abroad, sometimes just a few miles behind the Slovenian border.

As for the operating costs and conditions, CNR conducted field interviews with both transport Companies and drivers. The following table displays the outcome of these interviews and compares it against CNR's benchmarks determined from its surveys in France.

Comparison of operating conditions and costs excluding structural costs, for a 40-tonne HGV 2013 values

	unit	**France**	**Italy**
Yearly mileage of vehicle	km	111,830	124,500
Number of operating days	days/yr	229	231
Semitrailer/tractor ratio		1.35	1.27
Driver cost	€/yr	44,862	50,487
Driver/tractor ratio		1.07	1.05
Yearly cost of vehicle financing and possession	€/yr	13,777	13,858
Average consumption per 100 km	litres	33.4	32
Fuel cost. 2013 average (1)	€/litre	1.08	1.15
Fuel cost	€/yr	40,407	45,988
Tyres	€/yr	3,254	3,600
Maintenance-repair	€/yr	8,689	5,876
Tolls	€/yr	8,828	17,180
Insurance (vehicle)	€/yr	2,702	3,031
Axle tax and other vehicle taxes	€/yr	516	1,529
Synthesis – cost price (except structural costs)		**128,315**	**144,173**
Cost/mileage ratio per annum	€/km	1.15	1.16
Base 100 France		100	101

(1) after partial recovery of TICPE in both countries

Source : CNR european studies

It is to be stated that these CNR results are consistent with the Observatory's "costi minimi". Overall, both French and Italian cost prices, excluding structural costs, are globally convergent. In detail, some item discrepancies can be noted:

- The annual mileage of an Italian HGV is higher than that of a French vehicle.
- After partial recovery of the excise duties in both countries, the cost of fuel is almost 7% higher in Italy.
- Driving more often on motorways results in an average consumption 4% lower in Italy than in France.
- Italian tolls and the axle tax are more costly, whereas the maintenance-repairs item remains well below French level, especially due to the very low average age in the fleets of the major Italian Companies together with the artisans' "home-made" repair practices.

Driver employment and cost conditions

According to the general labour regulations, working time is 40 hours a week. Overtime is limited to a yearly 250 hours and mandatory paid leave amounts to 4 weeks. There are 11 official bank holidays. No minimum salary is guaranteed at national level, but collective agreements have to provide for one. As a matter of fact, all sectors are subject to collective agreements. Salaries are paid on a 14-month basis; those of June and December are doubled. Whatever the branch of activity, collective agreements very often supplement these provisions and corporate contracts are designed to improve collective agreements.

For instance in the transport sector, collective agreements limit the working week to 39 hours and grants 12 bank holidays (there used to be 13 in the previous agreement). A mandatory long-service bonus is also granted every other year. Very often, Companies grant additional bonuses or else increase the number of paid leave days.

In addition to the standard contracts (permanent, fixed-term and temporary), Italy introduced via major reforms some new employment contracts so as to increase flexibility on the labour market. Currently, there are 46 of them. This proliferation of contracts raises concerns and a new simplification reform appears necessary in Italy.

As for driver remuneration, the annual cost of an Italian driver is nearly 8% higher than his French counterpart's. On the other hand his productivity is higher too, +13% in terms of mileage and +18% in terms of driving time. Lastly, the cost of driving time in Italy is estimated at 92% of the French cost.

Comparison between the cost of drivers in France and in Italy, 2013 values

	Unit	France	Italy
Gross salary (miscellaneous bonuses and overtime included)	€/year	28,740	30,116
Travel expenses	€/year	8,724	9,547
Employer contributions (after deduction of state aids)*	%	32.7%	35.9%
Employer contributions in absolute terms	€/year	9,398	10,824
Annual cost total	€/year	46,862	50,487
Number of actual working days per year	day/yr	215	220
Working time per year	hour/yr	1,546	1,820
Annual mileage		104,514	118,500
Cost of one hour's work	€/h	30.31	27.74
Base 100 France		100	92
Cost per kilometre	€/km	0.45	0.43
Base 100 France		100	95

*after Fillon deductions in France

Source : CNR European Surveys

In conclusion, thanks to better labour productivity, the cost price of transport in Italy turns out to be almost the same as in France, whereas remunerations are higher in Italy. On the European market the Italian flag is penalised by significant costs, in a worse manner than the French flag, because of the proximity of low-cost countries such as Slovenia, Croatia, Hungary or Romania. Modernisation of the reforms in the sector that were designed to restore its competitiveness has sometimes resulted in counterproductive alternatives such as the recent measures to increase flexibility at work.