

CNR EUROPEAN STUDIES

Road transport of goods in Lithuania

Abstract

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Lithuania was the first of the Baltic countries to obtain its independence in 1990 after 50 years under Russian occupation. Its economic situation led it to conduct reforms and make important reconciliations with both the European Union (EU) and the countries of Eastern Europe. The country joined the European Union on 1st May 2004 and the Eurozone on 1st January 2015. In the East, Lithuania has been, since 2009, part of the Eastern European Eastern Partnership which is designed to improve the EU's relations with some of the countries of the East, including Belarus and Ukraine. Its strategic geographic location lets it maintain privileged relations both to the West and to the East.

On the economic and social front, Lithuania was hit very hard by the global economic crisis in 2008. The Lithuanian State thus put in place austerity measures favourable to the economic development of the country. Redundancies and wage decreases were also facilitated. In 2010, Lithuania returned to growth. This constant search for flexibility led it to pass, in June 2017, a reform of the Labour Code whose new provisions should encourage investment, facilitate the creation of jobs and stimulate the labour market.

Lithuanian road transport of goods (RFT) is flourishing. Lithuania is positioned in 10th place of the European RFT sector for total international activity and in 2nd place for international activity between third-party countries. The Lithuanian sector benefits, in particular, from the geographical situation of the country to increase its East-West activity, as well as its North-South activity with Scandinavian countries via the use of ferries.

In order to better understand the place of the Lithuanian sector in the European landscape and explain the nature of its competitive advantages, in 2017, CNR updated its study on the Lithuanian RFT sector. 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 any further information, please contact CNR's European survey department.

Economic framework and transport infrastructure

With a population of almost 3 million inhabitants, Lithuania is the largest and most populated country in the Baltic countries. Its economy, in large part turned towards the West, has developed rapidly since the country's independence. Lithuania can, notably, rely on direct foreign investments, mainly European, coming, to a large degree, from Sweden, the Netherlands, Poland or even Norway.

The growth of its GDP, + 2.3% in 2016 and then + 2.8% in 2017, remains above the European average after having experienced a strong contraction of nearly 15% during the economic crisis in 2009. The unemployment rate is subject to the same variations. It experienced a significant increase in 2009 to reach almost 14% and then 18% in 2010, before declining continuously until 2017 to reach 7.3%. In 2017, the Lithuanian economy seemed to be progressively rediscovering its competitiveness within the European Union of before the global crisis.

In terms of infrastructure, the railway occupies an important place in Lithuania, as well as among its Baltic neighbours. It represents 34.60% of the country's land freight transport. Various work is currently in progress on the railway, with the "Rail Baltica" project, the only rail link connecting the Baltic countries to Poland, to extend it to other Member States of the EU. Another large national project on maritime transport, the port of Klaipeda, should be renovated and enlarged in the next few years. The road network, with more than

21,000 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 Lithuania's RFT sector

The Lithuanian RFT maintains its rank within the European RFT sector and continues its growth internationally. Since its entry into the EU in 2004, Lithuanian international RFT activity has grown threefold.

In 2016, according to the latest available statistics, the total Lithuanian RFT sector had a growth rate of 17% on one year, while the European RFT sector grew by only 5.9%. The domestic activity of the Lithuanian sector remains low, with less than 10% of its total RFT activity. More than 90% of the RFT activity is international and is experiencing growth of 9.5% on one year.

RFT* evolution in France and Lithuania										
Transport Total										million of t.km
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Ratio t.km/PIB
France	206,304	173,621	182,193	185,685	172,445	171,472	165,225	153,580	155,843	70
Lithuania	20,419	17,757	19,398	21,512	23,449	26,338	28,067	26,485	30,974	801
Domestic Transport										million of t.km
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Ratio t.km/PIB
France	181,879	156,021	164,325	168,242	156,449	155,712	151,112	141,242	144,205	65
Lithuania	2,560	2,633	2,292	2,320	2,438	2,540	2,768	2,913	2,970	77
International Transport										million of t.km
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Ratio t.km/PIB
France	24,425	17,600	17,868	17,443	15,996	15,760	14,113	12,339	11,638	5
Lithuania	17,859	15,124	17,106	19,192	21,011	23,798	25,299	25,572	28,004	724

* in EU + Norway + Switzerland + Liechtenstein

Source: Eurostat

The Lithuanian sector also stands out by the scale of its activity between third-party countries, itself alone representing half of the sector's international activity. Lithuania's cabotage activity represents 3% of its international road transport and it has increased significantly since 2012. It is, today, an important growth niche. The countries with the most cabotage activity from the Lithuanian sector are France and Germany.

Operating conditions and costs

In the framework of its international studies, CNR organises interviews with local carriers and drivers in order to estimate conditions and operating costs and to observe the market. In 2017, CNR met with a dozen representatives of companies at their premises and around 20 Lithuanian drivers at car parks outside of the country.

As during the 2014 study, the Lithuanian sector is still distinguished by an intensive use of its vehicles, sometimes reaching nearly 237,000 km for 265 days of operation in the event of double crew, a practice that remains very developed among Lithuanian carriers.

The major specificity of the Lithuanian sector, already revealed in 2014, relates to the purchase of fuel. Lithuanian carriers continue to benefit from their trips to Belarus and Russia to substantially reduce their fuel bill. The fuel purchased at a lower cost is then used for part of the journeys in the European Union. This phenomenon, however, is tending to decrease following the various embargoes restricting trade with Russia. In 2015, a decline of almost 25% of journeys to Russia was observed, in part offset by other movements, notably in Ukraine or in Kazakhstan. According to the calculations of CNR, nearly 40% of the fuel used by Lithuanian carriers comes from outside the EU, with an average cost per litre of €0.58/l, or a saving of 32.32% compared to a litre of French diesel in 2017.

Comparison of operating conditions and costs excluding structural costs, for a 40-tonne HGV 2017 values			
	unit	France	Lithuania
Yearly mileage of vehicle	km	113,280	150,000
Number of operating days	days/yr	229	265
Semitrailer/tractor ratio		1.39	1.10
Driver cost	€/yr	47,492	23,015
Driver/tractor ratio		1.06	1.10
Yearly cost of vehicle financing and possession	€/yr	14,572	12,183
Average consumption per 100 km	litres	32.0	30.8
Fuel cost. 2016 average (1)	€/litre	0.857	0.715
Fuel cost	€/yr	31,059	33,001
Tyres	€/yr	3,172	4,000
Maintenance-repair	€/yr	8,553	3,905
Tolls	€/yr	9,479	14,100
Insurance (vehicle)	€/yr	2,267	3,350
Axle tax and other vehicle taxes	€/yr	516	2,478
Synthesis – cost price (except structural costs)		120,149	98,333
Cost/mileage ratio per annum	€/km	1.06	0.656
Base 100 France		100	62

(1) after partial recovery of TICPE 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 to a lot of demand in the second-hand market in countries to the East of the EU.

The cost of a driver is progressing quickly, but still remains low (€23,015 in 2017 versus €18,007 in 2014). Lithuanian carriers do not hesitate to hire foreign drivers, including Ukrainians, Belarusians and Kazakhs, to respond to the growing need for drivers.

The costs of maintenance and repair are particularly low compared to those observed in France, €3,905/year in Lithuania versus €8,553/year in France. These low costs are explained mainly by advantageous maintenance contracts negotiated in the framework of the credit lease and by labour that is inexpensive. For example, during the duration of the credit lease, maintenance contracts represent an average annual cost of nearly €1,420.

The cost of tyres is low, taking into account the annual mileage that is achieved. On average, this cost represents €4,000/year for 150,000 kilometres. Today, Lithuanian carriers have a tendency to focus more on tyres of Asian origin, because the benefits of expensive brands would prove useless in the extreme climatic conditions of the countries of the East or on roads of poor quality.

Finally, direct taxes on vehicles, the main source of financing road infrastructure in the country, are 4 times higher than in France. These taxes include both an axle tax, called a Vehicle Tax, representing €654/year, and the road tax of €1,824 for the use of the national network. A tax disk is necessary for the use of toll routes, express ways and A motorways (A1 to A18 motorways), sold for €753 for an HGV of more than 12 tonnes, Euro IV and over. It is integrated in the "toll" cost line of the table. It should be noted that Lithuanian diesel fuel excise duty is €10.17/hl lower than that applied in France. A French carrier will contribute €43.19/hl in their country against €33.02/hl for a carrier in Lithuania. However, only 20% of fuel is purchased in Lithuania, unlike the French carriers, who buy nearly all of their fuel in France. A fraction, €6.604/hl, is thus paid in Lithuania for diesel fuel excise duty. According to the calculations of CNR, the diesel excise duty for a national HGV would levy €3,051/year versus €15,656/year in France. It therefore seems that the Lithuanian State compensates for this lack of earnings by higher direct taxes on vehicles.

Employment conditions and driver employment costs

At the social level, the reform of the Labour Code, effective since 1st July 2017, established, notably, new conditions for contracts to foster the creation of jobs. Three employment contracts have thus appeared: the shared employment contract where two employees agree to share the same job, the contract with several employers and the apprenticeship contract. The detail of these types of contract is to be found in the comprehensive study.

Like the various reforms of the Labour Code, the labour market in Lithuania is characterised by its liberal system. There is no collective agreement in the RFT sector as in most of the countries of Eastern Europe. The minimum monthly wage was reassessed to reach €380 gross in 2017. A new adjustment is expected in July 2018, bringing it to €400 gross. This income is reserved for unskilled jobs, including lorry drivers.

Lithuanian drivers could thus be subject to the minimum wage. However, the minimum wage only allows a partial tax exemption of travel allowances. To qualify for a total tax exemption, companies pay their drivers the legal minimum for qualified drivers, i.e. €494 gross per month. To this is added a variable share calculated in large part as a function of mileage, at the rate generally applied of 10 euro cents per kilometre. This variable share appears in travel allowances on the payslip.

Comparison between the cost of drivers in France and in Lithuania 2017 values			
	Unit	France	Lithuania
Gross salary (miscellaneous bonuses and overtime included), subject to social contributions nor to income tax	€/year	29,544	7,128
Travel expenses and other elements of remuneration not subject to social contributions nor to income tax	€/year	8,996	13,563
Employer contributions (after deduction of state aids)*	%	30.3%	32.6%
Employer contributions in absolute terms	€/year	8,952	2,324
Annual cost total	€/year	47,492	23,015
Number of actual working days per year	day/yr	216	231
Working time per year	hour/yr	1,551	2,010
Annual mileage		106,466	136,000
Cost of one hour's work	€/h	30.62	11.45
Base 100 France		100	37
Cost per kilometre	€/km	0.45	0.17
Base 100 France		100	38

*after Fillon deductions in France

Source : CNR European Surveys

According to the calculations of CNR, the cost of an hour of driving for a Lithuanian driver is around €11.50, or 37% of the cost of a French driver, versus 29% during the CNR 2014 study. The share of employer contributions is higher in Lithuania than in France: 32.6% versus 30.3%, but represents only €2,324/year in absolute value versus €8,952/year for a French driver. This underlines that a low-cost driver in Europe is defined first by a low contribution base, a compensation structure favouring uncharged allowances and an annual driving time of around 2,000 hours. In the end, the cost per kilometre of a Lithuanian driver still remains very low, i.e. 38% of the cost per kilometre of a French driver.

Important fact: the driving hours of Lithuanian drivers, reaching 2,010 hours annually, would be above the legal threshold authorised by European regulations due to frequent exceeding of the threshold during their travel to the East of the European Union.

To conclude, Lithuania maintains its rank on the road transport of goods market in Europe thanks, in particular, to its competitiveness and flexibility. The competitive advantages of the sector, namely a low cost per hour of driving, €11.45/h all-in, a very low cost of fuel, or even the high annual mileage per vehicle, have enabled it to differentiate itself internationally, both from the countries of the European Union and its neighbours to the East. The sector, considered as strategic by the public authorities in Lithuania, also enjoys the support of influential private actors. These different elements give the Lithuanian RTF sector the keys needed for its expansion both to the West and to the East, in particular on the Russian and Belarusian markets, and to the South and to the North with its Baltic neighbours.