The controversy of the driving and rest time propositions and the inevitability of increasing prices in the road transport sector

In a vote on the 4th of July 2018, the Members of the European Parliament rejected the amendments of the Transport Committee to the proposals on updating drivers' rest time rules, cabotage and posting of drivers and referred them back to the committee for further consideration.

How did we get here?

On the 31st of May 2017 The EU Commission introduced a wide-ranging set of initiatives which is commonly known as the Mobility Package.

The EU Commission's well-meant rationale is to eliminate safety hazards caused by fatigue of long-distance international road drivers, and to improve and harmonize competitive conditions, working conditions and work life quality of those drivers, regardless of their country of origin.

Ever since the introduction of the Mobility Package, the Central-Eastern European members of the road transport industry have been questioning the applicability of the two most relevant initiatives, the ban on taking the 45 hrs. weekly rest in the cabin of the vehicle and the application of the posted workers directive to the mobile workers of the industry.

On the 4th of June 2018, The Committee on Transport and Tourism (TRAN), which is a committee of the European Parliament, voted in favor to the following initiatives:

- Drivers can work for three weeks in a row, however he/she can only spend the reduced weekly rest in the cabin of the vehicle in a dedicated parking area;
- Posted Workers Directive is only applicable in case of cabotage operations and the road leg of combined transport, however the international transport operations are excluded from the posting regime.

On the 14th of June 2018, the European Parliament rejected to ratify the negotiating mandates on the social components of the Mobility Package.

Due to the lack of a sufficient majority among MEPs in the plenary session, the texts on the regulation on road transport had to be returned to the parliamentary committee on the 4th of July 2018.

What does this mean for the German customers?

Germany is at the crossroads of the European long-distance road transport activities since it has the most substantial economy within the EU. Any figures estimated and reported for Germany represent apx. 20-25% of the total EU market.

Approximately 150-160 thousand drivers are performing transport operations in Germany from Monday to Friday. It means that they run around 56 million km/workday (14 billion km annually) and the cost of their activity is around € 14 billion.

Even if drivers were able to work for 3 weeks in a row as the TRAN suggested, Germany is still lacking apx. 50 thousand parking spaces where the drivers would be able to spend their weekends not to mention that if we try to accommodate those drivers in hotels for the weekends, less than 1% of the 44 thousand German hotels and pensions would be accessible by 40 tonnes articulated vehicles.

How could international road transport companies comply with the regulation and how much will it cost?

1. Setting up networks of dedicated driver resting facilities:
   A very few examples are known in Europe, where very large trucking companies are installing such facilities at selected locations.
   But – even under most optimistic assumptions – finding the necessary sites, financing and building a sufficiently dense network to host the several hundred thousand international road drivers across Europe will be a very long term proposition.
2. Change to "Relay-" type operations:
   A few operators will be able to accomplish this by organizing relay- (or "pony-express"-) type schedules on two-directional traffic lanes. Drivers travel only for segments not longer than one shift, then they will be met by a driver coming the opposite direction and switch trucks or trailers: A long-distance trip will cut into several segments not exceeding a one-shift range around a driver's home location. This option is open only to some operators serving freight lanes where large and highly regular two-directional freight volumes are moving. Only a relatively small share of European international freight volumes will meet those conditions. Where they can be applied, load factors will be lower than in flexible on-demand operations because of the rigidity of schedules necessary with this type of operation.
3. Enforced "Rapid-Return" operations:
   All other carriers will be forced to change their operations to a "rapid-return" mode. i.e. making sure that their trucks will be back near to their respective home locations within the two or three week time window. This will have to be done irrespective of the availability of backhaul- (or onward-) freight, at the expense of increasing "forced" empty backhaul runs and reduced capabilities by the carriers to respond to the freight demand imbalances and fluctuations which are inherent in Europe's economic system.
4. Non-compliance":
   For those operators who cannot or will not any of the previous there will be a permanent incentive to circumvent regulations.

If the assumption is made that international trucking operations will be unchanged, and road transport companies would be able to secure and pay for (moderately priced) hotel-type accommodations for their drivers' extended rest periods, the added direct cost to trucking operations in Germany will be in the order of € 250 million annually which is about € 1 billion for the EU. That corresponds to an approximate increase of international trucking cost by 1.5-2%. There will be additional indirect cost by parking charges, higher insurance, increased likelihood of damage and theft incidents, as drivers will not be detached from their vehicles during the rest period. **<u>But this has been shown to be a mostly theoretical option due to the non-availability of infrusturctures.</u>**

If the road transport operators decide to establish networks of dedicated driver rest facilities or start applying "relay" or "rapid return" operations – road transport industry insiders estimate that increases in operating cost, respectively cost of empty miles and lower average load factors will depress productivity and increase the total cost of international long-distance trucking operations by 20% or more. The number of trucks and drivers required to handle an unchanged transportation demand will mean, that more trucks and drivers need to be employed with secondary consequences, such as driver wage rate increase in already very tight European driver labor market.

There is already an urgent demand for at least 15-20% price increase!

The road transport, freight forwarding and logistics sector has been continuously working with increasing operating expenses for three years now. The driver shortage in the EU is spiraling out of control hence the wages of the remaining available drivers are rapidly increasing together with insurance and transit costs.

Until last year the companies were able to more or less compensate the increasing expenses with the low fuel prices, however the price of the diesel increased by at least 10% in the last five months. Moreover, since the 1st of July the road toll domain of Germany has increased threefold.

The supply chain within the EU is already facing severe structural distortions due to the ever-rising costs, the continuously decreasing transportation and logistics capacities and the labor shortage. The service concerning certain seasonal products is insufficient already which shows that the sustainability of the entire sector is in danger.

Clients already have to become less price sensitive however the transport cost increases of this order of magnitude, sooner or later, will have critical secondary effects.

They may lead to the transportation industry’s customers – the shipper community – to redesign their supply chains, especially for price sensitive goods such as fruits and vegetables or other low value consumer goods since a very large share of these products consumed in Europe, for example, are currently being moved over long distances from the Iberian Peninsula and south-Eastern Europe to the central European countries. Significant increase of transport prices will cut off those regions as competitive suppliers from central European markets with hard-to-assess consequences for the developing economies of the still emerging peripheral economies of Europe. Similar effects might be seen with “extended workbench” arrangements between the higher-wage and lower-wage European countries. They will accelerate the road transport industry’s concentration towards very large operators who will have less problems to accommodate the new driver hour and rest time regulations by implementing distributed driver accommodation networks and relay types of operations.

Economic effects, in case of the transportation industry, translate directly into environmental and safety effects: If the current average share of empty run kilometers of 23 % by heavy goods vehicles[2] will increased by just 1% due to enforced changes by the truck operators to more “Rapid Turn” and “Relay” operations, this will add about 600 million empty run km, corresponding to 180+ million liters of Diesel burnt, requiring 5000 additional trucks to be added to the European fleet of trucks of about 500 thousand heavy units which are involved in international moves at any time[3]

[2] Source EC (2017): An Overview of the EU Road Transport Market 2015, p. 17.
[3] Details on these estimates, which are based on the sources in Footnote 2, will be provided by the author upon request.

Those additions to the fleet will increase traffic density and the likelihood of accidents regardless the fact that the EU Commission expects the exact opposite from the implementation of the amended driving and rest time regulations.

The European road transport sector would have to find a healthy compromising solution without risking the competitiveness of the EU, however the result of the plenary session is everything but promising. The clients have to be receptive to price increase proposals and the road transport and logistics providers have to prevent further problems with responsible and sustainable pricing while considering long-term operability.

In an unstable international economic environment joint effort and forward-thinking can be the only way to survive…

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