

THE IMPACT OF UNTIGHTENING OF CABOTAGE: EXECUTIVE SUMMARY

This research has been commissioned by the Dutch Ministry of Infrastructure and Environment (*Ministerie van Infrastructuur en Milieu*) and has the objective to study what the impact would be in case current restrictions on cabotage are to be eased within the European Union. The research question can be described as follows:

“What are the positive and negative effects of a (partial) liberalisation of cabotage within Europe for the Dutch economy, environment, labour market, labour market conditions and road safety? Considering cabotage will be liberalised, which accompanying measures¹ are required to facilitate a sound transition towards (partial) liberalisation of cabotage in the Netherlands?”

This first chapter will discuss the conclusions of the potential impact caused by easing current restrictions on cabotage.

Easing restrictions on cabotage; variations

Current regulation on cabotage allows up to three cabotage trips in the seven day period following the completion of an international journey. The High Level Group has put two variations forward through which regulation can be untightened: linked cabotage and non-linked cabotage. Linked cabotage follows the completion of an international journey and is therefore an extension of current regulation: four instead of three cabotage trips are allowed in the seven day period following completion of an international journey. Non-linked cabotage concerns liberalisation of cabotage regardless of preceding international travel. In this case, foreign freight operators are permitted unlimited cabotage operations, up to a maximum of 50 cabotage transport days per driver.

Current regulation and untightening thereof: maximum percentages for cabotage

The question has been raised how much cabotage operations will increase if current regulation is untightened. The design of this research has been tailored towards analysis of figures on the road

¹ What is meant by accompanying measures, is that it must be made explicit on which domains measures are required on a European level.

haulage market; transport for own account has not been considered. To be able to estimate the effects of easing restrictions on cabotage, the full potential of current regulation must first be determined. It has been estimated that under current restrictions cabotage operations could be up to 21% of domestic transport in the West-European market.

In the (hypothetical) situation that the potential of current cabotage regulation is fully realised (i.e. following each bilateral and cross-trade transport trip, three cabotage trips take place by vehicles registered in lower wage level countries), cabotage operations could represent a significant part of transport in Western Europe and the Netherlands. While cabotage operations have increased in the Netherlands, the full potential of current regulations has not yet been realised.

Linked cabotage

Linked cabotage refers to the situation in which current regulation on cabotage is untightened; the maximum percentage of cabotage operations under untightened regulation (29%) is therefore greater than the maximum potential of current regulation.

In practice, it is still possible that maximum percentages (of both current and untightened regulation) grow even further due to other augmenting effects. This could be the case when for example drivers decide to make a trip (just) across a country border (empty or loaded), following a cabotage trip and subsequently perform cross-trade operations, followed by maximum cabotage operations.² In such cases cabotage operations become the main aim, instead of performing cabotage operations following international transport. In addition, maximum percentages of cabotage are dependent on interpretation of the relevant regulation. For example, in the UK, authorities require vehicles to return to their registered home base after cabotage operations. Due to this requirement maximum percentages are substantially smaller (under current regulation the percentage is only 6% in comparison to 21%). Such an interpretation inhibits the dynamics which could be created by cross-trade transport.³

Non-linked cabotage

In theory, non-linked cabotage could lead to the situation in which 100% of foreign transport within the Netherlands is taken over by foreign hauliers. After all, no international transport needs to precede cabotage operations. The only restriction that remains is that every driver is allowed to perform up to 50 cabotage days. However, considering the current size of the international driver population from lower wage level countries, only a limited part of domestic transport in Western Europe could be taken over (less than 4%). Assuming that as many drivers are available in the non-linked situation as in the linked situation, the cabotage percentages would be 9%. As drivers are only permitted a maximum of 50 cabotage days each, numerous additional drivers would be necessary to increase the

² This example is more likely to occur in the case of linked cabotage (4 days maximum), than with current regulation (3 day maximum).

overall cabotage percentage. Considering these limitations, cabotage will be able to grow quicker if the amount of international drivers from lower wage level countries increases.

Untightening regulation: further considerations on cabotage percentage

To what extent is cabotage expected to increase in the Netherlands? To test whether or not the maximum cabotage percentages of maximum usage of (current and future) regulation can be considered realistic, this research draws a parallel with the development of cross-trade road freight transport by lower wage level countries. As cross-trade transport is not limited by any regulatory requirements, the uprise of vehicles registered in lower wage level countries, is a relevant indicator for the potential development of cabotage operations. Within the most important transport flows for the Netherlands, cross-trade transport by lower wage level countries registered vehicles already represents 11% of international transport to and from the Netherlands.⁴ Expectations are that this percentage will continue to grow, but that the growth rate will level off in the years to come.

In addition, there are a number of qualitative reasons why the actual cabotage percentage is not likely to reach the theoretical maximum percentage. Not every international journey performed by vehicles registered in lower wage level countries will be followed by cabotage operations, and if so, the maximum amount of cabotage trips will not always be used. In several market segments language barriers and/or specialised knowledge and materials inhibit maximisation of cabotage. Also relevant are planning as well as geographical aspects. Furthermore, the availability of labour from lower wage level countries is essential. Lower wage level countries increasingly warn for future driver shortages. The growth of domestic markets and increased prosperity of the lower wage level countries constrain the growth of the amount of international drivers. Therefore, growth of cabotage operations is constrained.

It remains uncertain what the impact of the Posted Workers Directive will be on the development of the cabotage operations. While the Posted Workers Directive does not apply to linked cabotage, it does apply to cabotage under current regulation. In theory, linked cabotage is therefore more attractive than current regulation for vehicles registered in lower wage level countries. This should result in an increase in cabotage operations. In practice however, the road freight sector often considers the Posted Workers Directive to be difficult to implement. As monitoring is also a challenge, it is unlikely that haulage operators actually follow the Posted Workers Directive for cabotage operations. To let go of the Posted Workers Directive thus does not necessarily imply any changes in the situation in comparison to current practice. Therefore, it is uncertain whether letting go of the Posted Workers Directive would have a positive effect on the development of cabotage

³ This has the most significant impact on countries which do not neighbour lower wage level countries. The impact will therefore not be as significant for countries such as Germany and Austria, as both countries neighbour lower wage level countries.

⁴ The amount of cross-trade transport to and from the Netherlands by lower income countries licence plates has been divided by the total amount of cross-trade transport plus the total amount of bilateral transport to and from the Netherlands (therefore including not only Dutch registered vehicles, but also all other licence plates).

operations. Based on the parallel with cross-trade transport as well as because of other arguments, it is expected that cabotage could reach up to 15% of Dutch domestic transport. This percentage can be realised both with current regulation as well as with the proposals by the High Level Group; the effect of a potential ease of restrictions on cabotage is therefore less than 15%.

It is however more likely that the maximum level of 15% will be achieved in case the proposals of the High Level Group are met, as the possibilities for cabotage are less restricted in these proposals. This is especially true if the combination of linked and non-linked cabotage becomes possible. The cabotage percentage will also be able to increase quicker if regulation is untightened.

A fundamental assumption behind the maximum percentage of 15% is that the growth rate of cabotage operations in all Western European countries is equal. It is however possible that the cabotage percentage will be significantly higher if a country – or a number of Western European countries – become(s) a special target for cabotage due to its intrinsic attractiveness (especially when it neighbours lower wage level countries). In addition, a less stringent interpretation of cabotage regulations as well as less strict monitoring and enforcement, will increase the cabotage percentage.

In the specific situation of the Netherlands it is relevant to realise that there is a relatively high proportion of international transport in combination with a relatively small domestic market. Due to these circumstances, it is possible that the cabotage percentage in the Netherlands is higher than other Western European countries. Up until now, this does not seem to be the case and comparison to cross-trade transport indicates that the proportion of lower income countries registered vehicles in the Netherlands is lower than the average for Western European countries.

Impact on the Dutch road haulage sector

Easing restrictions on cabotage does not lead to opportunities for Dutch registered vehicles. In the Netherlands it is expected that vehicles registered in lower wage level countries will perform more cabotage operations. It is also possibly that German registered vehicles will perform more cabotage as labour costs in eastern Germany are also significantly lower than the Dutch levels.

Easing restrictions on cabotage does not lead to advantages for Dutch registered vehicles abroad. The historically strong position of the Dutch licence plate in comparison to other West European registered vehicles remains strong. However, the Dutch registered vehicles have now been well overtaken by the Polish. The labour cost advantage is the main explanatory factor for this change. It is expected that untightening cabotage regulation will lead to a further increase in competition from lower wage level vehicles. The only Dutch hauliers which could profit from easing restrictions on cabotage are those which operate from abroad (mainly lower income countries registered vehicles). Even though these operators have a substantial market share in both bilateral and cross-trade transport between the Netherlands and lower income countries, these advantages do not outweigh the

disadvantages for Dutch companies operating with Dutch registered vehicles. On balance, untightening cabotage regulation mainly has a negative impact on the Dutch road haulage industry.

In addition, it is expected that an increase of cabotage due to competition by vehicles registered in lower wage level countries, will put pressure on prices of both cabotage driven market segments as well as on overall prices in the road freight transport sector. This will have an impact on Dutch haulage operators and could lead to bankruptcies.

Overall evaluation of the impact on the Netherlands: transport costs, environment and labour market

Untightening cabotage regulation is expected to have a negative impact on the Dutch road haulage market. Seen from a broader perspective, it is however possible that cabotage growth will lead to increased welfare for the society as a whole.⁵ The decline of transport costs, which will result in reduction of prices, will mostly come to the advantage of the haulage operators themselves. While this is unfavourable for the Dutch road haulage sector, on a macro-level this leads to increased welfare.⁶ Only a small proportion of this increased welfare flows to foreign road haulage sectors, a small percentage of which even flows back to the Netherlands via Dutch ownership constructions.

Untightening cabotage regulation has a small effect on the environment. Empty running is hardly expected to decrease in case of linked cabotage. Having the opportunity to carry out three trips is probably sufficient to reduce empty running on the first part of the return route. While having four days of unlimited cabotage does increase the possibility to find cargo for the first part of the return route, it is unlikely to lead to a significant change in reduction of empty running. Even more, it is possible that this small positive effect becomes negative. The potential price reduction resulting from increased cabotage may trigger a reverse modal shift. That is, a shift from for example inland waterway transport to road haulage; the container transport market is especially sensitive to such changes.

Increased cabotage will most likely lead to a loss of employment for Dutch drivers. Due to labour shortage, it is expected that drivers will search for employment (when the economic crisis has come to an end) in other sectors or in other market segments of the road haulage sector. If these assumptions prove to be correct, the Netherlands will not experience any increase in welfare. In practice however, there is a substantial risk that the more elderly drivers will have difficulties finding employment in other sectors and that the crisis will endure longer. In that case, it is not obvious that drivers will find jobs in other sectors.

⁵ It is however not possible to estimate the extent to which increased cabotage results from easing of regulation, as growth is also possible under current regulation.

Main conclusions

This research concludes that untightening cabotage regulation will most likely lead to an increase of cabotage operations, but that on average no more than 15% of domestic markets will be taken over by vehicles registered in lower wage level countries. However, uncertainties concerning these conclusions remain present and the amount of overtake by lower wage level vehicles may be more substantial due to amongst others the following factors:

- Countries to which relatively a lot of lower wage level vehicles perform international transport or countries in combination with a relatively small domestic market, such as the Netherlands, could have higher percentages than the Western European average;
- Countries in which interpretation of regulation is less stringent and monitoring and enforcement less strict, could have higher percentages, because cabotage activity from lower wage level vehicles could concentrate in these countries;
- Western European countries neighbouring lower wage level countries could have higher percentages.

In the current situation, untightening cabotage regulation is unfavourable for the Dutch road haulage sector. The most important factor causing these unfavourable effects is the substantial difference in labour costs within the European Union. In the case of the Dutch licence plate it is therefore expected that the negative effects caused by untightening cabotage regulation outweigh the positive effects. Effects on welfare seem positive when first seen from a macro perspective, however uncertainty remains present and a number of risks may cause negative effects even on a macro level:

- Cabotage could lead to price pressure on domestic market transport, therefore impacting haulers with Dutch registered vehicles which compete with vehicles registered in lower wage level countries. Potential effects of price pressure are:
 - Bankruptcies in the road haulage market;
 - Pressure on terms of employment and working conditions (as haulers are under pressure this is passed on to drivers);
 - Reverse modal shift (with a negative impact on the environment);
- Price pressure could spread to market segments where little or no cabotage operations are carried out. The above mentioned negative effects of price pressure could therefore have an impact which reaches beyond the Dutch road haulage industry;
- This research took the assumption that labour shortage would not result in unemployment effects on the labour market. This assumption is however incorrect if the crisis continues to endure; especially the more elderly drivers will have difficulties finding other employment;
- Pressure on terms of employment and working conditions of Dutch drivers (due to both replacement of Dutch drivers by drivers from lower wage level countries as well as the described pressure on transport prices). These effects have a negative impact on the attractiveness of the road haulage sector for (future) Dutch drivers;

⁶ The following nuance must be made: in case overall price reduction does not result from a decline in transport costs, this is not considered welfare growth, but redistribution of welfare. Welfare growth is only achieved when price reduction comes from a decline of transport costs.

- A decrease in the amount of Dutch road haulage operators and Dutch drivers has a negative effect on the social infrastructure of the sector, resulting in pressure on pension allowances;
- Increased cabotage could lead to a negative flywheel effect. If the amount of transport by Dutch registered vehicles decreases, the management of supply chains as well as chain configuration of the Netherlands could cease to exist;
- Potential effects on road safety have not been estimated as a specialised report is due to be published shortly. It is possible that increased cabotage will lead to deterioration of road safety. This closely relates to the manner and intensity of monitoring and enforcement.

Accompanying measures

Europe lacks a level playing field of the road haulage sector due to both different interpretations in cabotage and related regulation as well as differences in monitoring and enforcement. This can already be observed under current regulation and is expected to increase even further if regulation is untightened. Accompanying measures are required to limit unfair competitive advantages. Univocal regulation (definitions, scope of application, manageable complexity) both on a European level and within Member States must be safeguarded:

- Clarifying the definition of a cabotage trip within cabotage regulation;
- Defining whether a cross-trade trip is sufficient to trigger a new period of cabotage or whether the truck must first return to its country of origin;
- Creating unambiguous regulation towards combined transport of domestic road haulage transport by a foreign hauler of a separate container or trailer, which was earlier transported by ship;
- In case the Posted Workers Directive is to become applicable to cabotage, this directive should apply regardless as to whether or not the requirements in Art. 1.3 are met (direct contract between the service provider and the final recipient of goods);
- Clarifying the definitions in the Posted Workers Directive to prevent different interpretations by the various Member States;
- It is advisable to reduce complexity of calculations to facilitate improved monitoring and enforcement of the Posted Workers Directive.

Apart from the above mentioned suggestions, it is essential to create an approach towards monitoring and enforcement which is as consistent as possible within the whole of the European Union. This does not only apply to cabotage regulation, but to all other regulation which is relevant to road haulage, such as working and driving times, the 48-hour workweek, regulation concerning dangerous goods and the Posted Workers Directive. Given the high degree of autonomy which Member States have in their approach towards monitoring and enforcement, a consistent approach cannot be obliged. In any case, the efforts should be continued and expanded to improve exchange of information and cooperation between the institutions from the various Member States.

CONTACT DETAILS

Contact person: Frank Hendrickx MSc., Partner.

Address:

Policy Research Corporation Nederland B.V.

Parklaan 40

3016 BC Rotterdam

The Netherlands

Tel: +31 10 436 03 64

Fax: +31 10 436 14 16

E-mail: frank.hendrickx@policyresearch.nl

Website: www.policyresearch.eu

Policy Research Corporation N.V.

Jan Moorkensstraat 68

2600 Antwerp

Belgium

Tel: +32 3 286 94 94

Fax: +32 3 286 94 96

© *Policy Research Corporation*

Copyright 2013