EUROPEAN CNR STUDIES

Road Freight Transport (RFT) in Lithuania – summary

20 March 2015 version

Lithuania is the largest of the three Baltic States. The country, which had been under Russian occupation as from 1940, regained independence in 1990 and promptly set an objective of acceding to the European Union, which it has now been a member of since 2004. The Lithuanian economy, in dire straits at the time of independence, was able to modernise by looking toward Europe while adopting the reforms required to implement its transformation.

Although Lithuania was the region's rising star, it was severely hit by the 2008 economic crisis. The Public Authorities opted to implement fiscal tightening by favouring economic development at the expense of socially painful remedies. Ever since 2010, Lithuania's economic competitiveness has recovered and the country has returned to growth.

The country has long considered being fully integrated in the single European market as its sole economic future, while sometimes neglecting its Eastern European neighbours for historical reasons. Since 2008, Lithuania seems to have been rediscovering the advantages of its geostrategic position and has thus broadened its economic relationships with Russia and Belarus. The sector of road freight transport is consistent with the general economic policy and takes advantage of the country's role as intermediaries between Eastern and Western Europe.

To gain a better understanding of the position of Lithuania in the European landscape and explain the nature of its comparative advantages, CNR updated in 2014 its survey on the country's RFT.

It was carried out in partnership with the Moreus consulting firm, RFT experts in the Eastern European countries. It is available on CNR's web page: www.CNR.fr heading: CNR Publications/Europe. This document offers a synthesis that underlines the capital points and compares them with the French RFT. For any further information, please contact Mr. Alex Ugurlu at the CNR, a-ugurlu@CNR.fr.

Economic framework and transport infrastructure

With a population of 3 million, Lithuania forms a geographical bridge between the European Union and the Eastern European markets, i.e. Belarus and Russia. Its economy, which is widely open to Western Europe, has developed rapidly as of the country's independence, thanks to – amongst others - investments from Sweden and Germany. Low-cost goods are produced there, but Lithuania's geographical location on the outskirts of the European Union has constrained its influence to the region. Scandinavian companies often relocate to this country.

As it met a relatively limited market demand from Northern Europe, Lithuania's economy started to show weaknesses following its entry in the European Union. Moving away from the economic world of the former USSR, together with integrating the European single market, were mostly prompted by political reasons. The vulnerability of the banking system and its economic specialty in trading with Scandinavian countries harmed Lithuania during the 2008 economic crisis. In 2009, the country was deemed on the brink of bankruptcy and had to implement unpopular austerity measures, e.g. general wage deflation that reached -20% in some sectors such as construction and transport, or -12% in civil service. The country's unemployment rate, which was close to nil in 2008 before the crisis, i.e. about 5%, rose to over 10% three months later in late 2008. This trend continued until early 2010 when it reached an all-time record of over 18%. Since then, it has steadily dropped and fell below 10% at the end of 2014.

In this lengthy economic readjustment process, the country has regained competitiveness with the Baltic States and increasingly looks toward the non-EU member Eastern European countries to diversify markets. Thus, exports toward that region are rocketing and Russia has regained its rank as Lithuania's first economic partner.

Affected by the international conflicts that imposed an economic embargo on Russia, Lithuania's economy, which once more seems to be undermined, is once again playing the card of its geostrategic position to attempt to become an energy bridge between the EU and Russia, aiming at the position that had long been held by Ukraine in this field.

As for infrastructure, the country has a 1975-km wide network of trunk roads that offer two North-South parallel routes, one East-West route between its Capital town Vilnius and the country's largest port Klaipeda, plus a further East-West axis between Vilnius and Russian pocket Kaliningrad. Rail freight transport plays a major role both in domestic and international carriage with the other two Baltics Estonia and Latvia, Russia and Ukraine. Indeed the "Viking" rail corridor connects Lithuania's port Klaipeda with the port of Odessa in Ukraine, via Belarus. Another East-West rail corridor is a key route between Klaipeda and Moscow via Vilnius and Minsk. The modal share of rail transport in the country's carriage of goods activity is 33.6%, i.e. well above the European average. In this respect, the Klaipeda seaport stands out as the main port in the region and provides local service.

Activity evolution and RFT organisation in Lithuania

Road freight transport is regarded as a strategic sector that supplements industry and international trade, and its development has long received political support. Financially incapable of supporting the RFT sector, the Lithuanian State has made efforts to remove the barriers to its development, and striven to help the sector gain competitiveness in the region. Interchange with Belarus and Russia has therefore been made easier thanks to simplified Customs procedures and Russian investment in RFT to solve possible TIR carnet issues.

Lithuania's domestic activity is low. In 2013, it amounted to only 1.6% of the French domestic activity. It also seems to have reached its mature size, as its evolution has never exceeded a yearly 1.5% for at least the last 10 years.

On the other hand, Lithuania's international activity is buoyant. Since the country's entry into the European Union in 2004, it has increased by a factor of 2.4 with an annual growth rate of 10% in average. In 2008, it was hit by the economic crisis and dropped by 15%, but returned to growth the following year and soon reached its pre-crisis level. Ever since then, it has continued to develop. In 2013, Lithuania's international activity was 50% higher than France's.

RFT* evolution in France and Lithuania								
Transport Total								**million of t-km**
	2006	2007	2008	2009	2010	2011	2012	2013
France	211,445	219,212	206,304	173,621	182,193	185,685	172,060	171,472
Lithuania	18,134	20,278	20,419	17,757	19,398	21,512	23,449	26,338
Domestic Transport								**million of t-km**
	2006	2007	2008	2009	2010	2011	2012	2012
France	182,753	191,388	181,879	156,021	164,325	168,242	156,079	155,712
Lithuania	2,232	2,704	2,560	2,633	2,292	2,320	2,438	2,540
International Transport								**million of t-km**
	2006	2007	2008	2009	2010	2011	2012	2012
France	28,692	27,824	24,425	17,600	17,868	17,443	15,981	15,760
Lithuania	15,902	17,574	17,859	15,124	17,106	19,192	21,011	23,798

* in EU + Norway + Switzerland + Liechtenstein — Source : Eurostat

In the European landscape, Lithuania is partly characterised by significant operations with third countries, and ranks as the 2nd European country engaging in this activity. On the other hand, Lithuania provides little cabotage services.

As for the sector's organisation, the main federation LINAVA plays a vital role. This very active body acts as an intermediary between the Lithuanian and foreign governments, especially Russian, with a strong regional presence within its borders and an office in Moscow. Its lobbying efforts are highly valued by businesses.

Operating costs and conditions

Within the scope of its international surveys, CNR has organised interviews with local hauliers to assess the operating costs and observe the market conditions. In 2014, CNR interviewed in Lithuania some ten business representatives and, independently, some twenty drivers.

Lithuania is characterised by its organisation focusing on flexibility, speed and cost efficiency. HGVs are often operated intensively, with widespread use of double manning.

The management of fuel purchases is the country's outstanding feature. Fully in accordance with European regulations, Lithuania has developed an East-West organisation to benefit from fuel costs, which are 30% lower in the EU's neighbouring countries. Indeed, all companies interviewed in this survey stated they were serving Belarus and Russia. Some stated they were operating these destinations only to drive back to the EU with a 1,500-litre refuelled tank, thus enabling the HGVs to run 10-day rounds without the need of purchasing any fuel in the Union. According to CNR's estimates, 80% of the fuel consumed by Lithuanian carriers in their international operations is believed to originate from countries outside the European Economic Area. Thanks to this organisation, the cost of haulage operations has fallen significantly, with a cost per kilometre 44% lower than that recorded in France.

Comparison of operating conditions and costs excluding structural costs, for a 40-tonne HGV 2014 values

	unit	**France**	**Lithuania**
Yearly mileage of vehicle	km	113,130	151,891
Number of operating days	days/yr	228	280
Semitrailer/tractor ratio		1.35	1.27
Driver cost	€/yr	47,119	18,007
Driver/tractor ratio		1.07	1.135
Yearly cost of vehicle financing and possession	€/yr	14,646	12,313
Average consumption per 100 km	litres	32.6	33.2
Fuel cost. 2013 average (1)	€/litre	0.996	0.74
Fuel cost	€/yr	36,737	37,418
Tyres	€/yr	3,303	3,800
Maintenance-repair	€/yr	8,621	4,800
Tolls	€/yr	9,135	10,816
Insurance (vehicle)	€/yr	2,216	3,100
Axle tax and other vehicle taxes	€/yr	516	1,813
Synthesis – cost price (except structural costs)		**125,591**	**94,498**
Cost/mileage ratio per annum	€/km	1.11	0.62
Base 100 France		100	56

(1) after partial recovery of TICPE in France

Source : CNR european studies

As for the other cost items, the annual retention cost of the HGV is lower than in France, due to a more intensive and longer use of the vehicle, as well as higher resale prices via immediate access to those active second-hand markets in Eastern European countries. It is also to be noted that direct tax on HGVs, the main financing source for road infrastructure in Lithuania, is 3.5 times higher than in France. Indeed the axle tax (aka vehicle tax) of €655 /year for a 40T 5-axle HGV, is to be added to the road tax (to gain access to the whole road network) of €1,158 /year for the same HGV. An optional vignette to be allowed to drive on toll roads is sold for €753 /year to the HGVs over 12T, Euro 4 and over. The package adds up to €2,566 per year.

Driver costs and employment conditions

The Lithuanian labour market is liberal. So far, there are no collective agreements in the RFT sector in Lithuania. The minimum cross-sectoral monthly salary is €290 gross. However, at that wage level, travel expenses are partly subject to contributions and income tax. Therefore, Lithuanian hauliers grant a minimum gross salary exceeding €377 per month, as this threshold allows the capped travel expenses to be fully exempted from tax.

Since the 2008 reforms addressing the economic crisis, employment contracts provide employers with a high degree of flexibility. Layoffs and wage cuts are facilitated. The cost of layoffs without fault on the employee's part has also been adjusted downwards. No more trial periods are laid down in law and employees may resign without notice.

A driver's wage comprises a fixed portion, i.e. €400 to €500 gross per month, and a variable portion calculated in relation to mileage, the rate of which varies according to destinations. According to first-hand accounts, drivers are stated to be paid almost €0.10/km when they drive to/from Russia, Belarus and Poland, and €0.06/km on their journeys across the main Western European countries. In practice, just like in most Eastern members of the EU, travel expenses – the daily ceilings of which are set by the Ministries of Finance – replace the variable portion of the wage on payslips. As for driving time, Lithuanian drivers consider that they exceed the limits imposed by European regulations, but only at the domestic level and only when they drive outside of the EU.

Ultimately - according to CNR's calculations - the cost of one hour's driving for a Lithuanian driver is assessed at a little below €9, i.e. 29% of his French colleague's cost. It is worth noting that employer contribution rates are identical in Lithuania and in France. It should therefore be remembered that a European low-cost driver is first characterised by a low contribution base, a salary structure fostering tax-exempted allowances - in the case in point almost 60% of the income - and a yearly driving time of approximately 2,000 hours.

Comparison between the cost of drivers in France and in Lithuania, 2014 values

	Unit	France	Lithuania
Gross salary (miscellaneous bonuses and overtime included), subject to social contributions nor to income tax	€/year	28,860	5,760
Travel expenses and other elements of remuneration not subject to social contributions nor to income tax	€/year	8,851	10,370
Employer contributions (after deduction of state aids)*	%	32.6%	32.6%
Employer contributions in absolute terms	€/year	9,408	1,878
Annual cost total	€/year	47,119	18,007
Number of actual working days per year	day/yr	215	247
Working time per year	hour/yr	1,540	2,025
Annual mileage		105,729	133,825
Cost of one hour's work	€/h	30.60	8.89
Base 100 France		100	29
Cost per kilometre	€/km	0.45	0.13
Base 100 France		100	30

*after Fillon deductions in France

Source : CNR European Surveys

Although Lithuania is one of the smallest European countries, it has succeeded in becoming a European champion of international RFT thanks to its outstanding flexibility and competitiveness. The sector's high growth rate is part of a broader perspective of domestic economic development, based on international trade with not only the EU members but also the Eastern European partners, which have gained added value these recent years. This political choice, which is supported by the country's geostrategic assets, is acknowledged by the public authorities and widely supported by a number of major actors in the private sector. RFT is one of their cornerstones. Lithuania's competitive advantages, such as international drivers at €9/hr all-inclusive or a very low fuel cost via 80% of purchases outside of the EU, give the country the capacity to develop on the West – East markets. This results in Lithuania ranking 9th in all international activities within the EU, and 2nd in international activities with third-party countries.