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Review of the transport situation, transport trends and economics in ECE region: Transport Trends and Challenges in the road sector

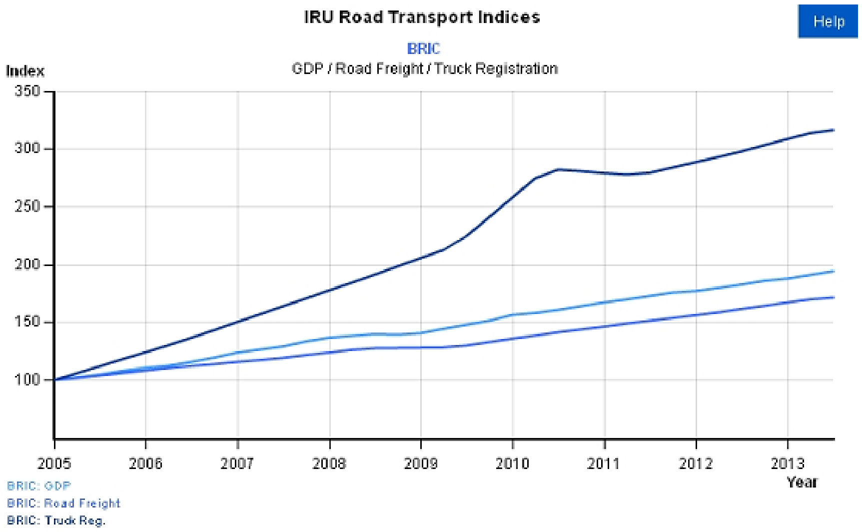
Transport Trends and Challenges in the Road Sector

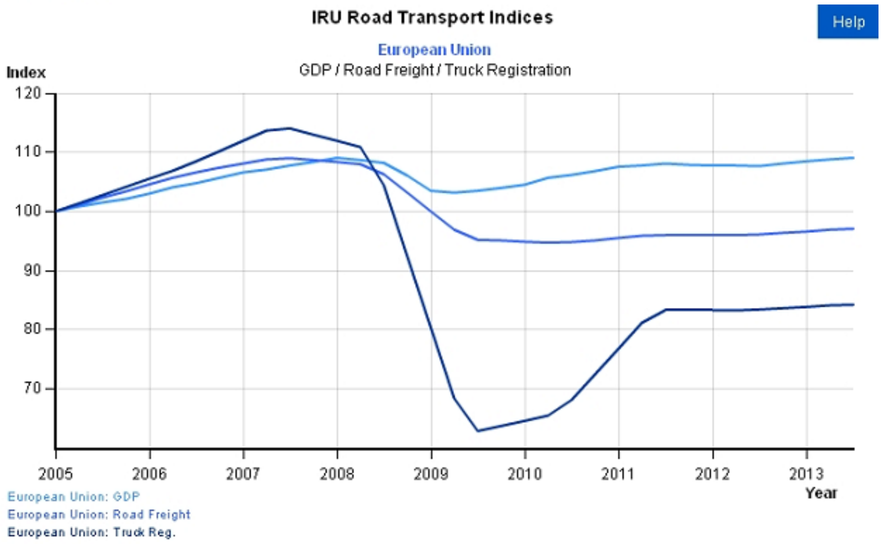
Submitted by the International Road Transport Union (IRU)

I. General trend

1. According to the IRU Road Transport Indices (http://www.iru.org/en_services_indices_index) which allow the comparison of GDP growth, road freight transport volumes and new vehicle registrations in 58 countries, the BRIC countries will continue to drive economic growth, whereas the economic growth rates remain very low in the OECD countries, including in the EU.

2. As GDP has increased by 14.6% in the BRIC countries from 2008 to 2010, it has decreased by 0.9% in the OECD and by 2.7% in the EU. During the same period new vehicle registration from 2008 to 2010 increased by 13.8% in the BRIC countries, whereas the OECD and the EU experienced a decrease of 36% and 40% respectively. In 2011, IRU Road Transport Indices indicate for the BRIC countries a continuous growth in new vehicle registrations by 7.8%, whereas that of OECD countries, including the EU, recorded a growth of 1.6% and 2.1% respectively.





Source: IRU Road Transport Indices, 2012

II. Replacement investments vs. Expansion investments

3. In fact, in the post economic crisis years many fleet managers have continued to focus on replacement investments. In particular, this involved the upgrading of trucks used for both long-distance and trans-border goods traffic to the latest emission level such as Euro V or EEV. In this respect, catch-up effects from the economic and financial crisis have played a substantial role.

4. In contrast, despite a high level of utilisation of existing fleet capacities in 2011, expansion investments have been rare. They were primarily made by companies which, besides haulage, provide, to a major extent, logistics services. Within the framework of expansion investments, smaller companies frequently purchased good, used Euro-V vehicles instead of new trucks.

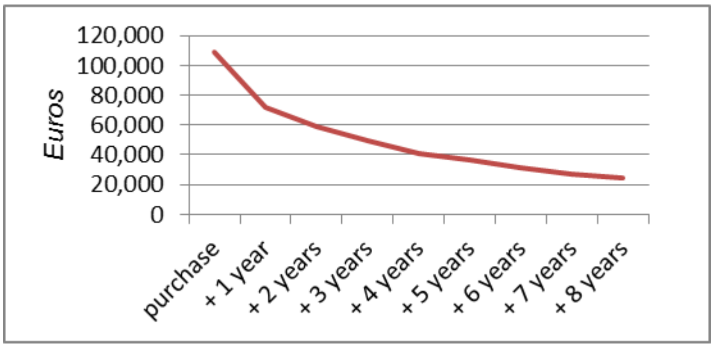
5. At the same time, many small companies have not yet regained adequate capital reserves to be able to make expansion investments over and above replacement investments. In fact, these transport operators frequently chose the option of truck leasing

contracts, particularly for handling seasonal order peaks and new business with short contracts, with preference being given to using leased vehicles with as short leasing periods as possible, to be able to quickly shed these capacities again if necessary.

III. Vehicle depreciation

6. A modern truck is a significant investment for transport operators and prices range considerably depending on the brand, engine and options. In general terms, the average price ranges from 90,000€ to 120,000€ for a new truck purchased within the EU. These vehicles are then used on average for 7 years within the EU transport market, 9 years within the US market and around 16 years in the CIS market and, as with every vehicle, the value of the truck decreases over time.

7. The calculation of the loss of value is not as simple as it is for cars because there are fewer trucks with comparable features on the market. In addition, the mileage, along with the types and signs of use, vary considerably and influence the second-hand value. Adding to the complexity, some vehicles such as Euro V and Euro VI vehicles, which are on average 6,000€ - 10,000€ more expensive than previous models, have only recently entered the market and historic data is not available. Taking into account the above mentioned limitations, the IRU carried out an in-depth analysis of truck depreciation.



Source: IRU, 2012

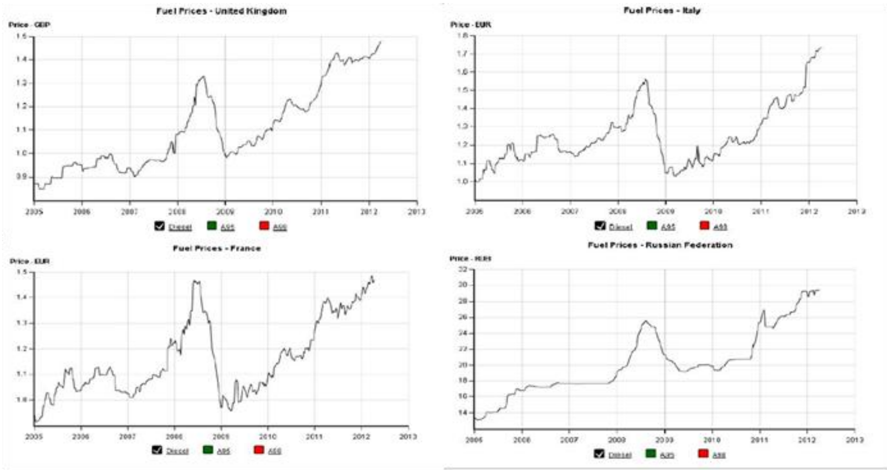
8. The resulting graph (see above) - which includes some estimates – can be considered rather close to the actual situation on the second-hand vehicle market. The 35% loss in value in the first year and the 54% loss in value after two years was confirmed by independent sources. It was also confirmed that the decrease in value flattens out after around 4-5 years.

9. Key factors influencing the value of a vehicle are supply and demand. In this respect, the economic crisis led to an oversupply of transport capacity and thus a decrease in prices of second-hand vehicles. In addition to this general trend, a regional trend could be observed. Many vehicles bought in Northern and Central Europe were traditionally sold on the second-hand markets in other parts of the EU, such as in the south and east. The ongoing economic crisis has hit southern countries unproportionally hard and transport operators of these countries do not have the means to purchase vehicles anymore. This led to more second-hand vehicles in northern countries, and thus a rapid depreciation of existing assests.

10. In addition, vehicle manufacturers offered considerable rebates for new vehicles in the years 2009 and 2010, which in turn put added pressure on the second-hand market.

IV. Road transport and oil

11. In addition to the reoccurrence of the economic crisis, fuel prices have also reached dramatic levels again. Indeed, dramatic price hikes in fuel, due to rising crude oil prices and burdensome taxation accounting for up to 56% of the price at the pump, are having a devastating impact on road transport operators.



Source: IRU Fuel Prices, 2012

V. Conclusion

12. In order to avoid a new recession and restore sustainable economic growth in 2012 and beyond, governments should recognise that road transport is a non-subsidised production tool, which interconnects all businesses in all regions, to all world markets with its high quality and unique door-to-door services, and should thus be promoted and further facilitated. In addition, governments and intergovernmental institutions must take action to reduce the overall heavy fiscal burden imposed on road transport operators and to introduce a single professional fuel duty – significantly below the current minimum duty – applicable to all commercial transport industries, i.e. road, rail, air and maritime transport.