#4

CARGO ON
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COVER STORY

Intermodal transport:
new horizons for
global logistics

Market Insights

ON

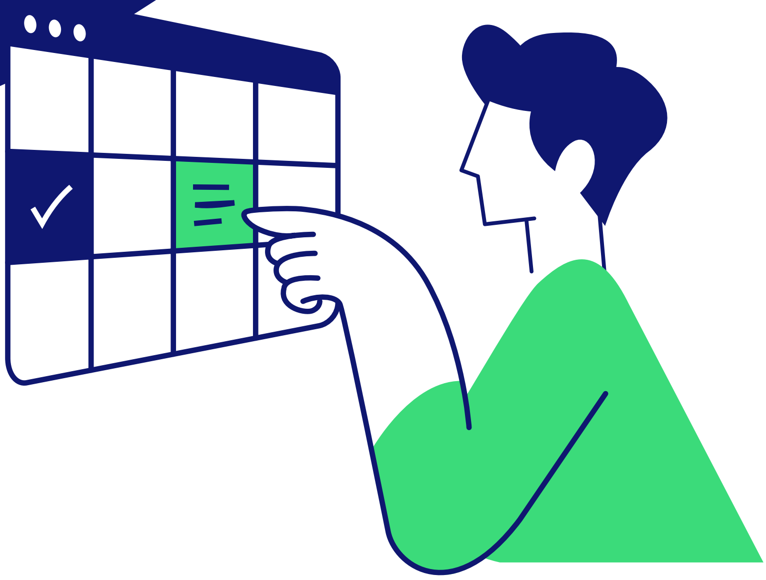
Data from the world of logistics and transport

- **Falling freight prices.**
  Carriers lose, shippers make savings
- **Queuing for trucks.**
  Automotive sector says 'no crisis'
- **Spot is at the top,**
  or 2023 supply chain challenges

CargoON from **Trans.eu Group S.A.** is a digital transport platform that helps optimise and automate processes, communication and documentation related to road transport.

CargoON's transport management solutions — **Freights, Dock Scheduler, Visibility, Reports and Simple Tenders** support shippers and retailers with comprehensive and flexible transport management.

The creator of the brand is **Trans.eu Group S.A.** - a provider of innovative solutions for the transport and logistics industry, which has been successfully developing one of Europe's most important logistics platforms since 2004.



To get a good start

Managers don't sleep well

There are many indications that the current year will bring some respite and calm to supply chains. The question is, was this the peace of mind that manufacturing and trading companies wanted? Economic indicators in the European Union are falling, Germany is in a shallow recession and carriers often have no goods to transport. On the other hand, relative stability in the fuel market and inflation bars moving slowly down in the strongest economies are encouraging. Companies also have a good opportunity to reduce transport costs, as freight rates are steadily falling. But supply chain managers don't sleep well. Sooner or later, supply levels will return to growth, but will there be another game changer along the way? No one knows the answer today.

In this latest issue of Market Insights ON, we attempt to outline the current situation of supply chains, reflecting on what lies ahead in the coming quarters.

CargoON Team

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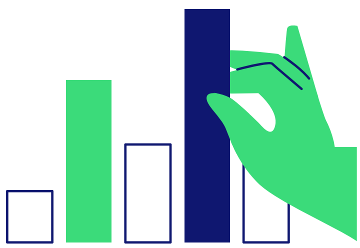


01

Market analysis

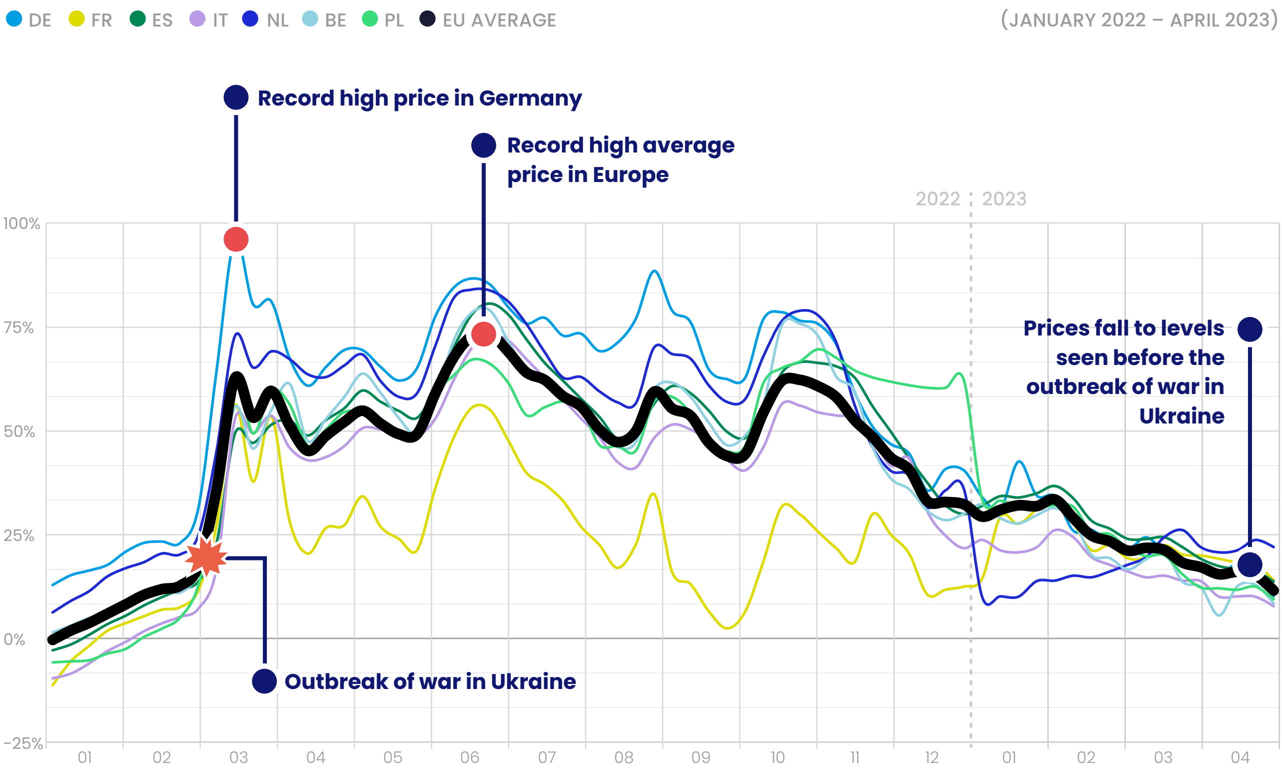
Despite the economic downturn in Europe, supply chains remain stable.

What is most worrying is the poor state of the German economy.

All quiet on the fuel market

PRICE OF DIESEL IN THE EUROPEAN UNION

(JANUARY 2022 – APRIL 2023)



Source: Weekly Oil Bulletin, European Commission

Looking at the evaluation of fuel prices, transport companies across Europe and their customers can breathe a sigh of relief for a while.

At the end of April this year, the average price of diesel was back to what it was before the outbreak of the war in Ukraine.

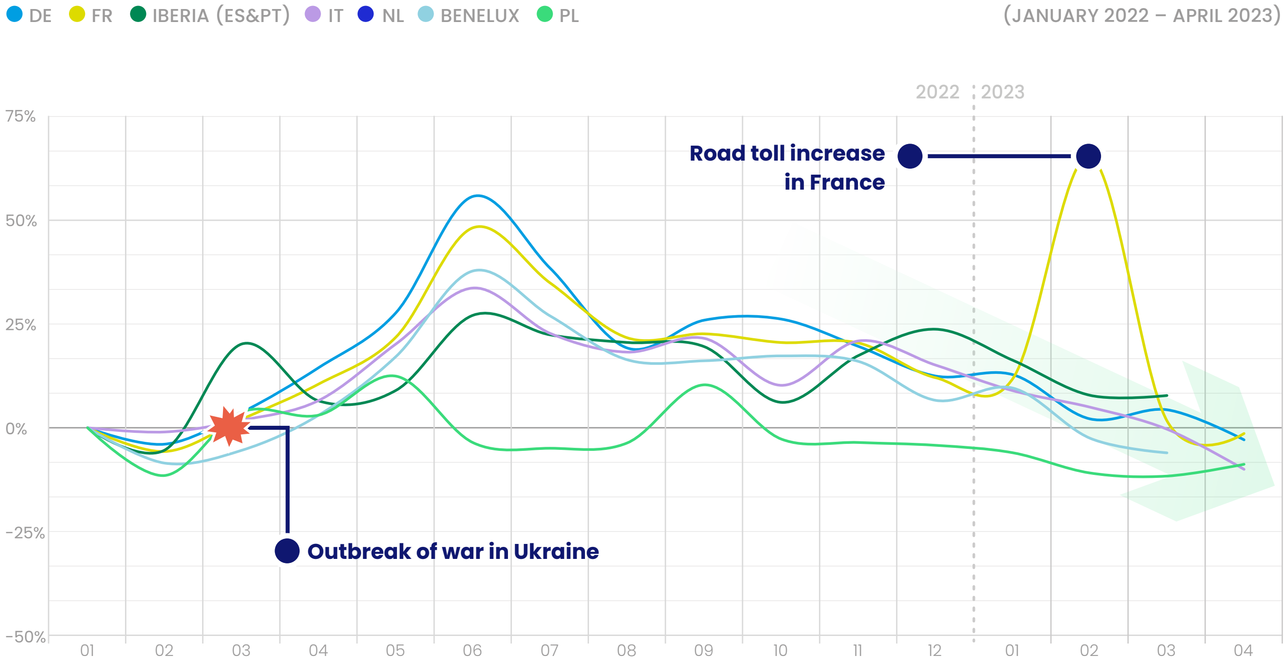
There is much to suggest that, at least in the coming months, the fuel market will not be rocked by any crisis situation. Europe has managed to build up adequate oil stocks in 2022, importing oil from the United States (18%), as well as Norway, Kazakhstan and the Middle East, and has secured supplies for future periods.

The European Union is now almost independent of Russian supplies (currently at around 4%), although some Western companies are breaking this ban by importing oil via Turkish refineries. To what extent the European Union has become permanently independent of Russian supplies will become clear in the autumn, when the stocks built up shrink. Besides, a lot depends on the decision of the OPEC+ countries, which may, after all, once again decide to cut production. This could result in higher prices on world stock exchanges.

Thanks to the relative stabilisation of the fuel market (as well as other factors), freight prices on major European trade routes have fallen slightly. But freight rates are highly dependent on the specifics of a particular market or sector. One dreads to think what would have happened if Europe had not dealt with the fuel crisis and rates had skyrocketed. The embargo on Russian oil affected the German economy the most. There, the price of diesel remained the highest until last autumn (Germany was the largest buyer of Russian oil). German carriers nevertheless remained at the forefront of European international transport, although they had to come to terms with lower margins in 2022.

Savings through access to the spot market

TRANSPORT RATES IN EUROPE



Source: CargoON platform, Trans.eu

Finally, dreams come true for managers of production and distribution companies: since the last quarter of 2022, there has been a steady decline in rates on the spot and contract markets, which continues into the first half of 2023. European freight prices are falling more sharply on the spot market (the chart here refers to them). According to market analyses, spot rates have fallen in 87% of the freight market, although there are some exceptions on the German and French routes – more on that later. Prices per transports achieved on the spot market fell by an average of 7.5%, which is quite a lot, and on the contract market by nearly 3%. For some carriers, this means balancing on the edge of profitability, as the level of fixed costs continues to rise.

Even the November-December season involving the traditional Christmas peak did little to disrupt the trend of declining freight rates. **At the end of April 2023, freight prices reached levels seen before the war in Ukraine** (February 2022). This was difficult to imagine as recently as last autumn. Clearly, the most important reason for the declines is the economic slowdown in Europe and the still high inflation (according to Eurostat data, at the end of April 2023, an average of 7% in the euro area, though in Poland, for example, 15.2% – taking into account the HICP index). Lower demand is the most important factor in the drop in transport rates. The optimism of shippers is therefore moderate, because while they pay less for freight, at the same time they place far fewer orders. To put it another way – business is getting worse and the cost of doing business keeps rising.

The rapid fall in freight costs in Germany and France (the economic and political pillars of the European Union) has been evident since June last year. This is all the more noticeable given that, following the outbreak of war in Ukraine, rates in these two countries rose most rapidly in Europe (this was directly related to soaring energy and fuel prices, but also to the heavy dependence of the German economy on Russian supplies). In February 2023 – following a 4.75% increase in road tolls in France – freight prices there soared to their highest level in years. Fortunately, this was a short-lived effect and a month later prices returned to the previous months' status quo just as quickly.

By the way, we are currently facing an interesting situation with transport rates on routes **between Germany and France.** For the popular route from Duisburg to Lille, contract prices fell by 6.5% (reaching €2.33 per kilometre this spring) and by 9.6% (€2.5 per kilometre) on the spot market. In the other direction (to Germany), the level of freight rates is quite different. Contract rates fell (comparing quarter-to-quarter) by 2.3%, but on the spot market – surprisingly – freight prices rose by 1.9% to €1.91 per kilometre. Economists link this to the unexpected improvement in economic sentiment in Germany, particularly the slight increase in industrial production in the first quarter of this year.

One of the few routes that has seen an increase in contract rates in recent months is the route from the **Iberian Peninsula to France.** Why there? Europe, particularly the southern part of the continent, has been experiencing a great drought for several years and the amount of rainfall has fallen dramatically. It seems that this year will be no different. Precautionary food importers from France want to stock up on food products in advance and are importing them from Spain. Consequently, freight rates for transports between Madrid and Paris increased by 4.1% (interestingly, the opposite happened on the spot market, with prices decreasing by 4.3%). Transport rates on routes from Italy have also increased for similar reasons. Despite the drought, experts there predict a better harvest of wheat and other agricultural products. As a result, Spanish carriers have negotiated higher contract rates related to food exports in their contracts.

From the point of view of the European market, **what is happening in Poland** – still the largest carrier on the continent – is also important. Polish carriers' rates have been plummeting for months as a direct result of the economic slowdown in Germany, which has now lasted for almost a year. Unfortunately, no significant improvement in sentiment can be expected in Germany in the next few months (despite the small upward adjustment at the start of the year, see above). The renowned Munich-based Ifo Institute for Economic Research forecasts average annual growth of 0.3% of GDP for Germany. Economists believe that this is still a success, as all signs point to the German economy not going into a deep recession.

The state of Polish international transport is being hit not only by the German slowdown (and it is Poland's largest trading partner), but also by a significant drop in domestic consumption. High inflation (HICP) is eating away at the income of Polish consumers: at the end of April, it stood at 14% year-on-year, while in the European Union the average was half that. Polish international carriers were the biggest losers in the spot freight sector. The fall in freight prices in this market amounted to 8.3% in the first quarter of 2023 – twice the European average.

WHAT'S NEXT?

01

A pattern should be noted, which can be picked up by analysing the changes in transport rates since the beginning of 2023 (up to and including May). Contract rates are falling more slowly than spot rates. And looking at the transport market in Europe year-on-year, something else important becomes apparent: the significance of spot rates in the pricing of transport services in general is increasing. The reason seems fairly obvious: in the insane 2022 transport capacity was want-

ed like water in a desert. As such, production and distribution companies looked for available transport space from every possible source. Carriers also looked to the freight exchange more often in search of higher earnings.

02

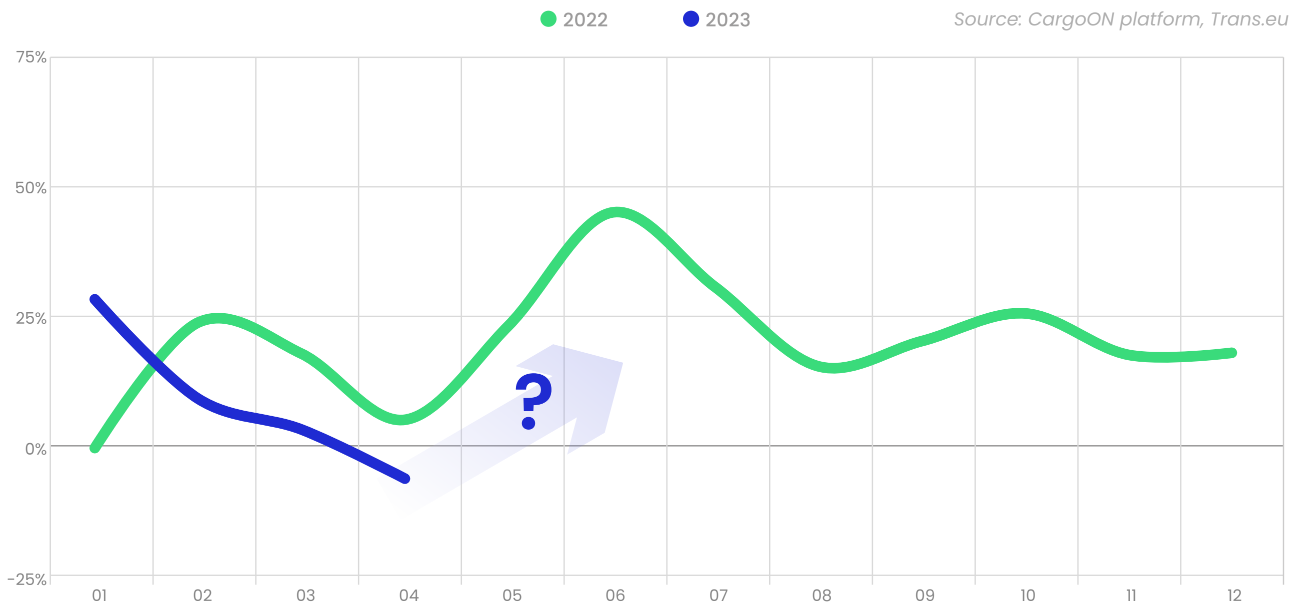
In the foreseeable future, the contract market will coexist with the spot market. News of the imminent demise of contract agreements proved to be premature. Admittedly, their nature is slowly changing and the revision of rates is occurring much more frequently. It is clear that the spot market is growing in importance, as supply chain management is getting more dynamic. Such are the times that flexibility seems to be the most important business strength; even planning is now much more dynamic.

03

In 2023 – in view of the economic slowdown in Europe – the nature of the spot market has somewhat changed. Today, there is more of a search for savings there than for available trucks. All the more so because in many sectors of the economy, transport is one of the main costs (for example, in certain distribution and production companies where seasonality of supply is important). Yet it is difficult to predict what will happen in the transport market in the remaining quarters of 2023. Supply chains are still fragile after the pandemic and the outbreak of war in Ukraine. Last summer, spot market rates skyrocketed for the season. Will that happen this time?

Freight rates still uncertain

EUROPEAN SPOT MARKET FREIGHT RATES



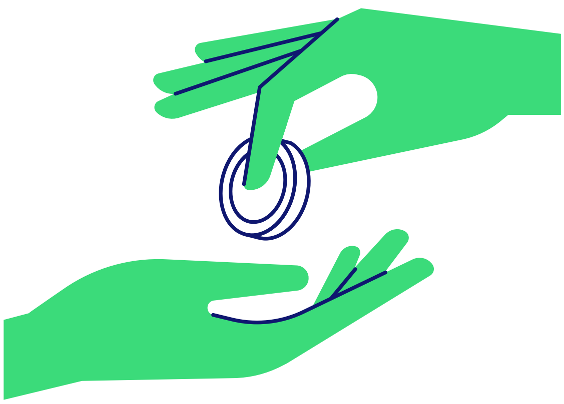
In the first months of 2023, we have reached a moment that the market could not have imagined a year ago. Spot rates (contract rates too, by the way) have fallen below the sky-high levels that emerged after the pandemic and then also after the outbreak of war in Ukraine. In fact, this is what everyone expected when analysing the economic situation on the European continent in 2022. A decline in GDP across the European Union, rising inflation and increased energy costs have resulted in lower demand for transport capacity. Economic growth was 3.5% in 2022 and is forecast by Eurostat to average 1.00% in the EU this year. The European economy will likely avoid a recession, but will not escape a sharp deceleration and the effects of falling industrial production.

As recently as January 2023, transport rates were 26% higher than a year ago, but in the following months they have dropped below last year's level. In fact, as can be seen from the chart, these differences are decreasing, which may also indicate a change in trend. How can this be possible in view of the economic slowdown on the continent?

First, despite the lower demand for transport capacity, the existing challenges of the transport sector have not disappeared, i.e. the high cost of doing business, the shortage of drivers and the upward pressure on wages for this professional group, as well as others related to the operation and maintenance of vehicles. Many European carriers are working on low margins or even below cost; they have to increase freight rates in order to survive.

Second, the transport market has been living under stress since the pandemic, supply chains are still fragile and the economic situation in Europe is uncertain. We don't know what's next for the war in Ukraine, whether we're in for another energy and fuel crisis; whether China will occupy Taiwan any time soon, etc. These 'what-ifs' are many. Meanwhile, any uncertainty quickly takes its toll on supply chains, and freight rates are particularly vulnerable to such situations. Transport is at the heart of any economy and the income of the transport and logistics industry forms an important part of any GDP. **Third**, the high summer season is ahead of us, and if we look for comparisons with last year, freight prices should also increase significantly this year.

Will this actually happen? Given the uncertain situation in the strongest economies – especially Germany, which is on the verge of recession – it is difficult to make a clear judgment. However, supply chain experts believe that it is a good time for shippers to save significantly on transport budgets. This is supported by lower freight prices and increased availability of transport modes.



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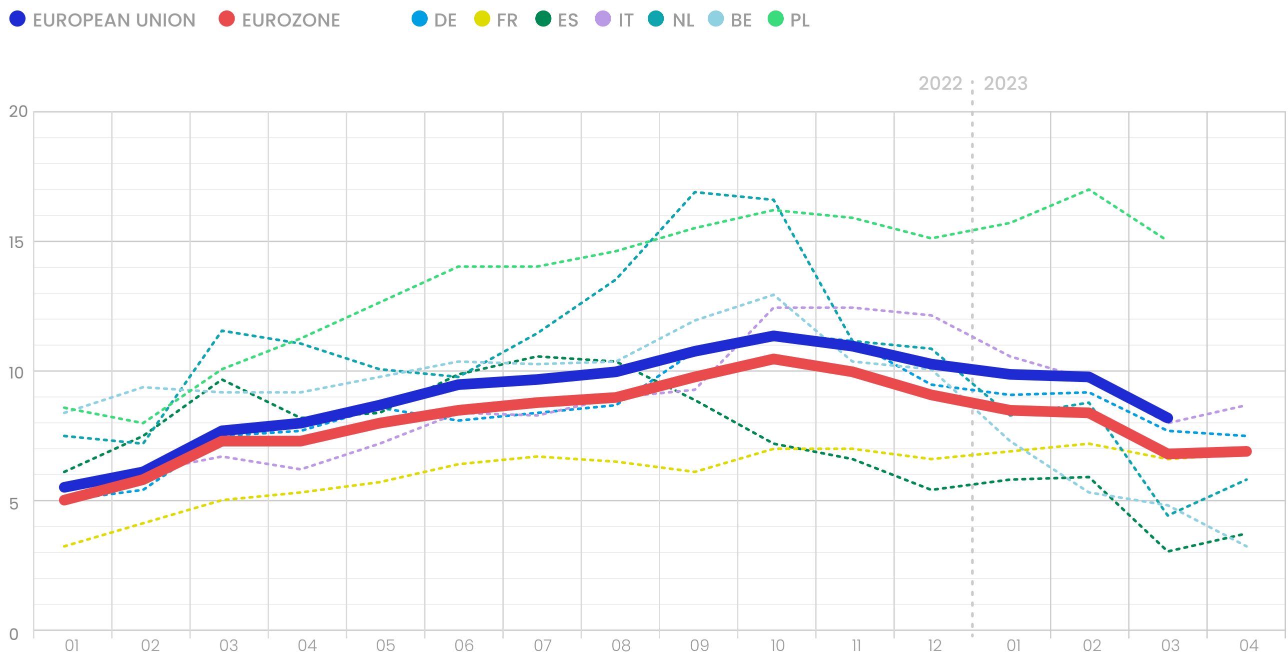
Inflation slowing down

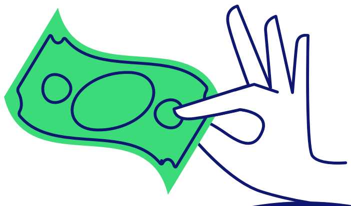
HICP FOR THE EUROPEAN UNION AND THE EURO AREA
INFLATION RATES IN SELECTED EU COUNTRIES IN THE BACKGROUND



Everything points to the fact that this year will be a year of declining inflation in the European Union. According to the European Central Bank, annual average HICP inflation will be 5.3%, falling to 2.9% next year. This is a good sign for the continent's economies and supply chains, although Europe will not make it through these perturbations unscathed. Indeed, inflation is emptying the pockets of consumers, causing income to fall in real terms, and shippers are struggling to sell their products. High inflation also means increased costs for production and distribution companies as well as carriers.

As the Belgian Institute of Road Transport and Logistics (ITLB) recently calculated, in 2023 the **costs of a transport company will increase by an average of 12-13.5%**, excluding fuel costs. Some of these carriers must pass on to the customer, otherwise they risk collapse and bankruptcy. On the other hand, with a stagnant transport market and greater availability of capacity, carriers need to get more flexible with prices. The result is a vicious circle. The question is, which trend will prevail? Further rate cuts, seasonal increases or stabilisation – one can only hope that, despite the many uncertainties that surround us, the coming months will provide the answer. Why do we talk about freight rates in the context of high inflation? Because higher freight prices further fuel inflation.

Inflation is not the same everywhere. In April this year, it stood at 14.0% in Poland and, while falling, is among the highest in Europe. High inflation and a decrease in transport on the route between Poland and Germany and the other way round are significantly worsening the situation for Polish carriers. This forces them to look for new markets for themselves (Germany is Poland's main trading partner). According to experts, this could affect road freight rates across the continent to some extent. After all, Poland remains the European leader in international transport.



5.3%

Annual average HICP inflation in Europe in 2023 as forecast by the European Central Bank.

The other leading carrier, Spain, is doing quite well – keeping all proportions related to the situation in Europe, of course. The country's economic growth was 5.5% at year-end, a stunning result compared to the rest of the continent (e.g. 1.8% for Germany). Inflation in Spain also looks good compared to the European Union as a whole: it averaged 6% in 2022 and is recording falling values in the first months of 2023. However, high unemployment, at more than 3 million people, remains an issue for the Spanish economy. Good signals are also coming from the Netherlands, which until recently was terrifying other members of the euro area with its high inflation rate. Last year, the average year-on-year inflation rate in the Netherlands was 11.6%, the highest in almost 50 years. But it has been falling steadily since October last year, and it appears to be a continuing trend. The International Monetary Fund predicts that the inflation rate in the Netherlands will reach 4.7% in 2023.

Unfortunately, this reassuring picture of the inflation map in the European Union is tainted by the countries of Central and Eastern Europe, i.e. Poland, the Baltic States, the Czech Republic and Hungary, where inflation rates have run wild (Hungary has been the infamous European leader for months, with inflation rate currently hovering around 25%). This does not impact the predictions of Eurostat and the International Monetary Fund, which both agree that we will see inflation rates falling in 2023.

For the health of supply chains, another economic indicator aside from inflation will be important, namely the level of economic growth. Again, no miracles are expected here, but there remains moderate joy that, despite economists' fears, Europe will ultimately be spared a recession. According to the European Commission's forecasts, **economic growth will average 1.0% in 2023 and slightly more in the euro area at 1.1%**. The most worrying aspect here is the poor state of the German economy. As we know, an untreated infection can spread throughout the body. Supply chain experts are therefore keeping their fingers crossed for the German 'infection' to be healed as soon as possible. As estimated by the European Commission, the German economy will grow by a mere 0.2% this year, with inflation at 6.3%. Let's hope it doesn't get any worse.

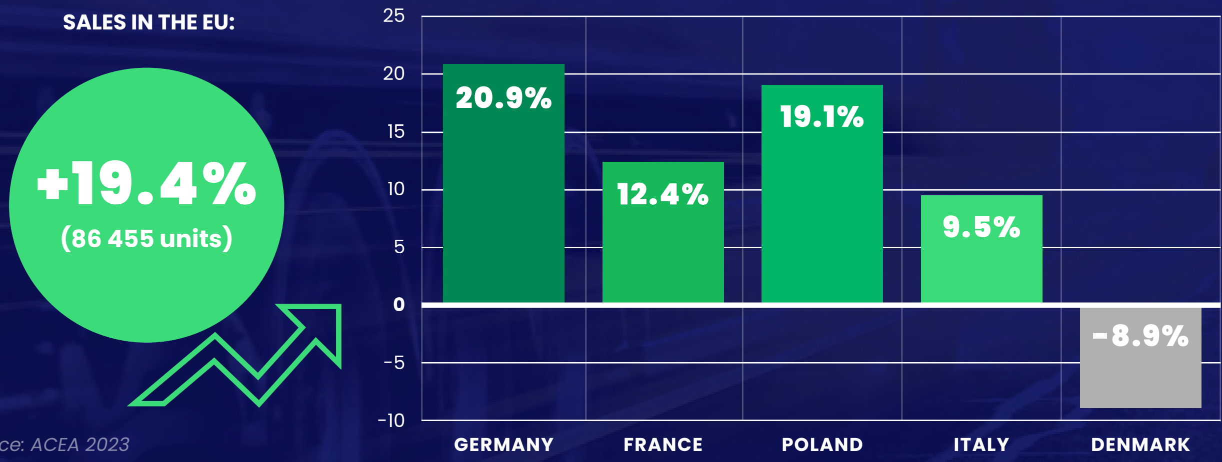
4-5%

Projected growth in truck sales in 2023 in the European Union and the United States

(Verband der Automobilindustrie forecast)

Queuing for trucks

Truck sales in Q1 2023 in the European Union and selected countries (compared to Q1 2022).



Source: ACEA 2023

The performance of truck sales in Europe comes as a surprise in the context of the observed economic slowdown. The new truck sales market is behaving a little against the prevailing sentiments and economic trends. According to a report compiled by Verband der Automobilindustrie, 336,000 new trucks were sold on the continent (EU + UK) in 2022. This represents a 5% increase year-on-year. Pretty good for tough times and all the problems of the automotive sector.

The current year also looks promising (data: ACEA). After the first quarter of 2023, **the increase in new truck sales was a whopping 19.4%**, which translates into nearly 86,500 units in volume terms. All EU member states, with the exception of Denmark, saw an increase. Most new vehicles were purchased in Germany, France, Poland and Italy. Truck manufacturers are already closing their order lists for the current year, with trucking company owners ordering new vehicles with a delivery date of 2024. "It is estimated that between 270,000 and 310,000 trucks with a GVW over 16 tonnes will be registered on the European market in 2023," says DAF Trucks CEO **Harald Seidel.**

Truck manufacturers are not keeping up with the needs of the market. Inflation, high energy prices, uncertainty in the supply of semiconductors and wire harnesses are holding back their production capacity. In addition, manufacturers are unable to accurately determine material prices and labour costs in six months or a year's time, and an inaccurate calculation can expose them to additional losses. Despite the uncertainty in supply chains, automotive companies are beginning to prepare for the mass production of electric vehicles. The first global manufacturer to start serial production of electric trucks is Volvo Trucks. The largest European markets for electric trucks are currently the Netherlands, Germany, Norway and Sweden, and globally the US.

Although the market for battery-powered trucks is still small, a surge in orders in this segment is evident. While 96.1% of trucks purchased in the first quarter of this year were still diesel trucks, there was a 408.5% increase in the number of electric trucks registered during this period. Electric vehicles still represent a minimal part of the transport market (1.1% of all trucks in the EU), but everything points to the fact that in 2023 and beyond, we will see increasing momentum in the procurement of this type of vehicles.

02

Trends

The use of intermodal transport reduces carbon emissions by 80%.

With this said, a partial transfer of freight from truck to rail platforms seems inevitable.

Containers all over Europe

The European Commission announced back in the early 1990s that freight trains would soon dominate Europe's transport routes and that trucks would gradually become a thing of the past. Today, nearly 30 years after the boastful declarations of the EU Commissioners, all that remains is a sense of distaste. In any case, this is the impression one gets from reading the results of the European Court of Auditors audit, which this spring – according to widely shared opinion among commentators – debunked the EU's pipe dream of the power of container rail transport. But does this mean that intermodal transport has lost its raison d'être? On the contrary, after the woes of the pandemic and the start of the war in Ukraine, it has taken its place at the forefront of expert discussions. But, most importantly, real action has finally begun to make intermodal transport an important complement to trucking.

Auditors from the ECA (European Court of Auditors) have pointed the finger at the European Commission not only for its ineffectiveness in implementing its ambitious plans, but above all for its glaring inconsistency. Although the audit in question concerns combined transport and not only strictly intermodal transport, the problems remain the same. The European Union has an outdated 1992 directive regulating combined transport, which only requires a paper trail and requires drivers to speak the language of the country through which the freight train is passing. "In practice, this means that drivers have to be changed when crossing the border. Similar provisions no longer apply to truck drivers, for example. There is therefore less paperwork involved with road transport and the transport procedures are less complicated and take less time," comments **Annemie Turtelboom** from ECA, who is responsible for the audit.

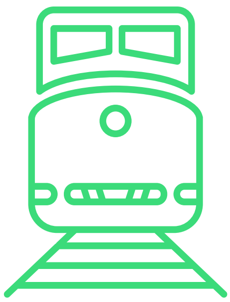
19%

This is the railways' share of EU freight volume.

When only the percentage of intermodal transport is considered, it is roughly 13%.
2021 was a particularly good year for intermodal transport, with an increase of almost 11% in the so-called transport work.

According to experts, intermodal transport will be back on a fast growth track by 2024 at the latest.

Source: European Commission, 2022



Carriers face investments

Doubling the share of rail freight by 2050 is a very ambitious target for the European Commission. There is still a lot of work to be done. Rail infrastructure needs to be upgraded, but at the same time the passability of Europe's main road routes needs to be improved.

Road carriers and logistics operators must also prepare for the changes. In order to enhance intermodality, they should keep investing in trucks that use bio-LNG and electric propulsion to provide transport over shorter distances, up to three hundred kilometres. On the other hand, investment is also needed in modern and more efficient trailers and semi-trailers designed for intermodal transport – and for longer distances.

Matteo Codognotto
Marketing & Innovation Group Director at Codognotto Group

Will Europe be stuck in traffic?

Similar absurd examples are plentiful in EU regulations. But this is about to change. In Brussels, officials are busily reviewing the existing regulations for TEN-T, the Trans-European Transport Network. This is important because the whole philosophy of the network expansion is based precisely on intermodal transport. A critical review of the said directive on combined transport is also forthcoming. Officials can no longer dilly-dally in action, because before long the existing transport channels will be severely congested and Europe will be stuck in one huge traffic jam.

Raluca Marian, a lawyer and representative of the International Road Transport Union (IRU) in the European Parliament, is watching this work closely. "Experts estimate that transport demand might double by 2050, with some predictions suggesting even a tripling. All types of freight transport – both individual and combined – are therefore necessary to meet the rapidly growing demand," explains Marian. In fact, the IRU strongly supports the idea of greater development of combined and multimodal transport, on condition that the new solutions are not introduced at the expense of road transport, which is, after all, the heart of the entire transport system in Europe.

Let's clarify the concepts at this point. The whole European transport concept is based on the main objective of achieving climate neutrality quickly. The first step is to reduce carbon emissions to 55% in 2035, and then reach net zero emissions in 2050. An important piece of this picture is intermodal transport, i.e. the use of containers and customised semi-trailers to travel in a single journey by various means: road, rail, air, seagoing ship or river barge. In practice, the most important part of intermodal transport remains rail transport, which is basically a link between the truck and the transshipment port, where the container eventually arrives to continue its journey by sea. Obviously, there are many options for transport configurations, as the cargo does not, after all, have to go on the ship. But rail and road transport remain the core elements of the intermodal chain.

Congested roads

As experts have calculated, **the use of intermodal transport reduces carbon emissions by 80%** compared to using only a truck fleet on the same route. It is therefore difficult to imagine achieving climate targets without greater use of intermodal transport. But this structural change is not as easy to implement as the European Commission has tried to convince us over the decades. It seems that it is only in the last two years that officials from Brussels – under pressure from transport associations – have taken a serious look at all the obstacles restricting the development of this mode of transport. For legislative changes can be carried out at the level of the European Parliament much quicker than they can be implemented later.

"In order to increase the share of intermodal transport in Europe, large investments in rail and also road infrastructure are essential. This is because, for example, the dimensions of the tunnel under Mont Blanc do not allow the use of P400 semi-trailers employed in intermodal transport," points out **Matteo Codognotto**, Marketing & Innovation Group Director at Codognotto Group. This is a major Italian logistics company and supply chain integrator, focusing on Intermodal Freight, integrated logistics as well as sea and air transport. "The Tarvisio Pass or Brenner Pass are often heavily congested. A significant number of rail loads must therefore pass through Switzerland, which offers better rail infrastructure. Unless the country is not investing in these areas, the development of intermodal transport will be very slow," points out Codognotto.

Ignasi Gómez-Belinchón

Cluster Manager at In-Move by Railgrup

Transport is not only about trucks

The pressure to reduce carbon emissions and the obligation for large companies to carry out non-financial reporting will certainly expedite the use of intermodal transport.

Shippers are increasingly coming to see that decarbonisation improves the image of their business. The immediate future of European transport will be a balanced use of different modes. Long-distance transports should be carried out more frequently by intermodal trainsets. This will help us get to low carbon sooner. If it were possible to increase the share of rail transport in Spain to 10%, the reduction in greenhouse gas emissions would be very noticeable. Better yet, this is only the beginning of change.

Carriers on shopping spree

Intermodal transport is growing and becoming more widely used in Europe. This comes in various forms: short-sea shipping, combined rail transport, rolling highways or inland waterways. Carriers and logistics operators are investing in the transport units needed for intermodality: P400 Huckepacks semi-trailers, swap bodies and containers. In the case of VIIA and Lorry Rail, Modalohr terminals are used, where all standard semi-trailers are handled horizontally. In practice, this means that any type of semi-trailer can be transported.

This is a major convenience, in contrast to traditional rail and combined and intermodal transport in vertical transshipment. In any case, diversifying transport will bring greater cost stability and a significant reduction in the carbon footprint. Sure enough, road transport is more flexible than rail, but most road carriers who have not yet decided on intermodal rail transport or rolling highways are thinking about it and getting things organised accordingly. However, rail operators should work on better planning and structuring of European rail networks in order to manage infrastructure more efficiently, increase capacity and thus provide a better service to the market.

Ángel Casado

Business Development Manager at VIIA & Lorry Rail, for Spain & Portugal, France & Maghreb

Most of the concerns of carriers and logistics operators are also shared by the auditors of the European Court of Auditors who looked at the work of rail carriers, the condition of transport infrastructure and the quality of intermodal services. They came to the not-so-optimistic conclusion that of the six countries analysed, i.e. Spain, France, Italy, the Netherlands, Germany and Poland, none is fully prepared to handle intermodal chains to a greater extent. Even the rail market leaders, such as Germany, are having considerable problems ensuring on-time deliveries, and in all these countries there have been significant delays in adapting the rail network to the needs of intermodality.

Monopolists block change

"Shippers' knowledge of the advantages of greater use of multimodal transport is still low in Spain," regrets **Ignasi Gómez-Belinchón**, Cluster Manager at In-Move by Railgrup, which brings together companies interested in developing intermodality. Although Spanish carriers are among the Eu-

How to develop intermodality?

Key lines of action according to

Gilles Delvigne

General Director at Combipass*

01 **Increasing rail infrastructure capacity, managing the available network more efficiently.**

02 **Financial support for intermodal transport operators due to high energy prices.**

03 **Facilitating the transition of supply chain participants to intermodal transport through public concessions and subsidies.**

04 **Harmonisation of regulations in member states regarding intermodality.**

05 **Harmonisation of support rules for companies (targeted subsidies) concerning intermodal transport.**

*Combipass SAS is headquartered in France. The company has a technical design office as well as branches in Germany, Italy, Spain and Belgium. It rents equipment, bodies and all types of containers for intermodal transport. It operates throughout Europe.

ropean leaders in the road transport sector, this is not matched by a balanced development of the rail network. “Only 5% of goods are transported by rail in our country, which results in high CO2 emissions. In practice, this means that 12,000 trucks a day cross the La Jonquera border crossing, with all the environmental consequences this entails. This is why there is a need for more investment in infrastructure for container and semi-trailer handling in order to use rail transport especially for long distances,” adds Gómez-Belinchón. (The border crossing at La Jonquera is the largest crossing on the Spanish-French border - editor’s note.)

In the EU countries, the average use of intermodal transport in total freight volume is 13%, but, as usual, the ever-optimistic European Commission would like this share to be at least half of the total volume in 2050. That’s quite a challenge, given that currently around 77% of EU freight is carried by truck fleets and this share is still growing. As transport market experts point out, it will be difficult to change these proportions quickly unless rail carriers – especially state-owned public operators – become more flexible in meeting the needs of manufacturers and distributors.

"Fixed rates for intermodal transport deter customers from using this type of service. They prefer to use road transport, which is faster and cheaper,” these concerns are confirmed by **Matteo Codognotto**, quoted earlier, whose day-to-day work involves talking to businesses interested in intermodal transport. But this is not just about changing the mindset and quality of intermodal services, it is also about making the rail network more efficient and modern. Not an easy task. This kind of change takes time.

Main line railways not ready

The International Union of Road-Rail Combined Transport (UIRR) in Brussels, which brings together dozens of private railway companies from all over Europe as well as owners of transshipment terminals, has been trying for years to effectively change this dire image of the rail sector. The organisation’s President **Ralf-Charley Schultze** has repeatedly persuaded EU institutions and decision-makers in European countries of the need to create a network of international main line railways that are technically suitable for intermodal transport.

Josep Serveto
CEO of logistics company Serveto

It pays to be greener

In intermodal transport, road and rail transport complement each other perfectly. These two modes of transport need each other. As a logistics company, we decided to use intermodal transport primarily because of the shortage of drivers in international transport, especially long-distance haulage. In addition, it is also a response to the needs of the market, which increasingly expects solutions with a lower carbon footprint. Any fears arising that road transport will be dominated by intermodality are, in my opinion, exaggerated.

On many routes – especially those shorter than 600 kilometres and away from the main transport corridors – trucking will continue to be unrivalled. The use of combined transport is increasing in particular on long routes: from Spain to the Benelux countries, northern France and Germany. Every intermodal transport we do with the current use of the railways allows us to reduce emissions by 1 tonne of CO2 per transport.

300-1000%

Following the outbreak of war in Ukraine, energy prices rose dramatically.

In the case of traction current rates, railway operators paid up to 10 times more than they did before the Russian aggression (the price of energy for railway carriers rose by 300-1000%).

Without public support and a system of concessions, at least in the next five to six years, intermodal transport has little chance of competing effectively with truck fleets.

Source: UIRR, 2023

What conditions are at stake? The rail infrastructure has to be adapted to the size of the specialist P400 semi-trailers that increasingly serve intermodal transport (to put it in more expert terms, it is about maximising the availability of tracks that guarantee the P400 loading gauge). European main lines should also accommodate trainsets of 740 metres, as that's the most optimal length from an economic and environmental point of view. For transport to run smoothly, the rail network also needs to be adapted to handle trainsets with an axle load of 22.5 tonnes and speeds of at least 160 kilometres per hour.

These are major infrastructure challenges – all the more so because, as the European Court of Auditors revealed in the said report, only half of the continental rail network is technically prepared for intermodal transport. Most European countries still have a lot of investment ahead of them. In Poland, only 36% of the rail network meets the requirements of intermodality, and in Spain only six. Even advanced economies such as France have a long way to go to successfully shift supply chains to the railways. "The French government is pursuing a strategy to develop combined transport with the aim of tripling freight volumes over the next ten years. But the management of the capacity of the rail network and the state of the transshipment terminals urgently needs to change to provide greater flexibility and better operational solutions," confirms **Gilles Delvigne**, General Director of Avignon-based Combipass (Berto Group).

Is intermodal transport slowing down sharply?

The company has been involved in the rental of equipment, containers and semi-trailers for intermodal transport, and it offers engineering services to support the global modal shift. It serves customers in 20 countries, so you could say that Delvigne is in the intermodal "eye of the cyclone", facing all the constraints of the industry day-to-day. The Combipass General Director echoes what the President of the UIRR, Ralf-Charley Schultze, also said, namely that the use of European public subsidies for companies using intermodal transport will significantly speed up the process of shifting transport to the railways. And meeting the net zero emissions target will then be more feasible.

The International Union of Road-Rail Combined Transport also believes that intermodal trains using electric traction should pay discounted fares for the use of public infrastructure. Otherwise it will be difficult for them to compete with the truck fleet when it comes to pricing. But Schultze also draws attention to another major danger associated with the development of intermodal transport. "The prospects for freight growth in 2023 remain uncertain due to soaring electricity prices. While the price of diesel used in road transport has risen by 70% since the outbreak of war in Ukraine, the price of traction current has risen by anywhere from three hundred to as much as a thousand per cent, depending on the country," the President of the UIRR warns.

Schultze's concerns seem to be substantiated by the results that the organisation published for the last quarter of 2022, saying that the intermodal transport market shrank by nearly 6.5%, and this year's outlook does not foresee growth of more than 2-3%. And as recently as 2021, intermodal transport volumes increased by more than 10%! But this weaker performance of intermodal transport by no means indicates a lack of prospects for container transport.

On many routes – especially those shorter than 600 kilometres and away from the main transport corridors – trucking will continue to be unrivalled.

Driving force at work

The current situation is the result of the rolling economic slowdown, the said staggering energy prices and the renovation of the rail network on key European main lines, especially the route from the North Sea ports through the Rhine Valley and on towards Switzerland and Italy. But renovations and upgrades are necessary to prepare the railways for the big leap. As the European Commission's Directorate-General for Mobility and Transport recently calculated, the necessary infrastructure changes will cost around €7.7 billion in total. In addition, Brussels wants to establish a completely new European transport corridor Baltic Sea – Black Sea – Aegean Sea and to strengthen the importance of Via Carpatia.

Despite the considerable costs and the need to overcome many organisational, legal and even mental challenges, the driving force is already at work, figuratively speaking. It will be difficult to stop it, although the European administration will certainly continue to surprise us with its sluggishness and incompetence. "The direction has already been set, because rail transport is environmentally safe and intermodality leads to a significant reduction in carbon emissions. Trucks will not disappear from our roads, but over longer distances they should increasingly be replaced by rail," argues **Ignasi Gómez-Belinchón** of Railgrup in Barcelona.

In closing, the Spanish Cluster Manager compares levels of carbon dioxide produced by a train versus a bicycle. It turns out that over a fifteen-kilometre route the values are comparable: a locomotive emits 0.24 kilograms of carbon dioxide and a bicycle 0.19 kilograms. One may smile at this comparison, but it is certainly thought-provoking. Indeed, without intermodality it is difficult to imagine climate neutrality.

Intermodal transport is the future

Thomas Dupuy D’Angeac

President of Carrières de l'Ouest talks about how the company uses rail transport for aggregate production and how it reduces its carbon footprint.

In our company, we have implemented the ‘double container’ concept, or Voutré Double Fret, which has reduced transport costs and carbon emissions. Before, we used to bring aggregate to customers by rail, but the cars would come back empty. We could not find rail cars suitable for soil transport in the market, so we transported it by truck. Thanks to the installation of 20-foot containers, our trainsets are used in both directions. This is a truly novel solution.

The construction industry, of which we are a part, is an important lever for enabling the development of rail transport. While we use trucking for flexibility, rail is our true DNA. We do everything we can to reduce the carbon footprint of our operations, and we believe that our customers can see this too. For example, we recently installed a 1.5-kilometre-long conveyor belt to help us transport aggregate around the site instead of tippers. This year we want to increase the volume of rail freight from 800,000 tonnes to 1.3 million. To achieve this, we need the additional support of our railway company Captrain. Meanwhile, there is a shortage of train drivers and other rail workers on the market. In my view, this is a major constraint on the rapid development of rail and intermodal transport. Not just in France, but across Europe.

We look forward to the expansion of intermodal transport and have strategic plans related to it. We would like to use our facilities as logistics platforms for combined transport and offer a wide range of transport services. It also means building strong partnerships with key players in the logistics sector.

03

Challenges and forecasts

Freight prices are falling. From the point of view of a manufacturing or distribution company, this is a good time to negotiate favourable freight rates with the potential for considerable savings.

Spot is all around us, or 2023 supply chain challenges

Where are supply chains in Europe and around the world today? The prevailing view is that they are still weakened today after the successive lockdowns, the outbreak of war in Ukraine and all its economic consequences. But are we able to take a further perspective, to see what is beyond the horizon? Today, no expert would dare to do so as change is happening too fast. It seems that, for the time being, we have to get used to volatility and uncertainty. Let's take a look at the key challenges of logistics managers in 2023.

What keeps supply chain actors up at night is the cost of doing business. From a shipper's point of view, the first half of 2023 has seen a **marked drop in transport rates** in the European Union (which started back at the end of last year). On average, it is estimated at around 3% in the first quarter of 2023 with contracted contracts and 7.5% with prices obtained on the spot market. The general perception among owners of transport companies was that the actual decrease was even higher (everything depends on the region of Europe, the industry served, the specific route and the seasonality affecting certain sectors of the economy).

Europe hits the brakes

From the point of view of a manufacturing or distribution company, this is a good time to negotiate favourable freight rates with the potential for considerable savings. All the more so as in many industries transport costs are one of the most important components of the budget," says **Piotr Roczniak,** Head of Business Consulting and Data at CargoON, a company providing technological support for logistics. He points out that in the first months of this year, an unprecedented thing happened: freight prices in Europe reached pre-Ukraine war levels. And we must remember that the pandemic and Russian aggression have caused a horrendous increase in transport rates. "As recently as January this year, average spot market rates were around 23% higher than twelve months ago," adds **Piotr Roczniak.**

Lower freight prices are, of course, due to **decelerating European economies** and falling consumption (e.g. domestic demand in Poland saved the health of the economy, but high inflation stifled the effect). Less work for suppliers (exporters) automatically means a decrease in demand for capacity. But the variables affecting carriers are so many and times so unstable that it is by no means certain that rates will not skyrocket again. All the more so as this happened last summer, and the market likes repetition. The problem is that nothing has been repetitive in the last three years.

20%

This is the level of empty mileage among EU carriers.

Improved transport efficiency is one way of dealing with driver shortages, as well as excessive carbon emissions.

Source: European Commission

Fuel adjustments in Italy

Considerable changes have been introduced to the Italian transport market by the decree of 21 March 2022, which constitutes a real revolution in terms of carrier protection. By introducing a written contract – and in Italy there is no obligation to conclude one – the transport company can renegotiate the amount of transport costs. The decree introduced a clause regulating the carrier's pay by introducing a fuel adjustment.

The adjustment is calculated on the basis of changes in fuel prices. It is calculated by the transport company, but this requires a lot of experience. Suppose, for example, that fuel costs have risen by 10%: by how much do transport rates have to be increased? This is not at all obvious, as the cost increase will be different for a van and a large semi-trailer truck.

Michele Palumbo

Supply chain expert, professor at Università Cattolica del Sacro Cuore and Il Sole 24 Ore Business School

Change, constant change

"Stability of energy commodity prices is extremely important in the transport sector. But it's not out there. Fluctuations in fuel prices are crucial for the transport sector," reminds Professor **Michele Palumbo**, supply chain expert and economist at the Catholic University of the Sacred Heart in Italy. "We are not used to living in an environment of such volatility," adds a remark that is so often repeated among managers. While diesel costs appear to have been fairly stable for the past 8-9 months, according to market analysis, this may be the calm before the storm. All it takes is for OPEC+ countries to reduce oil production. Or for the stocks made by European economies to run out (even temporarily).

Talking about transport rates, it is worth mentioning another change noticed by managers. It is pointed out by **Teodor Kula**, Business Development Director at DONE! Deliveries and a board member of the Polish Association of Logistics and Purchasing Managers (PSML). "Short-term spot contracts are increasingly important for contracting in general. One of the reasons for this is that the e-commerce market is growing and businesses increasingly need additional transport 'on the fly'. Contractual agreements, on the other hand, become more flexible as a result, with rate indexation occurring much more frequently, every six months or even every quarter," says **Teodor Kula**.

Spot for greater savings

The effects of this qualitative change, and what appears to be a lasting trend, can best be seen now. Demand for capacity has declined and spot market rates are falling faster than for contractual agreements. (7.5% for the former and 3% for the latter comparing quarters year-on-year). Suppliers entering into contractual agreements can now count on greater flexibility from carriers, who are keeping a close eye on what is happening in the spot market. "It is worth adding that the spot freight market now plays a slightly different role than it did just a year ago. It used to be primarily a source of additional transport, but today it is also a place to look for savings," adds **Tomasz Łyszega,** Global Account Manager at CargoON, a tech company serving the transport market.

Freight rates on the spot market have fallen the most in Poland. Experts are keeping a close eye on this market because, as the largest transport provider, Poland has a major influence on everything that happens in Europe. But why has haulage prices gone down so much here? "Because, despite the worsening economy, the number of drivers has recently increased. This has reduced the pressure to raise rates. The number of drivers from Ukraine increased by nearly 23% at the end of 2022, according to data from the General Inspectorate of Road Transport. In addition, registrations of new trucks with GVW of more than 3.5 tonnes increased by 13% between the beginning of 2023 and the end of April. With the economic slowdown, this is rather surprising data," explains **Tomasz Łyszega** from CargoON.

Transparency is what matters now

My impression is that after three years of chaos and disruption, supply chains are back under control. The prevailing trend now seems to be towards transparency. Under the EU's Corporate Sustainability Reporting Directive (CSRD), from 2024 onwards, large companies are required to report on the climate impact of their activities, as well as other sustainability issues. In February 2022, the European Commission also proposed the Corporate Sustainability Due Diligence Directive (CSDD). Negotiations on the final form of this act are ongoing. Both directives will speed up the process of data exchange in the supply chain, from raw material suppliers to manufacturing and transport companies.

Albert Jan Swart

Industry, transport and logistics sector expert at ABN Amro Bank

Eighteen-year-olds at the wheel?

While positive signals from Poland may be encouraging, the return of Ukrainian drivers to the transport market does not fundamentally alter the structural problem of a driver shortage on the continent. According to a recent report by the International Road Transport Union (IRU), **there is currently a shortage of nearly 450,000 drivers in Europe**, and by 2026 – with all the problems associated with recruiting young drivers and existing drivers reaching retirement age – there could be a shortage of two million people at the wheel. This is an army of people that cannot be replenished quickly and whose absence will paralyse international road transport in Europe.

"Lack of drivers is one of the biggest challenges carriers face. In order to solve it, initiatives are needed at EU level, but also at local, national level. The European Commission is currently reviewing the EU driving licence directive. This may be one tool to help alleviate this pressing problem," explains **Raluca Marian**, director of the IRU representation to the European Parliament. Specifically, it is about an EU proposal **to allow persons over 18 years of age drive trucks** (licence categories C and D). All indications are that such a change will be made to the directive.

Will it bring any significant improvements to the freight market? Unlikely, as young people simply do not gravitate towards this profession. "In Italy, there has been a noticeable migration of international drivers to light transport, which handles short routes and allows better management of work-life balance. The result is that many trucks are parked because there are not enough drivers for them," says Professor **Michele Palumbo**. What an excessive shortage of drivers can end up with we saw recently in the British Isles. After Brexit, the number of migrant drivers there decreased and the economy faced huge transport problems. Last summer and autumn, even food and medicines were not reaching consumers and the government had to resort to the military.

What challenges are ahead for shippers?

01

Businesses should prepare now for the mandatory non-financial reporting that will take effect from 2024. This is because EU companies with more than five hundred employees have been obliged to calculate their carbon footprint and disclose other sustainability-related data. This is about the implementation of the CSRD (Corporate Sustainability Reporting Directive).

02

In the wake of environmental reporting, there is increasing pressure to introduce green optimisations in the supply chain. It is particularly noticeable in the area concerning the energy efficiency of warehouses (e.g. replacing light sources and using renewable energy for lighting buildings). There is also strong pressure to be efficient in the use of transport means, i.e. to avoid empty miles and optimise the loading of vehicles. Better transport efficiency is not only facilitated by solutions such as GPS monitoring, but above all by the exchange of data on cargo status between partners working together in the supply chain.

03

The continuing digitalisation of the transport organisation process is also a challenge for manufacturers and trading companies. Apparently, managers have recognised the significant added value of digitalisation of the supply chain after the pandemic, including route planning, subcontractor selection or communications with the carrier. But the pace of digitalisation is clearly limited by the availability of IT resources. Logistics process automation projects are competing with the digitalisation of businesses in other areas. The pace of digitalisation is also limited by the state of the IT infrastructure, which needs to be replaced, upgraded or at least integrated with new and unique solutions.

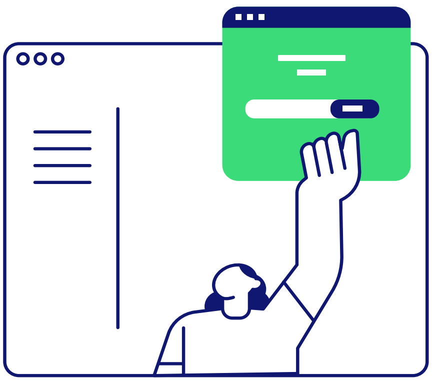
Tomasz Łyszega

Global Account Manager at CargoON,
a tech company serving the transport market

Technology resolves problems

All right, so what do we do? Pragmatic as ever, supply chain managers believe that today we can simply make more efficient use of what freight capacity there is. Meaning, we can plan transports better, make more rational use of available transport space and avoid empty miles, which are still plaguing European routes (according to European Commission calculations, it accounts for around 20% of all transport). Intermodality is also an important trend that can help to address the driver shortage crisis. Relieving the burden on truck fleets by transferring containers and semi-trailers to rail platforms is a solution that can, incidentally, solve a wide variety of problems (we discuss this in more detail in a separate article).

Experts agree more than ever that technology is needed to meet all these demands, to make supply chains more efficient and to bring carbon emissions to a radical halt. Without it, no transport revolution will be possible. "**Transport companies should use technology** to improve productivity, for example by using platforms to increase the load factor. For companies that do not implement the right technological solutions, the future looks rather bleak," says **Albert Jan Swart,** industry, transport and logistics sector expert at the Dutch ABN Amro Bank.



Suppliers entering into contractual agreements can now count on greater flexibility from carriers, who are keeping a close eye on what is happening in the spot market.

Concerns around 'Fit for 55'

The digital revolution in supply chains will certainly be accelerated by the implementation of the regulation of the European Parliament and of the Council (EU) on electronic freight transport information. This is already happening, as the document has already been adopted in August 2020 and will become effective in August 2024. Meanwhile, by 21 August this year, the European Commission will issue the first implementing act on this matter, concerning the conditions for eFTI (electronic Freight Transport Information) platforms. Why is the eFTI regulation so important? Because before long, supply chain players will find themselves living in a digital world. A shared system will link carriers (drivers), shippers and public administrations. "It will allow, for example, more efficient confirmation of the compliance of transports with EU regulations. There is still a debate about access to data generated by transport companies," says **Raluca Marian** of the IRU.

What about e-mobility and carbon emissions?
These are all big questions that are being waged in the shadow of the ongoing battle for businesses to survive. Deadlines have been set, but are they really achievable? Is the EU's 'Fit for 55' plan to reduce carbon emissions by 55% by 2030 and achieve climate neutrality in 2050 feasible? Will Europe manage, for example, to provide carriers with an adequate number of parking spaces and chargers to power electric trucks? "It is too early to give good answers on this," says Raluca Marian. "Not all of the proposals for 'Fit for 55' have made it through the decision-making process yet. But it will be difficult to stick to the assumptions made. We will only be able to say more in a few years," adds the director of the IRU representation in the European Parliament.

Forecasts for 2023

FUEL PRICES

Fuel prices in Europe will depend on a number of factors, such as global oil supply, fuel market demand in Europe and worldwide, the geopolitical situation in other countries, as well as the impact of national energy policies on their fuel markets. Today, it is difficult to predict what the ultimate impact of the conflict in Ukraine will be on fuel prices in Europe. The ongoing war could affect oil prices on global markets, which in turn could affect fuel prices in Europe. If Ukraine's counter-offensive against Russia leads to an escalation of the conflict and increased tension in the region, there could be hypothetical increases in oil prices. After all, Russia is one of the world's largest oil manufacturers, and any unrest in the region could affect the supply of oil on global markets and thus impact fuel prices.

SHORTAGE OF DRIVERS

One of the major challenges in road transport in Europe is the lack of qualified drivers. Due to the increasing demand for transport services, companies must ensure that they employ qualified drivers, the shortage of which continues to be a huge problem. Investing in training and looking for innovative solutions to attract and retain qualified drivers is not yielding the expected results. In 2023, the driver shortage may not be as acute, due to the economic downturn and a decline in demand for transport. In the long term, however, the problem may return in even greater intensity.

DEMAND FOR TRANSPORT

The economic slowdown in Europe and the uncertain geopolitical situation is leading to reduced economic activity, which in turn results in noticeably lower demand for freight transport. Factors that clearly reduce demand in 2023 are lower demand for products (lower consumption due, among other things, to high inflation and reduced purchasing power), lower economic activity and a decline in investment levels. It is worth noting that a lower cost-carrying capacity of companies also leads to a lower capacity to bear freight costs. This is because manufacturers and distributors cannot easily pass on costs to buyers.

Piotr Roczniak

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He has been associated with the transport and logistics industry for many years. In 2000-2007, he was the editor-in-chief of the Eurologistics magazine. He wrote about the Transport, Forwarding and Logistics market for magazines/newspapers such as Puls Biznesu, Parkiet or Transport Manager. He is looking with interest at the constant transformation of supply chains. He was one of the first people in Poland to predict the development of RFID technology in logistics. He conducted numerous conferences devoted to the transport and logistics market and he prepared the Logistics Gala with the team.

Data analysis

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