

## Sustainability of driver remuneration in the context of labour mobility

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### Abstract

The contribution deals with the problem of labour mobility in the field of road transport and driver's remuneration. There is a valid free movement of goods and labour in the European Union. There is employed a lot of drivers in companies in other countries of the European Union in the field of road transport. Through the implementation of national specifications, mainly minimal wage, the member states are limiting the common free market. In the first part, the contribution identifies problems of common market depending on drivers' remuneration. An undesirable result of national specifications is letterbox transport companies uprising. In order to reduce costs, such companies pay not only taxes but also driver insurance. The next part of the paper deals with the own research of driver remuneration carried out. An aim of this contribution is to prove that the sustainability of the free market in the European Union is possible only if no national protection measures for own transporters are accepted.

**Keywords:** transport, sustainable, mobility.

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### 1. Introduction

At its inception, the European Union defined a number of principles that have greatly simplified the business of road freight transport. The free movement of goods, the free movement of labour and the free movement of finance have accelerated vehicle turnover. The effect of the higher realized performance lies in the fact that even with the increase of freight inputs of carriers, the price for transport grows much more slowly. Although it is the single market business in one customs territory, there are restrictions that distort the market. They are based on the violation of regulations by creating letterbox companies. Their aim is to bypass the carrier's tax liability.

The aim of this paper is to identify ways of market distortion in road transport business from the view of the sustainability of road transport business. Ways of creating letterbox companies are specified in the first part of the

article. The aim is to verify whether the creation of letterbox companies is only related to tax evasion or social dumping. The next part is focused on the employees' remuneration policy of transport companies. The article also aims to answer the research question: Is the establishment of letterbox transport companies connected with social dumping and driver remuneration?

### 2. Literature review

International road transport operators operate in many countries and therefore they often consider where it is best to register their vehicles or employ their staff. Differences in social and tax laws and regulations across Europe create competitive differences that encourage and motivate carriers from countries with high taxes to set up companies in Central and Eastern Europe without changing their business [1]. The first signs of the practical circumventing of the rules through the use of foreign subcontractors appeared in the late 1980s.

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It was leading to questions about the possible relationship between cross-border recruitment of staff and forced corporate arrangements in the EU [2, 3]. The term letterbox companies began to be used in the late 1990s in the international transport sector to describe companies that had an address in the country of establishment but carried out all their activities in another jurisdiction. References to letterbox companies are often used in the literature, but none of these terms has an explicit meaning. The Organization for Economic Co-operation and Development (OECD) has defined a letterbox company as a company that has established itself in a tax-friendly country with only the essential needs of the organization [9]. Another useful definition is provided by [6], who note that letterbox companies are effectively designed to avoid circumvention of legal obligations. It is not enough for a company to have its own office; it should also have a certain number of employees and equipment [6]. There should also be some commercial activity associated with setting up a business. In the road transport sector, it is expected that the company or operation will have, in addition to the administrative space, also a space for parking vehicles, available drivers, space for drivers, etc. Ricardo et al. [11] recorded a detection rate of letterbox companies of around 1% or less in the countries that provided the data, although such data do not capture companies that avoid detection. The negative effects of letterbox companies can be disproportionately large due to the cost advantage they have over competing for law firms [7]. When Spain and Portugal joined the EU in 1987, all major European freight companies from Germany, France and the Benelux set up subsidiaries in low-wage countries [6, 10]. This trend has continued since the accession of Eastern European countries [10]. The problem is that pay gaps are often abused through subcontracting, with the role of such subsidiaries being primarily to provide drivers to the parent company. French roadside checks have shown that drivers who work for Eastern European subcontractors have a salary of around € 1,000 per month. On the other side there are drivers who work for the parent company and they have a salary of around € 2,500 per month, as is possible in France. This fact saves carriers more than 50% of labour costs [12, 13].

Using drivers from other states, respectively carriers with lower wage costs, to ensure the transport process, is a possibility to operate in a market with lower costs than the competing companies. In 1997, truck drivers in 15 EU countries began protesting against the growing use of drivers from Eastern Europe [1]. After the accession of the countries of Central and Eastern Europe to the EU, the EU common market has been opened for these carriers [14]. Carriers, especially from Poland, were able to provide a lower price for transport than competitors from Western European countries. The countries of Western Europe, especially Germany, have been coming up with various protective measures for their

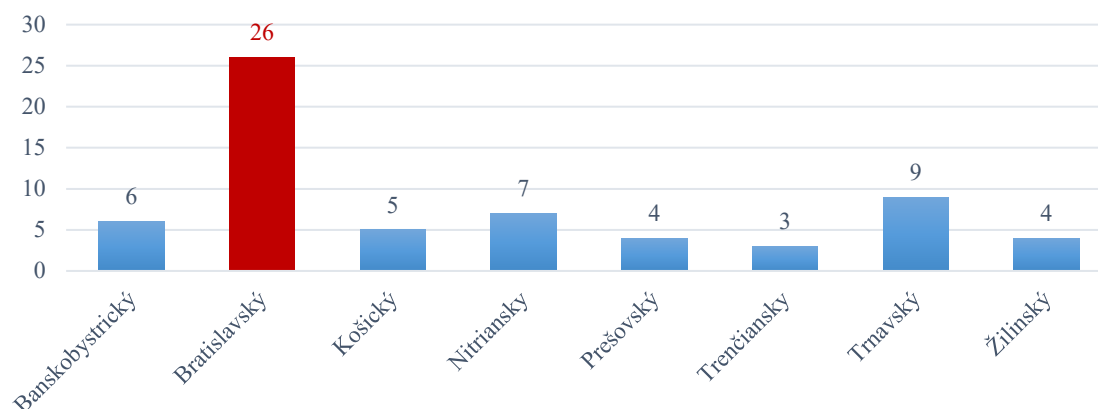
carriers since 2015, but they significantly distort the common market. These measures are suspected to be contrary to the principles of the EU common market. The requirement that any driver who transits through Germany or who loads or unloads goods in Germany during international freight transport is unacceptable. The national protective measures are even clearer in that the control authorities require all documents from any carrier only in German [4]. As part of the research, we focused on identifying differences in the remuneration of road freight transport drivers in Germany and compared this level with Slovakia and the Czech Republic.

### 3. Research

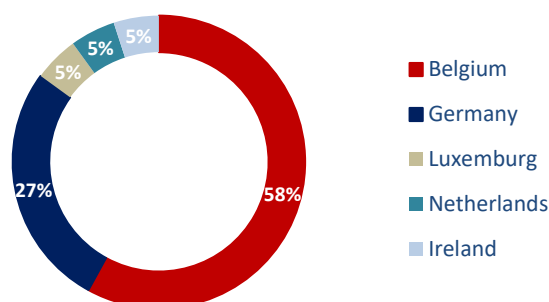
The authors' own research is divided into two parts. In the first part we identify the existence of letterbox transport companies in the EU, focusing on Slovakia. In the next section, we deal with social dumping and the distortion of the EU's single market by the protective measures of some EU Member States.

Based on own research, letterbox transport companies represent a significant problem in Slovakia. Authors, working at the University of Žilina, identified the office of carriers who are registered in a unified information system. From the register it is possible to identify the company headquarters, office and area of the carrier. It is obvious that the heavy vehicle combination covers an area at least 2.5 meters wide and 16 meters long, so it is expected that the carrier's place must have adequate areas.

Based on the research, we identified that there are transport companies without adequate areas, but also companies that resided at the same address. We processed the analysis in individual regions of Slovakia and it is shown in Fig. 1. In the Bratislava Region, there are 26 transport companies resided at one specific address - Francina 18, Bratislava. The existence of letterbox companies has been confirmed in all regions. A maximum of 9 to 3 companies is registered at one address. These companies do not have any space for drivers at the address; it is usually one room where the designated employee receives the mail. Eventually, the office is without an employee and there is only a letterbox at the address. We also dealt with the owners of letterbox companies registered in the Slovak Republic. In Fig. 2 is the processed ratio of foreign owners of letterbox companies, which were identified during the research. These are mainly companies resided in Belgium and Germany. The importance of a letterbox company is to distort the market and gain a competitive advantage. Based on the research, it is possible to claim that there are letterbox companies in Slovakia.



**Figure 1.** Number of transport companies resided on one address



**Figure 2.** Residence country of the owner of letterbox transport companies in Slovakia

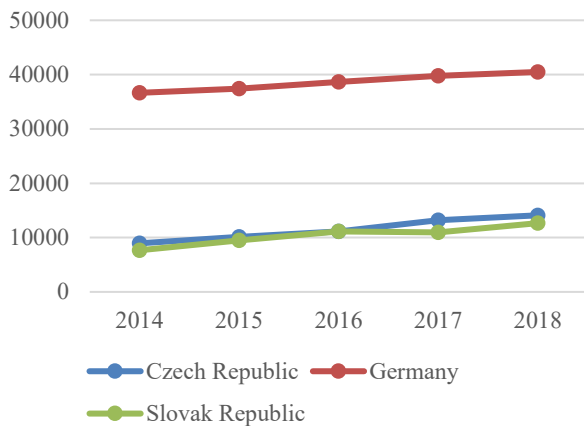
Another part of the research is connected with the identification of differences in the remuneration of employees in the road freight transport sector. We used the Amadeus database, which contains a worldwide database of accounting data for more than 21 million companies. In the database, it is possible to filter companies that perform

road freight transport. Not all details of companies in the database are correct.

In the evaluation, we considered only companies that were based in Slovakia, the Czech Republic or Germany and had completed data about the number of employees and wage costs for all years from 2014 to 2018. In Slovakia, we managed to identify in the database of 1932 road freight transport companies. Compared to other companies, these are usually smaller companies with one or two employees. In the case of the Czech Republic, we identified 673 companies with all necessary data filled in and 118 companies in Germany. When evaluating the level of remuneration, we monitored the wage costs per employee per year. The results of the research are shown in Table 1 for the years 2014 to 2018. The average level of remuneration is shown in Fig. 3. The average value of employee remuneration in Germany was significantly higher in all analysed years. There is an increase in the average remuneration of drivers in all analysed countries with a year-on-year growth index from 0.662 to 1.806, which is shown in Table 2. Based on the analysis, it can also be stated that the width of employee remuneration intervals is wider in Germany (the difference between the maximum and the minimum level of remuneration).

**Table 1.** Remuneration of a road freight transport employee in euros for the years 2014 to 2018

State	Parameter	2014	2015	2016	2017	2018
Czech Republic	average	8,944	10,131	11,125	13,223	14,097
	maximum	36,961	39,665	42,070	49,032	44,443
	minimum	1,118	1,825	1,208	1,044	1,885
Germany	average	36,650	37,392	38,657	39,772	40,489
	maximum	72,032	75,244	87,607	94,996	86,138
	minimum	6,314	11,036	11,337	12,189	12,258
Slovakia	average	7,665	9,483	11,113	10,943	12,656
	maximum	59,633	75,153	97,173	74,712	85,972
	minimum	1,007	1,252	1,082	1,061	1,013



**Figure 3.** Average remuneration of a road freight transport employee in euros

**Table 2.** Growth index of drivers' remuneration in road freight transport

State	2015	2016	2017	2018
Czech Republic	1.133	1.098	1.189	1.066
Germany	1.073	1.061	1.165	0.906
Slovakia	1.632	0.662	0.864	1.806

Based on the research, it is possible to state that in all EU countries the wage remuneration of employees in transport is growing, but there are significant differences in the amount of remuneration between Germany, Slovakia and the Czech Republic.

#### 4. Discussion

Based on the research, two facts were identified. In Slovakia, the research confirmed letterbox transport companies. Letterbox companies at their headquarters only receive mail. Real drivers and vehicles are driven from another place, outside the borders of Slovakia. The meaning of a letterbox company is defined in the form of a tax advantage. In the case of letterbox transport companies that have registered vehicles abroad, it is not possible to consider savings on motor vehicle tax [8]. Motor vehicle tax is paid in the state of registration of the vehicle [8]. Value-added tax is comparable in EU countries for transport services. The difference is in income tax, which rates in Central and Eastern European countries are generally lower. An important factor in establishing a letterbox transport company is the remuneration of drivers. A carrier resided in Western Europe will gain the advantage of being able to reward a driver with a lower wage by setting up a letterbox company in an Eastern European country. However, this approach cannot be used by distorted EU common market rules. The countries of

Western Europe require not only compliance with national regulations on remuneration when performing international road transport. They shall require proof of the wage paid. This proof must be in the language of the transit state. This means that if the carrier performs a transport from Slovakia to France through Germany, he must document the amount of the driver's remuneration in German for the German inspection authorities and in French for the French inspection authorities. Such an approach is a disproportionate burden on carriers and appears to be an attempt to expel foreign carriers out of the market.

Based on realised research and from the view of sustainability of freight transport services it is necessary to define the letterbox company within the framework of EU legislation. It is a company that meets at least one of the following criteria:

- does not have real business activity in the state of registration and does not generate any economic value in that country,
- is registered in a jurisdiction that does not require to prepare and submit financial statements by company,
- does not have a place of business (real place) in the country of establishment.

During inspections that are still carried out in the framework of compliance with EU law, the inspection bodies should check, in addition to the requirements inspected so far:

- have property and employ staff appropriate to the business activities,
- have a clear connection between the transport operations and the member state of establishment,
- have the technical base necessary for the operation of road transport.

Based on the research, it is possible to answer a research question. The creation of letterbox transport companies is significantly related to driver remuneration.

#### 5. Conclusion

Although in the EU there are the same rules for setting up a transport company set out in Regulation (EU) No. 1071/2009, there is practise of setting up letterbox companies [5]. In research, we have identified that the main importance of letterbox transport companies lies in gaining a competitive advantage in the form of a lower driver's remuneration. Another effect is to obtain drivers from the country in which the letterbox company is located. An employment contract will also be concluded in this state. All other formalities take place in another state. The prevention of the operation of letterbox companies must be implemented in the form of a legal definition of a letterbox

company and subsequent effective control of carriers. Applying national law to drivers of other states operating in international freight transport is not a good solution. The experience of applying the German Milo regulation or the French LoiMacron regulation has significantly increased the administrative burden on carriers that comply with all market requirements.

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