For a world
in motion

COVID-19 Impact on the Road Transport Industry

Update: November 2020

IRU Intelligence Report

Update including:

- **Default and insolvency risk**
- **Government financial support**

November 2020

iru.org

IRU's COVID-19 recovery plan

COVID-19 recovery recommendations for governments and international organisations – IRU 29 April 2020

FINANCIAL

1. Provide direct **cash grants** to road transport companies, as temporary aid.
2. Facilitate access to **loans** for covering variable costs (such as ongoing operational needs), refinancing of pre-existing credits for asset purchase (e.g. vehicle leases), and facilitate access to credit for the renewal of fleets at low or 0% interest rates.
3. Facilitate extensions for **loan repayments** and lease instalments.
4. Extend payment deadlines and/or temporarily reduce or **waive taxes, charges and duties,** including corporate taxes, social contributions and fuel tax.
5. Facilitate reduction of **insurance premiums** and waive premiums for vehicles that are non-operational due to halted goods and passenger services.
6. Set up financial support programmes for temporarily **unemployed road transport workers**. Facilitate reintegration back into the transport workforce for skilled people made unemployed due to the crisis.

NON-FINANCIAL

7. Establish **green lanes** for trucks at all borders, backed by policies and procedures that prevent additional and systematic stopping of trucks at borders.
8. Prioritise collective **passenger transport**, particularly for workers, with appropriate health protection measures in place.
9. Designate **road transport workers** as key workers, giving them priority access to adequate protection and disinfection equipment and material, which have not yet been made sufficiently available by governments.
10. Allow for **maximum flexibility** on the interpretation of driving rules, driving restrictions and tolerance measures to prolong the validity of expired control documents including visas, certificates and licences.

Contents

Introduction

Commercial road transport, both passenger and goods, has been severely impacted by COVID-19 due to transport restrictions put in place to mitigate the pandemic and the overall economic downturn.

More than 3.5 million road transport operators, represented by IRU and its members on five continents, are bearing an increasingly severe financial burden, with worrying signs for the future of these firms and the economies they serve.

This report updates IRU's June report on the impact of COVID-19, with revenue forecasts, default and insolvency indicators, and government financial support assessments.

Grim and getting grimmer
The revenue outlook for 2020 remains grim across the sector. Goods road transport companies globally are now forecast to lose USD 679 billion, down 18% on 2019. More broadly, IRU estimates the losses for the global road transport sector – passenger and goods – to exceed USD 1 trillion in 2020.

And there are worrying signs for 2021. Financial indicators paint a bleak road ahead, with high default and insolvency risks facing road transport firms worldwide.

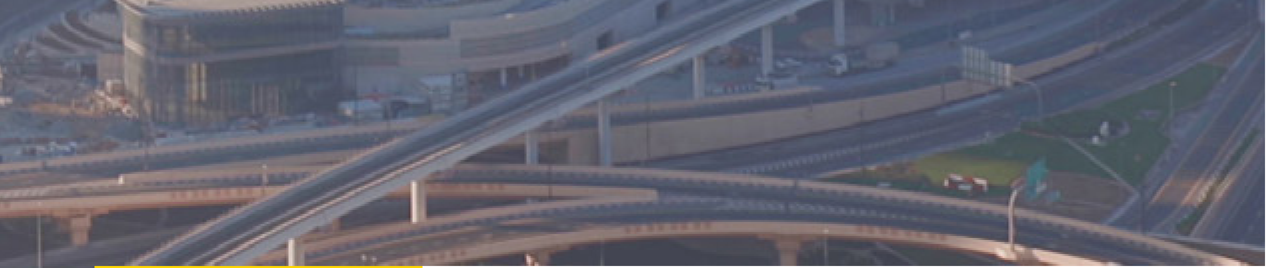
Despite IRU's previous calls for action, including its ten-point recovery plan from April, most countries have still not implemented targeted measures that sufficiently support the commercial road transport industry.

Some government rescue packages have focused on facilitating loans, loan repayments and supporting workers. Few road transport operators are benefitting from these measures, and urgent action is needed on reducing taxes and charges, as well as cash grants, and insurance flexibility.

Road transport: key to recovery
The global economy fell into recession in 2020, with real GDP forecast to decline by 5.6% in 2020 versus 2019. It is expected to take at least three years to return to pre-crisis levels of production.

Road transport is the lifeblood of economies and communities, and their supply chains and mobility networks. Over 80% of commercial land transport of mobility and logistics services (in tonne-kilometres and passenger-kilometres) are provided by the road transport industry.

Economic and social recovery from COVID-19 is dependent on a well-functioning commercial road transport sector. As they have done since the beginning of the crisis, road transport operators will play a crucial role. However governments need to act with better and more targeted support.



Updated revenue forecasts

Since the publication of IRU's COVID-19 impact report in June 2020, revenue losses for goods road transport operators have continued to grow to an estimated USD 679 billion for 2020.

In Europe, the decline is even sharper, with estimated losses of USD 125 billion, compared to the USD 75 billion forecasted in June.

Elsewhere, losses range from USD 1 billion in Saudi Arabia, to USD 63 billion in the USA and USD 131 billion in China.

As forecast in June, the passenger road transport sector in Europe will suffer enormous revenue losses of USD 94 billion in 2020.

Goods road transport forecast losses (USD, global)

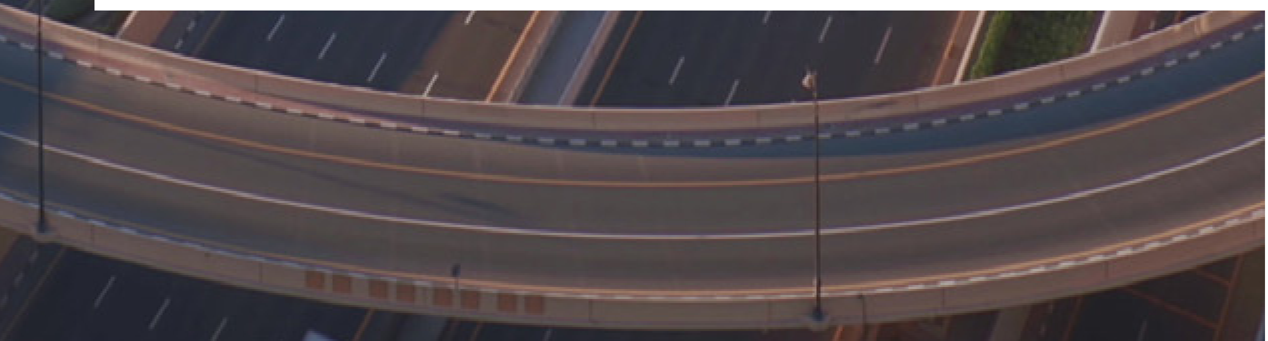
June report	November update	2020 forecast versus 2019
-643 Bn	-679 Bn	-18% down

Passenger road transport forecast losses (USD, Europe)

June report	November update	2020 forecast versus 2019
-94 Bn	-94 Bn	-57% down

Goods road transport forecast losses (USD, by region)

			Trend vs June IRU COVID-19 report
ASIA PACIFIC	-20 %	-379 Bn	▲
EURASIA	-18 %	-26 Bn	=
EUROPE	-20 %	-125 Bn	▼
MIDDLE EAST & NORTH AFRICA	-22 %	-23 Bn	=
REST OF AFRICA	-11 %	-7 Bn	=
NORTH AMERICA	-12 %	-84 Bn	=
SOUTH AMERICA	-20 %	-34 Bn	=



HEALTH CHECK:

Road transport operators face a wave of bankruptcies

Commercial goods road transport operators have been dramatically impacted by COVID-19. Nine months into the crisis, they have maintained services where possible, despite an often higher cost base due to transport, routing and delivery restrictions.

Many road transport businesses have managed to survive up to now, but anecdotal evidence from IRU members has sounded the alarm on their future.

IRU therefore assessed two key sets of financial indicators that provide an early warning on both the risk of business default (companies not being able to repay loans), and insolvency (companies going out of business).

Both point to a looming wave of bankruptcies in the road transport sector over the next year.

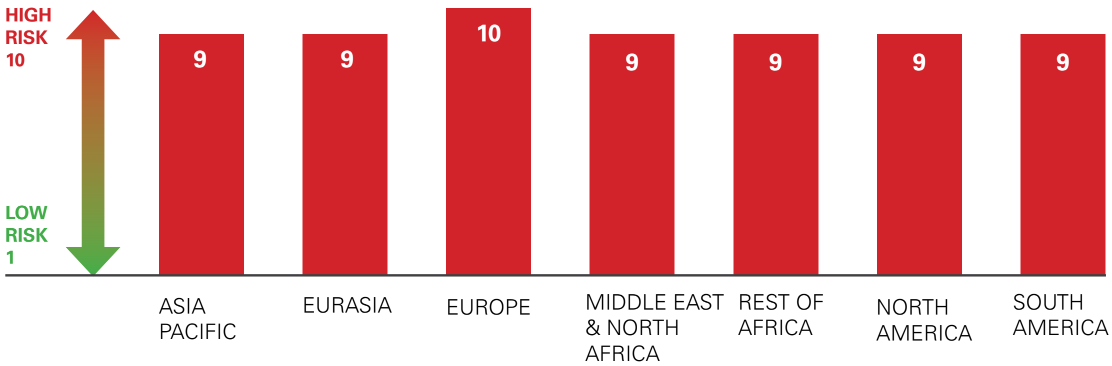
Default risk

Road transport operators in all regions around the world are facing a high or very high risk of defaulting on loans over the next year. This means a deterioration in their creditworthiness, which in turn increases their cost of borrowing, particularly for vehicles.

Based on four key measures consolidated for the commercial goods road transport sector in each country, the risk level is based on an estimate of corporate defaults, payment periods recorded by buyers, corporate financial results and the status of payment terms and credit allocation.

High risk across the globe
Risk is very high across Europe (10), largely due to supply chain disruptions during pandemic peaks. Other countries also face a very high risk due to the macroeconomic situation, including Argentina and Turkey (10) and Russia, Saudi Arabia and the USA (9).

LEVEL OF BUSINESS DEFAULT RISK – REGIONAL OVERVIEW 2020



Source: Coface, IHS Markit, October 2020.

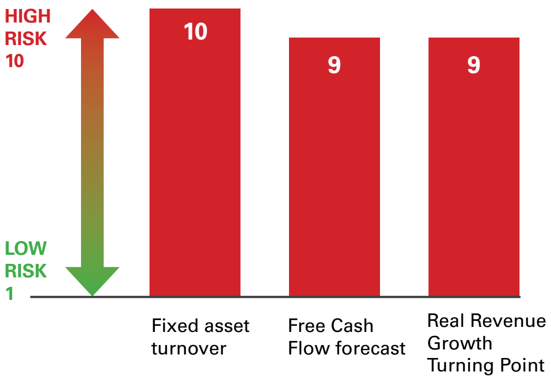
Insolvency risk

When a company cannot repay its loans over time, nor cover operational expenses, it becomes insolvent or, in other words, goes out of business.

Three key indicators of insolvency risk taken together give a consolidated view for the coming year: fixed asset turnover, free cash flow and real revenue growth turning point.

Less business and a lack of return loads lead to higher levels of empty running and underutilisation of commercial vehicles. With declining income, operators cannot pay ongoing invoices and charges. This is exacerbated by some suppliers requiring cash on delivery, or clients who do not pay on time.

INSOLVENCY INDICATORS GLOBAL OVERVIEW 2020



INSOLVENCY INDICATORS REGIONAL OVERVIEW 2020

	Fixed asset turnover	Free cash flow forecast	Real revenue growth turning point
ASIA PACIFIC	10	10	9
EURASIA	10	8	9
EUROPE	9	7	9
MIDDLE EAST & NORTH AFRICA	10	7	9
REST OF AFRICA	10	6	8
NORTH AMERICA	9	6	9
SOUTH AMERICA	10	8	9

Source: Coface, IHS Markit, October 2020.

Fixed asset turnover

This is a measure of operating efficiency, based on sales generated by the capital put in place by management. The high risk for fixed asset turnover forecast in all regions reflects the impact of the pandemic on the operating efficiency of goods road transport operators.

Free cash flow forecast

This measures the amount of profit available for shareholders after capital expenditures are covered. High cash flow risk is forecast for road transport operators of all sizes, showing that they are dealing with short-term financial issues such as a lack of liquidity and income.

Real revenue growth turning point

This measures the inflection, or turning point, in real revenue growth rates, providing an early indication of subsequent shifts in the broader risk profile of the sector. The high global risk forecast in this area reflects high business uncertainty for the year ahead.

REALITY CHECK:

Government support measures are failing

IRU's ten point recovery plan includes six key financial measures for government action, as well as four key non-financial measures.

Some governments heeded IRU's calls during the initial phases of the pandemic, enacting non-financial measures including relaxing driving and delivery restrictions, extending certificates and setting up green lanes.

With a high risk of default and many operators on the brink of insolvency, financial support measures from governments are clearly not working.

IRU assessed government action on the six financial measures in 79 countries. In addition, more than 200 road transport operators in eight countries were surveyed on which measures have been most effective.

Despite large bailout packages to support national economies, little to nothing has been delivered in targeted support for commercial road transport operators.

Implementation of financial support

Few countries have implemented targeted measures for small and medium sized enterprises (SMEs) or more specifically for goods road transport operators.

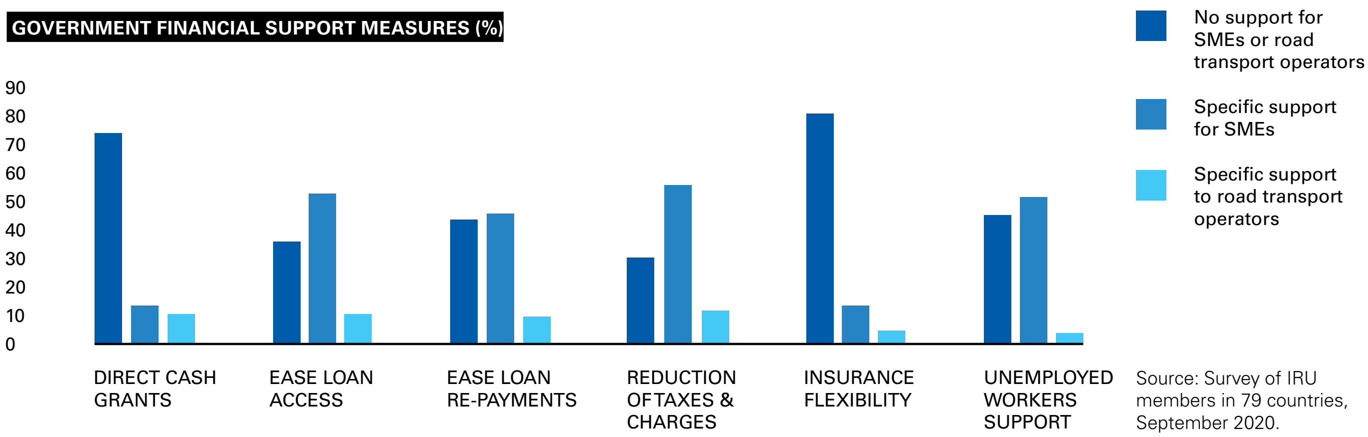
For SMEs, governments have focused more on reducing taxes and charges, and facilitating access to new loans or easing of loan repayment obligations.

Although most road transport operators are also SMEs, few countries have enacted measures targeting the unique needs of goods road transport operators, for example covering vehicle leasing flexibility.

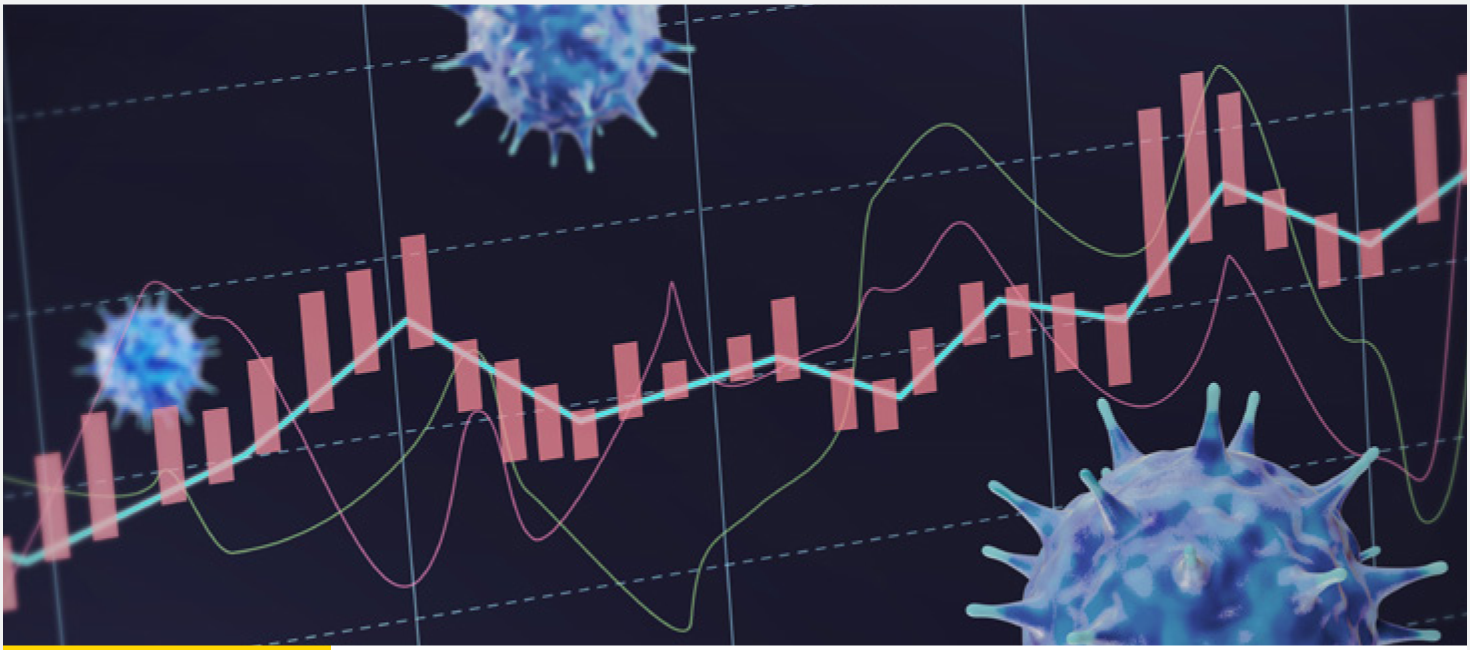
The most pressing challenge facing road transport operators however is liquidity. It is concerning that more than 70% of countries surveyed have not implemented financial support in the form of cash grants for SMEs or goods transport operators.

This aligns with the view that government cash grants have gone to large "national champions" in air or rail rather than targeting the millions of smaller road transport operators who, together, move more goods and passengers.

GOVERNMENT FINANCIAL SUPPORT MEASURES (%)



Source: Survey of IRU members in 79 countries, September 2020.



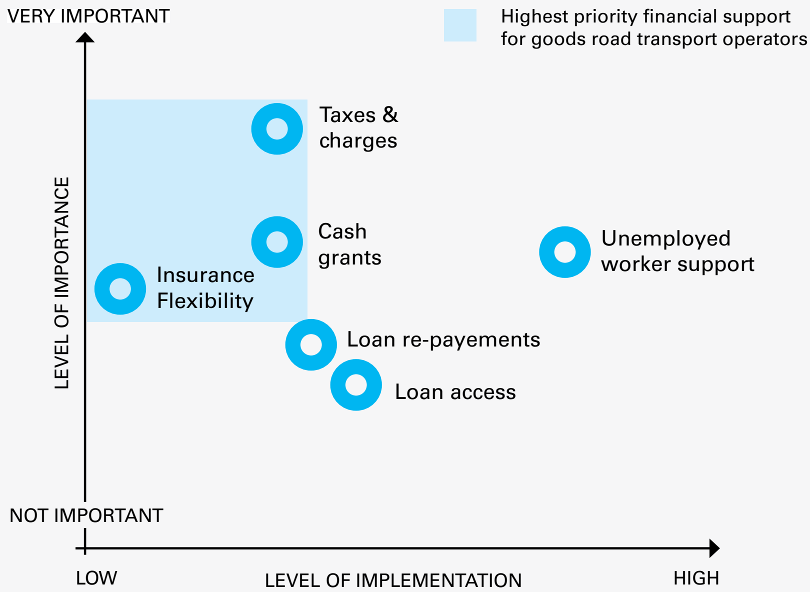
Effectiveness of financial support

Supplementing the macro assessment, IRU also surveyed 221 goods road transport operators in eight countries in the Americas, Asia, Eurasia and Europe to evaluate which financial support measures have been most effective.

Overall, few road transport firms have benefitted from governmental financial support. Only 19% of companies were satisfied with their government's aid packages.

Very few companies have seen effective support in terms of cash grants, seen as crucial to address declining liquidity, or action on insurance premium flexibility.

Mapping importance against implementation, road transport operators need governments to focus on providing targeted cash grants and facilitate payment term flexibility for insurance premiums, as well as continuing to relieve taxes and charges.



Source: IRU Survey of 221 goods road transport operators in Argentina, China, Germany, India, Kazakhstan, Russia, Tajikistan and the USA. October 2020.

ONLY 18% of goods road transport operators have received direct cash grants from governments

ONLY 20% say their government has acted on reducing vehicle insurance premiums

ONLY 50% say their government has acted on temporarily reducing taxes and charges

Conclusion

The most pressing problem for road transport operators is liquidity. The risk of default and insolvency is high over the coming year. With a bleak economic outlook, and huge forecasted losses across the sector, many road transport companies are facing bankruptcy in the coming months.

Road transport operators at risk
Many governments have put in place rescue packages as a result of the pandemic. An assessment of financial measures in 79 countries has, however, shown that few road transport operators, particularly SMEs, have benefitted.

Governments need to step up
Global economic and social recovery from the pandemic is dependent on a well-functioning road transport sector, which in turn depends on millions of road transport operators staying in business and continuing to run services for their clients.

Road transport operators urgently need financial support, in particular cash grants, insurance premium payment flexibility, and continued relief of taxes and charges in order to stay in business and continue their crucial role in driving the recovery.

Methodology

This update to IRU's June report on the impact of COVID-19 on the road transport sector is based on a detailed IRU analysis of external financial data sets from leading firms, a survey of 79 IRU members and a survey of 221 goods road transport operators in eight countries. The EUR-USD exchange rate used is 1.17 (from November 2020).

Business default risk is based on *Coface* data, from October 2020, for four measures: corporate defaults (by country), payment periods recorded by buyers (aggregated by sector), company financial results (aggregated by sector), and payment conditions. The sector risk assessment is on a 10-step scale: from very low to very high, in order of increasing risk.

Insolvency risk is based on data from *IHS Markit*, from October 2020, for three indicators. *Free cash flow risk* is calculated from a forward-looking perspective. Measured as a nominal currency ratio, a risk rating of 1 is assigned given ratios greater than or equal to 35 and a risk rating of 10 is assigned given ratios less than 0.5. *Real Revenue Turning Point* ratings are created by comparing the annual real growth rate one period ahead with the one period lag growth. So, for the risk rating associated with the year 2021, the growth rate for 2020 is compared to the growth achieved in 2019. A risk rating of 1 (least risky) is assigned to industries with current year real growth at least 21 percentage points faster than the historical trend growth. *Fixed asset turnover* is based on the distribution of total sales relative to the net capital stock for any given year. The A rating of 1 (least risky) is assigned for values greater than or equal to 19.5, and a rating of 10 is assigned for less than 0.5.

IRU members, surveyed in September 2020, are from Afghanistan, Albania, Argentina, Armenia, Australia, Austria, Azerbaijan, Belarus, Belgium, Bosnia-Herzegovina, Brazil, Bulgaria, Canada, China, Colombia, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, India, Iran, Iraq, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Latvia, Lebanon, Lithuania, Luxembourg, Malta, Mexico, Moldova, Mongolia, Montenegro, Morocco, Nepal, Netherlands, New Zealand, North Macedonia, Norway, Oman, Pakistan, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, Spain, Sweden, Switzerland, Syria, Tajikistan, Tunisia, Turkey, Turkmenistan, UAE, UK, Ukraine, USA, Uzbekistan and Yemen.

The 221 **road transport operators**, surveyed in October 2020, are from Argentina, China, Germany, India, Kazakhstan, Tajikistan and the USA.

IRU
La Voie-Creuse 16, CP 44
1211 Geneva 20, Switzerland
+41-22-918 27 00 (tel)
+41-22-918 27 41(fax)

iru@iru.org

iru.org