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IMPACT OF EUROPEAN INTEGRATION PROCESSES TO THE FREIGHT FORWARDING INDUSTRY[1]

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ABSTRACT

European integration processes facilitate mobility and trade flows by removing customs bariers and simplifiyng customs procedures. However,there are some negative impacts on freight forwarding industry in terms of decreasing incomes generated out of customs brokerage. Since many freight forwarders, specialy in less developed countries, have based their business activities on customs brokerage, their market position may come at stake. Therefore, they should transform into logistic operators, who could provide for advanced logistic services required in managing global supply chains. This article outlines the issue by case study of the freight forwarding industry in Croatia.

KEY WORDS: European integrations, freight forwarding, transformation

[1] Review article

INTRODUCTION

Croatian accession to the European Union introduced major changes in the freight forwarding industry,as well as differentpossibilities for development of advanced logistics services.Users of logistics services expect faster, safer and less expensive transport due to elimination of customs procedures at borders between EU countries.Business expansion on the single European market, with respective increase in the volume of trade flows, provides new opportunities for planning, development and implementation of intermodal transport, which is a standard in developed economies [1], as well as setting up modern customs terminals and logistic centers at suitable points of transport routes.

Although the main role of freight forwarding refers to transport management, the most of Croatian freight forwarders have based their business activities on customs brokerage. There have been several reasons for that, such as:

- No special infrastructure, nor expensive equipment needed (standard office equipment only), while the service fees have been high enough to enable high level of profitability;
- Suitable labour force have been highly available at low cost (target profile: secondary school degree in transport or economics, preferably with knowledge of a foreign language);
- Specific skills and competences required can be adopted through internal training, specialized courses and work experience.

It has been a succesfull business model for decades prior to the accession to the European Union. Since Croatia has become a member country, changes in customs procedures related to NCTS (New Computerised Transit System), Intrastat, AIS (Automated Import System), ECS (Export Control System), with different transport procedures have changed the position of freight forwarders.

To meet the expectations of the clients, freight forwarders need to define new business strategies.In addition to expertise in transport management, they should develop a specific logistic know-how as their final product, in orther to compensate the loss of incomes out of customs brokerage. In other words, they should shift back to their main role of transport managers, enhanced by expertise in logistic consulting, which corresponds to the role of 4PL (Fourth Party Logistics provider)[2].

THE FREIGHT FORWARDING INDUSTRY IN CROATIA

With reference to the main issue of this paper, insight into the Croatian freight forwarding industry must encompass the year before the accession (2012.), the year of accession (2013.) and several successive years (2014. – 2016., the data for 2017. hasn't been available). According to the data provided by the Croatian Chamber of Economy, there were 471 companies registered for freight forwarding (code H5229 according the the national classification) in Croatia, with total of 4.887 employees and total of 3,22 billion kn turnover, in 2012. Most of them were small companies[3] (459) whose business activities were based on customs brokerage and which employ most of the employees in the industry, as shown in Figure 1.

[2]Fourth-party logistics provider, abbreviated 4PL, lead logistics provider, or 4th Party Logistics provider, are consulting firms offering logistics consulting, transportation and supply chain management services. A 4PL is an independent, singularly accountable, non asset based integrator who assembles the resources, capabilities and technology of its own organisation and other organisations, incuding 3PLs and 2PLs, to design, build and run comprehensive supply chain solutions for clients.

[3]Companies with up to 50 employees (Croatian Chamber of Economy classification).

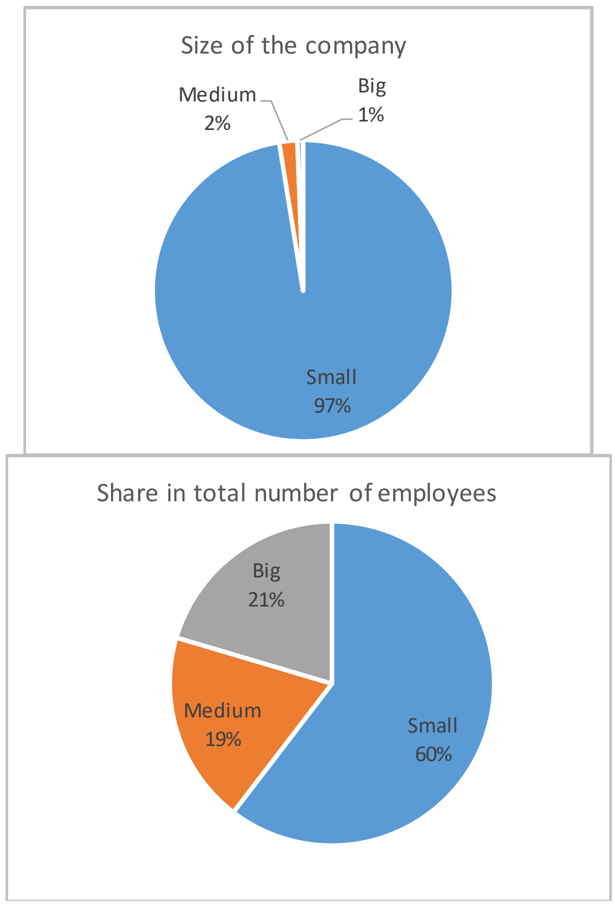

Figure 1. Size of the freight forwarding companies in Croatia and the respective share of employees

In the year of accession (2013.) and in the following years the number of small companies has decreased, causing thetotal number of companies to decrease, however the number of medium sized companies[4] has remained stabile up to the year 2016. when it increased, as shown in Table 1. and in Figure 2. respectively.

[4]Companies with 50 up to 250 employees (Croatian Chamber of Economy classification).

Table 1. Number of freight forwarding companies in Croatia from 2012. to 2016.

Year	Number of freight forwarding companies			
	Small	Medium	Big	Total
2012.	459	9	3	471
2013.	449	10	2	461
2014.	441	9	2	452
2015.	421	10	1	432
2016.	406	13	1	420

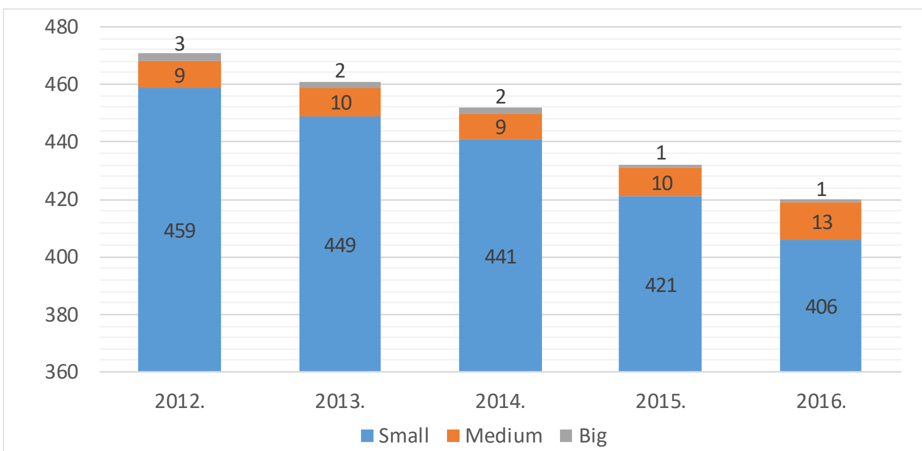

Figure 2. Number of freight forwarding companies in Croatia from 2012. to 2016.

Number of employees follows the same negative trend with exception of the year 2016. when the total number of employees in the industry increased due to increased number of medium sized companies, as shown in Table 2. and in Figure 3. respectively.

Table 1. Number of employees in freight forwarding companies in Croatia from 2012. to 2016.

Year	Number of employees in freight forwarding companies			
	Small	Medium	Big	Total
2012.	2.952	937	998	4.887
2013.	2.418	1.067	610	4.095
2014.	2.250	1.031	513	3.794
2015.	2.238	1.122	302	3.662
2016.	2.037	1.517	299	3.853

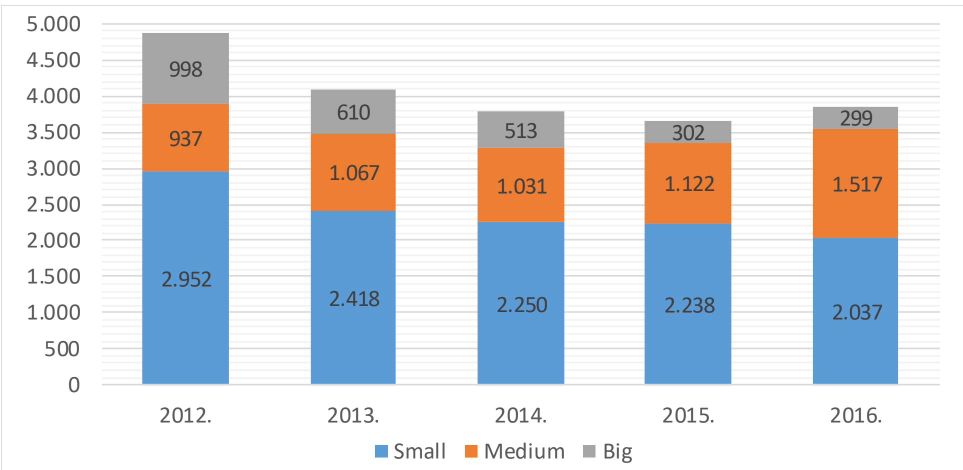

Figure 3. Number of employees in freight forwarding companies in Croatia from 2012. to 2016.

By decreasing the number of employees, small companies that remained active have achieved the highest productivity in the industry (803.273,00 kn turnover per employee in 2016.), while the medium sized companies have increased in number and expanded their business activities, thus employing more labor force(the total number of employees in medium sized companies is 62% higher in 2016. than in 2012.) although the productivity is slightly lower than at small companies (706.312,00 kn turnover per employee in 2016.). It can be explained by different structure of business activities. Small companies still have a major share of customs brokerage and Intrastat reporting services, while the medium sized companies dominantly deal with transport management and contract logistics, which are more labor intensive acitivities.

Nevertheless, the medium sized companies primarily dealing with transport management and contract logistics have appeared to be the most convenient business model and development drivers in the freight forwarding industry in Croatia.

The most important aspects of European integrations affecting the freight forwarding industry in Croatia could be identified as follows:

- Customs borders with neighboring EU countries have been eliminated, while Croatian border against Serbia, BiH and Monte Negro has become a part of the customs border of the EU;
- Port of Rijeka has become an EU port, i.e. an entry point to the European market;
- Croatia has become a convenient transshipment point for European distribution networks in supplying markets of former Yugoslavian countries;
- Geographical position of Croatia has major importance not only for transit corridors towards the Central Europe, but also to Baltic (Route 65) and to the rest of former Yugoslavian countries.

Toanalyse the current situation on the market and outline the development perspectives, the authors have taken into account the results of the research on the structure of logistic services demand in Croatian economy they previously carried out[2]. With reference to that, the main impacts to the Croatian freight forwarding industry could be summarized as follows:

- **Decrease of customs brokerage operations**due to the fact that more than 60% of Croatian foreign trade refers to the EU countries [3], which has become a trade within the EU. Therefore, freight forwarders closed their offices at border crossings on Slovenian and Hungaryan border as they were needed no more. Also the freight forwarders cut down the staff or closed some of their inland officeswich were focused on customs clearance services.

- **Demand for Intrastat reporting services** emerged due to EU regulations of trade between the member conutries.

- **Increase of logistic operations related to e-commerce** (online shopping) and courier service, since the Croatian market has become a part of the integrated EU market without customs barriers. Although these logistic operations are not primary performed by freight forwarders, they generate a demand for such services on behalf of their clients, so it s a significant segment of business activities in the freight forwarding industry.
- **Increase in demand for integrated logistic service** which consists of standard 3PL sevices enhanced with expertise in implementing advanced technologies and in logistic consulting.

MARKET PERSPECTIVES OF THE FREIGHT FORWARDING INDUSTRY IN CROATIA

The most visible negative impact of accession to the EU refers to decrease of incomes based on customs brokerage. Next is the decrease of the road freight rates which has been welcomed by the clients, but puts additional burden to the carriers and freight forwarders.However, accession to the EU yields new development perspectives for Croatian freight forwarders, as follows:

- **Intrastat reporting** was expected to partly compensate the loss of incomes generated out of customs brokerage, but such expectations appeared to be groundless due to relatively high threshold value[5] which put many small and medium sized companies out of the Intrastat system, while the service fees for Intrastat reporting were much lower than the fees for customs brokerage.
- **Handling transit traffic**, as by integration into the single EU market, the Port of Rijeka has become an EU port and the logistics infrastructure in Croatia have gained importance. Also the market positions previously acquired by global freight forwarders have strengthened up, resulting in further attracting of transit cargo flows. Forecasts of the European Commission indicate that container traffic via the port of Rijeka is expected to increase significantly in the period of the next ten years, which should generate additional revenues for freight forwarders in Croatia.
- **Customs clearance** of goods in import for and export from the EU countries can be perfomed in Croatia as it has become a part of the integrated EU

[5]In the beginning it was 1,7 million kn total value of trade with EU countries per year, wich was subsequently decreased.

customs territory. Since Croatia holds the part of EU border on its territory, customs operations in transit (NCTS) over Croatia are also to be done at Croatian part of the EU border. It is up to the freight forwarders in Croatia to acquire that traffic, however the opportunities greatly depend on the effectiveness of the Croatian customs, which is expected to speed up the procedures and on the quality of available infrastructure.

- **Providing for 4PL services**. By upgrading their transport management, customs brokerage and Intrastat expertise with 4PL competences, freight forwarders could gain a new market segment that is emerging in Croatia upon accession to the EU. It would require further investing in professional education and training of staff, which could be succesfuly facilitated by a closer cooperation with educational institutions in the field of traffic and transport engineering.As 4PL they would manage logistics processes regardless of which subcontractors are involved, including those already used by the client. They would structure the relationships and the processes in a way that best meets the requirements of the client, rather than the client having to accept what the outsourcing provider has to offer[4]. It is an excellent opportunity for freight forwarders to meet.

CONCLUSION

Croatian accestion to the EU, by removing customs borders against the EU countries, simplification of customs procedures and delegating customs endorsments to authorized importers and exporters, had cut down a major part of customs operations performed by the freight forwarders. Since mostof the freight forwarders in Croatia have based their business activities on customs brokerage, it had a strong negative impact on their incomes.

On the other hand, integration into the single European market yields some new business opportunities which could compensate the loss of incomes generated out of customs brokerage. These opportunities mainly refer to handling increased volumes of transit cargo flows, providing forcustroms clearance of goods coming from or going to the third countries, as well as providing for 4PL services.

Upgrading competences and expertise towards 4PL segment would require freight forwarders to make aditional efforts in professional education and training of staff. A closer cooperation with educational institutions in the field of traffic and transport engineering could succesfuly facilitate such efforts. It is up to the freight forwarders in Croatia to take advantage of these opportunities, to improve their market position and provide for further development of the freight forwarding industry.

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