Haulage Industry Task Group: summary of evidence

December 2006

HM TREASURY

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FTA

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1 INTRODUCTION

1.1 The formation of a Joint Task Group between Government and key haulage industry bodies was announced in the Pre-Budget Report in December 2005. The Task Group consisted of officials from HM Treasury and the Department for Transport (DfT), Robbie Burns, Chairman of the Burns Inquiry and representatives from the Road Haulage Association (RHA) and Freight Transport Association (FTA). Representatives from the Confederation of British Industry and the British Chambers of Commerce also attended a number of the meetings. A steering group jointly chaired by the Financial Secretary to the Treasury and the Minister of State for Transport oversaw the Task Group.

1.2 The purpose of the Task Group was to build a better understanding of the issues raised in the Burns Inquiry into fuel prices, freight taxes and foreign competition (published in December 2005), and to extend the work begun by Burns into other areas affecting the haulage sector. The outcomes will inform future decisions on how to ensure that the sector continues to fulfil its important role in the UK economy.

1.3 The Burns Inquiry produced a wide base of evidence on industry opinion regarding freight taxation and foreign competition. The Government welcomed this inquiry and the role it has played in furthering understanding of conditions in the haulage industry. But it was felt that there were a number of other important challenges facing the sector and that evidence on a range of issues was needed to assess how any policy action is best targeted. The Task Group covered a number of workstreams:

1. Reaching a shared understanding of the evidence gathered by the Burns inquiry.
2. Considering whether the pressures identified by the Burns inquiry were unique to the haulage industry or common to a variety of industrial sectors – including those open to strong international competition and/or experiencing rising input costs.
3. Assessing the impact of workforce pressures on the industry.
4. Assessing the importance of fair and effective enforcement.
5. Identifying areas where regulatory costs are perceived to be unduly onerous.
6. Assessing the extent and potential benefits of 'best practice' adoption across the industry.

The evidence gathered through each of these workstreams is summarised in this report.

2 A shared understanding of the Burns conclusions

2.1 There was a great deal of discussion in the Task Group leading to a greater shared understanding of the Burns conclusions, conditions in the haulage sector and what the drivers of tougher conditions are.

2.2 Evidence shows trading conditions in the haulage sector have become progressively tougher over the past two decades, and fierce competition is the key driver of falling margins. Haulage has become an increasingly 'commoditised' market, with a significant number of operators working at reduced rates in order to win or retain business.

2.3 In particular, the relative role of competition from foreign hauliers operating in the UK compared to competition among domestic hauliers was explored. Here, a distinction was drawn between foreign operators bringing in loads from abroad or taking loads from the UK overseas ("international trips"), and foreign operators picking up and dropping off the same load within the UK ("cabotage").

International trips

2.4 Over the past decade, foreign hauliers have significantly increased their share of international freight movements to/from the UK - this reflects shifts in manufacturing trade and exchange rate movements.

2.5 The Task Group agreed that shifts in the balance of trade, meaning manufacturing industries are shifting towards Central and Eastern Europe, have naturally biased freight movements in favour of countries in these regions (exporting firms generally commission local hauliers with whom they have a business relationship to deliver their goods abroad). Exchange rate fluctuations over the past few years have also meant haulage services have become relatively more expensive in the UK than in the EU (sterling was 30 per cent stronger in 2000 than in 1995, and 20 per cent stronger in 2005 than in 1995).

2.6 In addition to this, the Task Group agreed that UK hauliers tendering for freight jobs involving overseas travel are able to access diesel on the same terms as competing firms abroad. The proportion of UK vehicles taking overseas trips as a proportion of overall overseas trips has not recovered in the past four or five years, during which time the euro has appreciated against the pound, ten new member countries have joined the EU and fuel cost differentials have narrowed.

Cabotage

2.7 The official measure of cabotage activity - which uses standard Europe-wide methodology - is based upon tonne kilometres. This measure suggests that cabotage activity in the UK has increased steadily over recent years, but remains very small, at around 1 per cent of total domestic road freight movements. On this measure, UK cabotage penetration is in line with the average for Western Europe.

2.8 However, it was clear that cabotage has very different impacts on different areas in the UK and different sectors of the haulage industry. The impact of cabotage activity is stronger around the Channel, North Sea and Irish Sea ports. Cabotage also principally affects long-haul domestic operators of vehicles of 38 tonnes and above. But even in those sectors, official cabotage measures are relatively low. Based on the assumption that foreign operators only undertake cabotage in the hire and reward market using vehicles of 38 tonne and above, their share of that market rises to around 2.5 per cent. If specialist bulk carriage (such as sand tippers, cement mixers or tankers) are also excluded from the potential business for foreign operators their share of the remaining activities is 4.2 per cent.

2.9 The Task Group further considered the "capacity" for cabotage, designed to illustrate the *potential* penetration rate if *all* foreign vehicles used *all* of their spare time in the UK to undertake cabotage. This yields a "potential capacity" rate of 15.7 per cent for the non-bulk 38 tonnes and above hire and reward sector, although it is unclear what if any impact this might have on the domestic market, given that little of this "potential capacity" appears to be utilised in practice. The Task Group agreed that any further evidence on the extent of cabotage would be helpful to understanding this dynamic market and this should be kept under review.

2.10 The Task Group agreed that the impact of cabotage on the haulage industry extends beyond the direct loss of market share - in particular, through the threat of foreign competition having a wider impact on some buyers' price expectations. Evidence gathered by the associations indicates there is a "footprint" effect from overseas hauliers quoting low rates to one or two customers, which then circulate among haulage buyers in a region, lowering price expectations for some buyers of haulage services. There is also clearly a strong perception amongst hauliers that foreign competition is a key issue. However, the work so far has uncovered no quantitative evidence as to the scale of this wider impact on operator margins.

2.11 The Task Group agreed that fierce competition and tight margins are a structural feature of the UK haulage market. There was a consensus within the Task Group that, thanks to low barriers to domestic entry and the fairly standard nature of many haulage services, the sector exhibits the features of an economically "perfectly competitive" industry – that is, one where competition between many small suppliers quickly erodes profit margins.

Operating costs

2.12 FTA and NERA economic consultants contacted overseas haulage associations to collate data on the costs of operating large goods vehicles in different countries. This work showed costs within the UK are similar to those in Ireland, The Netherlands and Germany. For other close neighbours such as France, Spain and Italy cost differentials are larger at around 10 to 15 per cent. Costs are lower in eastern European countries due to lower wages but operators from this region still require a permit to undertake cabotage in the UK. In May 2006 the Government decided to continue the restriction preventing hauliers from seven of the eight East European accession countries of 2004 from undertaking cabotage in the UK for at least another two years. Of the East European countries that joined the EU in 2004, only Slovenia's hauliers are allowed to undertake cabotage because their costs are comparable to EU 15 levels.

2.13 Cost differentials reflect a number of factors, including fuel tax differentials. However, the fuel tax differential is partially offset by lower labour taxes and other employer costs in the UK. Despite the overall lower cost base for foreign hauliers from some countries, observed levels of cabotage in the UK are still relatively low.

3 COMPARISONS WITH OTHER SECTORS

3.1 The Task Group considered a number of issues related to how the haulage sector compares with other sectors in the UK. The group considered long-term structural challenges arising from cost differentials compared to overseas competitors, the impact of these challenges on trading conditions faced, and the tax treatment of different sectors, in order to help identify whether or not the haulage sector faces more serious difficulties than other sectors, whether the scale of cost differentials facing haulage are more or less serious than those faced by other sectors, and whether or not different tax treatments exist.

3.2 The Task Group acknowledged the role that economic globalisation has played in recent years in intensifying competitive pressures for a number of sectors across the UK economy. It was clear that technological advances, the liberalisation of trade in goods and services, and improving political conditions in developing countries, were all driving greater competition for a range of UK sectors.

3.3 Margins in the haulage industry have tightened, and survey measures of confidence are markedly lower than in other service sectors. However, the current margins in the sector do not stand out as being particularly weak compared with a range of other manufacturing and service sectors. The average profit margin in the road haulage sector was 2.2 per cent according to data from Plimsoll Publishing (2005). Other sectors reliant on commodity inputs exhibited similar figures. For example the average margin in the courier sector was 2.1 per cent, in construction 2.4 per cent, and in metal fabrication 2.2 per cent. As the price of raw materials such as building aggregates, metals and fuels has risen in recent years (partly due to stronger demand in faster growing economies) all sectors dependant on such inputs have seen margins reduced.

3.4 Other sectors open to international competition face large input cost differentials between countries as well. For example, the Department for Trade and Industry (DTI) estimated that operation costs for call centres in some countries are up to 40 per cent lower than in the UK.

3.5 The Task Group has also considered the UK tax treatment of some other sectors: filmmaking, spirits, aviation and shipping. In some respects, these sectors are comparable to road haulage, as they are open to foreign competition. However the decision to implement specific tax regimes for these sectors reflects other factors too – including the international mobility of firms operating in these sectors, and the scope for policy action to bring about a significant increase in UK output in these sectors.

4 Workforce pressures

4.1 Task Group work on labour market issues consisted of a process of evidence gathering, assessment and discussion. There were fairly mixed messages from the evidence. On the one hand, two out of three available surveys indicated that over 50 per cent of haulage firms repeatedly had trouble filling vacancies. Furthermore, the ratio of jobseekers seeking employment as HGV drivers to HGV driver vacancies was markedly lower than the ratio of jobseekers to jobs on average. This evidence would tend to suggest a "shortage" of HGV drivers in the UK.

4.2 On the other hand, the proportion of firms in the sector reporting difficulty recruiting is in line with evidence from the wider economy. Also, there has been no clear trend in HGV driver vacancies in recent years. Finally, in contrast to the reaction we might expect if there was a shortage of drivers (wages being bid up to attract entrants), wage increases in the profession have been consistently in line with the rest of the economy.

4.3 So there may not be any more of a labour shortage in haulage than in the rest of the economy. However, there is anecdotal evidence to suggest the issue may be a more localised than national phenomenon, and that demand for drivers may fluctuate seasonally (such as pre-Christmas, with a January easing).

5 Enforcement

5.1 There is a common understanding that when any haulier breaks the law they are often gaining an unfair competitive advantage. This is particularly true where lorries are overloaded or where drivers' hours rules are being disregarded. Information from the Vehicle and Operator Services Agency (VOSA) shows that, at both targeted and random checks, non-GB[1] vehicles and drivers stopped at the roadside are more likely to be committing offences - as summarised in Table 5.1.

Table 5.1: Ratio of vehicles/drivers receiving prohibitions at VOSA checks

2004 data	Targeted Checks		Random checks	
Type of offence	**GB**	**non-GB**	**GB**	**non-GB**
Drivers' hours/working time	6.7 per cent	20.8 per cent	3.4 per cent	14.0 per cent
Roadworthiness (trailers)	-	-	12.9 per cent	15.0 per cent
Roadworthiness (motor vehicles)	-	-	11.3 per cent	8.6 per cent
Roadworthiness (all)	23.0 per cent	31.5 per cent	-	-

(Note: Targeted checks are made using intelligence information including that from VOSA's operator records and compliance scoring systems. This data on the basis for enforcement is much more comprehensive for UK vehicles than for non-UK vehicles).

5.2 There is currently a particular problem when it comes to enforcing the law against those who do not have an address in the UK as it is too easy for them to avoid prosecution.

5.3 During the period of the Task Group, and informed by its work, the Government has introduced a number of measures to tackle this problem including seeking to introduce a system of graduated fixed penalties and deposits, whereby offenders who do not have a UK address suitable for later proceedings will be required to pay a deposit equivalent to the fixed penalty. In cases where the offending is too serious to be dealt with by means of a fixed penalty, a deposit will be required in lieu of a court hearing. The deposit would be higher than that of a fixed penalty but the exact amount will be subject to a formal consultation exercise. Enabling provisions for this scheme received Royal Assent on 8 November 2006 and the intention is to introduce the scheme during 2007 following a consultation on the detail.

5.4 At the 2005 Pre-Budget Report, additional investment was also announced for "Weigh-in-Motion" (WIMS) sensors; the Task Group welcomed the potential impact this could have on tackling the problem. WIMS linked to Automatic Number Plate Reading (ANPR) cameras have proved extremely effective in helping VOSA examiners to identify overloaded goods vehicles for subsequent formal weight checks. At VOSA's

[1] Data for Northern Ireland is not available in this format. We would not expect figures for all of UK to differ significantly.

WIMS site on the M6 at Birmingham over 90 per cent of vehicles stopped, and subsequently subjected to formal weighings, are prohibited for overloads. Since the formation of the Task Group, and influenced by its work, VOSA has also installed ANPR/WIMS equipment at Portsmouth docks (also achieving a 90 per cent hit rate), and at Clacketts Lane services. Further sites to be commissioned in the next 6 months include equipment near the Dartford River Crossing, Bristol and Manchester. A further site will also be installed on the M6.

5.5 In addition, the recent launch of the South East International Transport Pilot will provide another substantial improvement to VOSA's capacity to tackle non-compliance by traffic in the South East of England.

5.6 Task Group discussions have also focused on the enforcement of cabotage regulations. Cabotage, which is where a haulier from one country carries out operations within another, is legal in the EU, and Member States are required to allow cabotage operations provided they are temporary. The Task Group noted that action has recently been taken against several cabotage operations that were of a more permanent nature, and that VOSA is ready to take action against similar operations where operators on the ground have relevant information. As a direct result of the Task Group's work a new policy statement on cabotage was issued by the Department for Transport in August. It is available on the Department's website at:

www.dft.gov.uk/stellent/groups/dft_freight/documents/page/dft_freight_612407.hcsp

5.7 The RHA and FTA have jointly asked the Government to establish a means by which the identity of ownership and the compliance history of foreign-registered vehicles visiting the UK can be supplied to VOSA to assist in targeting enforcement actions and prosecuting any offences. Establishing and maintaining a database is clearly central to this and the trade associations have asked the Government to consider all options for doing so, including a "vignette" - but a great deal of further work would be needed to ascertain the feasibility of such a scheme.

6 REGULATION

6.1 The Task Group reviewed the various ongoing initiatives on regulatory reform. The Department for Transport (DfT) was continuing to take forward important reforms of the operator licensing process whilst DfT, Cabinet Office, FTA and others had also been collaborating on work about delivery restrictions and the conditions under which they could be relaxed. A good practice guide for local authorities and operators was published in November.

6.2 There is a Government wide exercise to improve regulation. DfT's contribution to this exercise had already included consultation with all key stakeholders including those in the road haulage sector. The Task Group agreed that it did not need to undertake further consideration of options for regulatory simplification, but DfT and HM Treasury stressed that any ideas emerging through the Task Group process would be carefully considered. Consideration would also be given to ideas relating to regulation for which other Departments were responsible. It was agreed though that most new regulations relevant to haulage actually originated at the EU level, though it was also clear that the UK was successful in implementing these in an efficient, or "light touch" manner.

6.3 DfT's Draft Simplification Plan includes a number of proposals aimed at reducing burdens for the road haulage sector. Prominent amongst these are plans to modernise the operator licensing system. The draft simplification plan is available on the department's website at:

www.dft.gov.uk/stellent/groups/dft_about/documents/page/dft_about_612199.pdf

7 BEST PRACTICE

7.1 The Task Group considered how the application of best practice might assist the haulage sector to better address the challenges it faces. The focus was on the two interlinked areas of best operating and commercial practice. Good operating practice, in particular to reduce fuel consumption, can assist in mitigating the impact of changes in fuel prices. Good commercial practice can help to insulate hauliers from changes in the cost base.

7.2 Under the Safe and Fuel Efficient Driving Scheme (SAFED) the Government has funded the training of 375 instructors plus 6375 truck drivers in England. Currently SAFED training is funded for the aggregates sector until March 2007. For drivers in other sectors SAFED is available commercially. SAFED training has improved average fuel consumption by some 10 per cent with additional benefits from less wear and tear, reduced accident costs and lower insurance costs.

7.3 Targeting of best practice advice is important. The fact that companies survive in a highly competitive industry is evidence that there is widespread application of good practice – though there is always room for further improvement. A key sector to target could be the smaller operators who perhaps do not belong to a trade association. However, these are likely to be the entities under the greatest competitive stress and the least likely to be able to afford the management time and up-front costs involved in introducing and maintaining best practices. Advice could also be co-ordinated with the licence acquisition process for new operators.

7.4 The Department for Transport already runs a programme through Faber Maunsell (FM) that develops and disseminates best practice to the industry. FM has been successful in increasing awareness with new branding, an e-mail newsletter and other useful innovations. Both the FTA and the RHA are actively involved in areas of this work, and have endorsed the publications, all of which are available from:

www.freightbestpractice.org.uk

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