Road freight transport after EU exit: possible arrangements

Department for Transport

RPC rating: fit for purpose

The impact assessment (IA) is now fit for purpose as a result of the Department's response to the RPC's initial review.

Description of proposal

This is an impact assessment for primary legislation in the Road Haulage and Transport Bill.

The Department states that it is essential to both the UK and the EU that road haulage can continue to operate across the UK's borders with the EU after leaving the EU.

Current EU regulation on access to the international road haulage market requires operators hauling internationally to hold Standard International Operator's Licences. This requirement will remain in UK law after exiting the EU.

UK and EU Operators can additionally request a 'Community Licence', which is required for hauliers who make international journeys for hire or reward within the European Union. Following the UK's exit from the EU, it is expected that UK haulers will no longer have access to Community Licences, nor will haulers from EU Member States have free and unlimited movement of goods into the UK.

It should be noted that the UK also has bilateral agreements on road transport with a number of countries, which govern the permissions of UK hauliers to operate in such countries. These bilateral agreements will continue to apply after the UK's exit from the EU. The IA does not indicate the proportion of international road haulage that operates under these bilateral agreements.

Additionally, the UK is a member of the European Conference of Ministers of Transport (ECMT) permit scheme, which allows transit to, and through, 43 countries including all EU states except Cyprus. The UK has a limited quota of 102 ECMT permits, allowing a maximum of 1224 vehicles to travel on these permits annually. Currently around 80,000 UK heavy goods vehicles (HGVs) travel to the EU annually.

The preferred negotiating option is to secure a deal allowing the same level of unrestricted access between the EU and the UK as currently obtains. If achieved, there would be no requirement for primary legislation or a permit scheme.

The Department states that it is, nevertheless, prudent to plan for a contingency road freight permit scheme. The IA outlines three possible outcomes or scenarios, which are evaluated against a do nothing counterfactual of continued UK membership of the EU.

Impacts of proposal

This is a narrative impact assessment as the Department has been unable to provide an EANDCB. More detailed analysis is expected at secondary stage. The three scenarios considered are illustrative of the potential outcome of EU-exit negotiations, short of a deal allowing unrestricted access, and the associated impacts.

Scenario 1: the UK only authorises travel to EU Member States using ECMT permits, and EU Member States restrict UK travel to ECMT Permit-holders only

Direct Costs

Costs to hauliers

The Department calculates one-off familiarisation costs of around £220,000 associated with understanding a refreshed ECMT permit scheme. Total permit purchasing costs are estimated at £940,000; this combines time costs of £7 per permit application and an additional issuing fee, if successful, of £133.

Hauliers are expected to suffer significant reductions in revenue and profits, as this scenario would allow only approximately two per cent of HGVs currently travelling internationally to make trips to the EU. The IA does not estimate the cost of this loss of business.

The IA also identities additional costs for hauliers from potential ECMT permit checks at country borders delaying journeys. A restricted number of ECMT permits may also create uncertainty.

Costs to government

The IA states that discovery work is under way to establish the costs of a new permit system designed to allocate a restricted number of permits. Currently some HGVs are stopped and checked to ensure that they are complying with EU regulations. If ECMT permits were also checked, then there were would be enforcement costs associated with this. Monitoring compliance with the permit scheme would add further enforcement costs. The Department states that these additional enforcement costs are expected to be less than those associated with options 2 (bilateral single-journey permit scheme) and 3 (multilateral single-journey permit scheme). This is because, with a relatively small number of ECMT permits, the number of vehicles travelling internationally would be severely limited.

The Department expects to recover the costs via permit fees. This will transfer the costs of running the permit system from Government to business, It has not, however, yet assessed whether the illustrative permit fees assumed would be sufficient to cover this cost in full.

Indirect costs

Losses to traders

Businesses dependent on road haulage to move goods to and from the EU may face additional costs if permit costs are passed on by hauliers. These costs may in turn be passed on to customers. Some goods may not be moved due to a limited number of permits.

Costs to wider economy

The Department anticipates that ECMT permits would significantly reduce the level of international road haulage, likely leading to severe trade losses for the economy. Permit checks at borders would disrupt local transport networks, having a negative impact on the local economy as well as having wider supply chain impacts.

Benefits

The IA states that no additional benefits are expected compared to the counterfactual of the UK remaining in the EU.

Scenario 2: A bilateral permit scheme is developed using single-journey permits (a permit for each journey to each EU Member State). This could have either: (a) no restriction; or (b) a restriction on current haulage levels

Costs that are expected to differ in magnitude from those in Scenario 1 include:

Direct costs

Costs to hauliers

The time costs of applying for permits and the fees for permits are expected to be higher than in the counterfactual, although the cost to hauliers depends on the number of permits available and the permit fee. In the case of Scenario 2a, no restriction on the number of permits, the time costs to hauliers of applying for the anticipated 800,000 permits required are estimated at £5.6million a year.

Assuming an initial application fee of £10 plus a permit fee of £8, the total purchase cost of the permits is estimated to be around £14.3 million per year under scenario 2a. Unlike scenario 1, however, hauliers in scenario 2a would not lose business revenue.

Permit fee costs would be lower if there were a restricted number of permits (scenario 2b). There would, however, be a substantial reduction in the amount of haulage business conducted in the EU under scenario 2b, having a negative impact on business revenues. The IA does not estimate the cost of this.

Furthermore, a restricted number of permits could lead to a rise in UK HGV journey times if they have limited transit rights through some Member States.

Costs to government

The Department expects that operational costs will be higher than in Scenario 1 as it will be handling more applications and delivering more permits, but it does not estimate the additional cost.

Enforcement costs to government are also expected to be higher – the IA cites Driver and Vehicle Standards Agency (DVSA) estimates that an additional 81 full time equivalent members of staff would be required to enforce a permit system with a total annual salary cost of around £3 million.

Scenario 2b would require a permit allocation system which would incur further costs.

As in scenario 1, the costs of the permit scheme are expected to be recouped through fees and the Department still has to assess whether the assumed fee level will cover the cost.

Indirect costs

The Department argues that in scenario 2a trade losses to the wider economy would not occur as there is no restriction on the number of permits. In scenario 2b there are expected to be trade losses for the economy, the magnitude of which is contingent on the design of the system and the number of permits.

Benefits

The IA states that no additional benefits are expected compared to the counterfactual of the UK staying in the EU.

Scenario 3: a multilateral permit scheme is developed using annual permits (a permit for all EU Member States for all journeys within a year). This could have either: (a) no restriction; or (b) a restriction on current haulage levels.

Direct costs

Costs to hauliers

The same types of cost as in scenario 2, including familiarisation costs and the time cost of applying, would be incurred. However, the Department states that their magnitude would be smaller, at around £11.1 million per year, as applications and permits issued to hauliers under scenario 3a would be 80,000, as opposed to 800,000, per year. This is based on an initial application fee of £10 and a further permit fee of £133 (the current ECMT permit fee) when the permit is issued.

This is because under this scenario one permit would cover access to and transit through all EU Member States for one year, as opposed to the one permit required for each EU Member State journeyed to, or through, on each journey in scenario 2.

In scenario 3b some hauliers may be unable to conduct *any* international road haulage. The IA does not estimate the cost of this. *Cost to government*

Compared to scenario 2, the expected cost to government is lower as fewer applications would need to be processed and fewer permits would need to be issued.

As in scenarios 1 and 2, additional operational and enforcement costs are expected, relative to the counterfactual, due to the higher number of applications. In an ‘unrestricted’ scenario these costs are expected to be the same as those incurred under scenario 1. The scale of costs to government in a ‘restricted’ multilateral permit scenario, relative to the other options, is not indicated.

As in scenarios 1 and 2b, the costs of the permit scheme are expected to be recouped through fees and the Department has yet to assess whether the assumed fee level will cover the cost.

Indirect costs

Under a restricted scheme (scenario 3b), road haulage activity in the EU would fall, leading to losses in trade for the wider economy.

Benefits

The IA states that no additional benefits are expected compared to the counterfactual of the UK staying in the EU.

Small and micro business assessment

The Department does not state what proportion of international haulage is undertaken by small and micro businesses. It does, however, state that 99.6 per cent of road freight transport businesses are small and medium businesses; international activity accounts for 4 per cent of the haulage sector's total business.

The IA notes that "Operators typically have tight profit margins and smaller scale businesses may have more difficulty absorbing the new costs related to a permit scheme". The Department states that it will aim to mitigate such potential adverse impacts on small and micro businesses as the regulation is developed.

Quality of submission

The Department has provided a narrative assessment of the impacts of the proposal. The IA is fit for purpose for informing parliamentary decision-making. No figures for net present value (NPV), business NPV or equivalent annual net direct cost to business (EANDCB) have been presented. More detailed analysis is expected at secondary stage.

Issues addressed following the RPC's initial review

As originally submitted, the IA was not fit for purpose. The Department has revised the IA in response to the issues raised by the RPC's initial review. In particular:

1) *Indication of scale of cost* – the Department now provides high level indicative analysis of the cost to business resulting from introducing a permit scheme. The revised IA also provides high level indicative costs to the wider economy of introducing a scheme with a restricted number of permits. The RPC recognises the Department's claim that analysis will be subject to change as better information becomes available in the future and the design of any permit system is established.

2) *Counterfactual of the UK remaining in the EU* – following correspondence between the Department and the RPC, the revised IA now clearly reflects the agreed baseline – continued membership of the EU –against which the scenarios should are evaluated..

3) *Small and micro business assessment (SaMBA)* – the Department is unable to identify the proportion of international haulage undertaken by small and micro businesses. It has, however, now made reasonable efforts to identify the small and micro businesses' share of the total road haulage sector, of which international activity accounts for four per cent. The revised IA furthermore recognises the particular challenges which smaller hauliers may face from a permit scheme.

Other comments

The RPC's initial review identified that the IA should include more discussion of potential wider economic impacts, in particular effects on UK supply chains and export performance resulting from a significant reduction in haulage activity. The Department's revised IA includes some contextual analysis of the implications of a significant reduction in haulage activity, with an illustrative analysis of a scenario where the UK had a restricted bilateral permit system with France.

The RPC's initial review suggested that the IA would benefit from some indicative discussion of the views of stakeholders. In response, the Department states that it has engaged with UK stakeholders on the need for, and impact of, a permit scheme and revised the impact assessment to say that "all stakeholders want to avoid the need for permits" and "(the) industry are seeking certainty".

1. The IA would benefit from providing a clearer explanation in a number of areas: How the Department aims to mitigate the potential impact on small and micro businesses as they develop the detailed regulation.
2. How the stakeholder consultation was undertaken, especially with regards to how feedback was sought, which stakeholders of the industry were consulted, and how this feedback was measured or recorded.

3. quantified permit and enforcement costs, which are a cost to government, of any future road freight transport permits regime,
4. quantified direct impacts of having a permit regime on the UK haulage industry, according to each scenario, including an estimate of loss of profits to the haulage industry if the number of permits is restricted;
5. more substantial discussion of the wider impacts, because transport costs are likely to rise in the case of each of the scenarios, and trade is likely to therefore fall;
6. any negotiation outcome or deal (including the preferred outcome of continuing unrestricted access, permit-free) to be assessed for its regulatory impact, compared to remaining in the EU;
7. quantified NPV, business NPV and EANDCB figures.

The RPC expects to see these points covered in the secondary stage IA, or in the event of any further regulation being introduced.

Departmental assessment

Classification	To be determined once the framework rules for the current parliament are set

RPC assessment

Classification	To be determined once the framework rules for the current parliament are set
Small and micro business assessment	Sufficient at this stage
RPC rating (of initial submission)	Not fit for purpose

Anthony Browne, Chairman