

**Title: CHANGES TO CABOTAGE RULES - TO GIVE SECRETARY OF STATE POWER TO SELECTIVELY CHANGE RESTRICTIONS IN GB**

**IA No: DfT00142**

**Lead department or agency:**

Department for Transport

**Other departments or agencies:**

## Impact Assessment (IA)

**Date:** 23/07/2012

**Stage:** Final

**Source of intervention:** Domestic

**Type of measure:** Secondary legislation

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### Summary: Intervention and Options

**RPC: GREEN**

#### Cost of Preferred (or more likely) Option

Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as One-Out?
£12.2m	£12.5m	-£1.3m	Yes	OUT

#### What is the problem under consideration? Why is government intervention necessary?

New EU rules on cabotage operations (national road haulage operations for hire or reward carried out by non-resident hauliers on a temporary basis in a host Member State) introduced in 2010 mean that non-UK vehicles can only carry out 3 cabotage operations within a 7 day period. The new rules have had a serious impact on the ability of non-UK car transporters to move new cars during peaks in demand i.e. in the new car registration peaks in March and September. If government intervention is not taken such vehicles will be liable to prosecution by the enforcement regime and it will not be possible for the motor industry to supply enough vehicles for export or UK car dealerships at the peak times.

#### What are the policy objectives and the intended effects?

To meet market demand for the distribution of motor vehicles the Department would like to have rules in place which will allow Ministers to selectively relax the application of EU cabotage rules in GB - this is specifically aimed at non-UK car transporters operating at the peak registration periods. This would mean that non-UK goods vehicles undertaking specified activity would not be liable to enforcement action if they go beyond the minimum entitlement in the EU cabotage rules during the designated peak periods. This supports the growth agenda as it would enable the motor industry to maintain supply of new vehicles to UK buyers and for export.

#### What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

- 1. Non legislative options.** The Traffic Commissioners, who administer the GB Operator Licensing system, were consulted to see if there was any scope within existing legislation which would allow GB operators to specify foreign car transporters on their operator licences. The Deputy Senior Traffic Commissioner advised that this would not be possible under existing legislation.
- 2. Selective relaxation by Ministers under existing legislation.** DfT Legal were also consulted to see if it was possible to allow a temporary relaxation of the rules under other GB legislation and advised that this was not possible.
- 3. Selective relaxation by statutory instrument (Preferred).** DfT Legal advised that the only option was to introduce secondary legislation to which would allow Ministers to selectively relax the EU cabotage rules.

**Will the policy be reviewed?** It will/will not be reviewed. **If applicable, set review date:** April 2018

Does implementation go beyond minimum EU requirements?	No				
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	<b>Traded:</b> 0		<b>Non-traded:</b> -0.001		

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Robert Goodwill

15<sup>th</sup> October

Date: 2013

# Summary: Analysis & Evidence

# Policy Option 3

**Description:** Secondary legislation to relax cabotage rules for car transporters

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 12.2m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low			
High			
Best Estimate	0	0.04m	0.4m

### Description and scale of key monetised costs by 'main affected groups'

Treasury loss of fuel duty and VAT benefits from cabotage operations, £45,000 per year

### Other key non-monetised costs by 'main affected groups'

Because these foreign transporters would have to be employed to satisfy the UK demand peaks even with the cabotage restrictions, so would be in the UK in the 'do nothing', we believe that there are no additional road safety costs or market impacts from simply relaxing the requirement to exit and re-enter the country every three loads.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low			
High			
Best Estimate	0	1.5m	12.5m

### Description and scale of key monetised benefits by 'main affected groups'

Business reduction in cabotage costs including:

Reduction in ferry costs (£0.9m per annum), reduction in time costs (£0.5m per annum), reduction in fuel costs (£0.1m per annum)

Benefit to environment through reduced carbon costs (£8,000 per annum)

### Other key non-monetised benefits by 'main affected groups'

For business, reduction in transaction and administrative costs

Demand for transporters from second hand market might be similarly affected and may see benefits from suspension of cabotage restrictions.

### Key assumptions/sensitivities/risks

Discount rate (%)

3.5

We assume full employment of UK transporters, so there are no costs to UK haulage businesses. To comply with cabotage rules, foreign car transporters must make a return journey out of and back into GB every third operation - we assume 100% compliance in the absence of evidence to the contrary.

Figures are based on 2010 demand, which was low by historical standards. If demand increases, benefits will correspondingly increase.

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0	Benefits: 1.3m	Net: 1.3m	Yes	OUT

## Evidence Base (for summary sheets)

### Problem under consideration

EU Regulation 1072/2009 includes new rules in relation to road haulage cabotage, that is domestic road haulage operations undertaken by non-resident hauliers on a temporary basis. Translated into domestic law, this results in non-UK goods vehicles being limited to carrying out no more than 3 cabotage operations within a 7 day period of an arrival in GB. (After 3 loaded cabotage journeys or 7 days the vehicle must leave and re-enter GB with a new international load to be able to undertake more cabotage). This relaxation will be GB only, and it would be for the devolved Northern Ireland administration to introduce their own relaxation, if required.

Under the previous EU legislation the definition of what is temporary was not specified and open to flexible interpretation across the EU. These new simplified rules were formally adopted in GB through an amendment to the Goods Vehicles (Licensing of Operators) Regulations 1995 made by regulation 2(4) of the Goods Vehicle (Licensing of Operators) (Amendment) Regulations 2010 which came into force on 14 May 2010. These rules were intended to give a level playing field for road haulage businesses in member countries, given the varying levels of indirect taxation on motoring and the different standards of roadworthiness testing that prevailed across the EU.

Generally, the clarity provided by the rules has been welcomed by industry. However, the explicitness of the new rules has had an identified impact in one area, that is the ability to move motor vehicles in peak periods of demand (i.e. in the new car registration peak months of March and September).

The peak registration periods themselves are nothing to do with any regulations - they occur because of the GB system of having new registration numbers every 6 months, so people in February or August are very reluctant to buy a new car as the value of a car bought on 28 Feb (eg. 51 reg) is much less valuable when selling second-hand than one bought on 1 March (12 reg). Northern Ireland have a different registration system with registration numbers changing every January.

Car transporting vehicles are highly specialised and are not used for other purposes. General haulage vehicles are not suitable for the effective distribution of cars. The core demand outside of the peaks is satisfactorily met by UK vehicles operating domestically. To meet the peak demand vehicles from other EU Member States are used to supplement the UK fleet. What the new cabotage rules have done is restrict the amount of work that a non-UK vehicle can legally undertake on each visit to GB. Informal dialogue with industry has indicated to us that the way the problem has been mitigated to date is through a lack of checking of sub contractor compliance with the cabotage rules and the un-necessary (from a supply chain perspective) exit and re-entry into GB of vehicles to ensure compliance with the cabotage rules. The cost of the forced exit and re-entry to ensure compliance can be quantified.

Data has been supplied by the industry for 2010 (summarised in table 1 below). This demonstrates the two peak periods for car movements are in periods 3 and 10. Industry has advised the department that the existing UK car transporter fleet has capacity to meet demand for 7,500 loads of new vehicles per week. We have been advised that the UK fleet, supplemented with legal cabotage under the new rules, has sufficient capacity to meet new vehicle demand throughout the year except in the high peaks. We are less certain about the second hand market in terms of overall journeys as data is disaggregated and is not easily collected. The demand profile in the new market is understood to be mirrored in the used market as second hand cars move through the system, but due to the uncertainty in the scale of the second hand market we have decided not to factor in second hand demand in our assessment. Until May 2010 additional transporter vehicles were routinely sourced within the then cabotage rules from other Member States during peak periods.

**Figure 1** New cars supplied and export cars moved

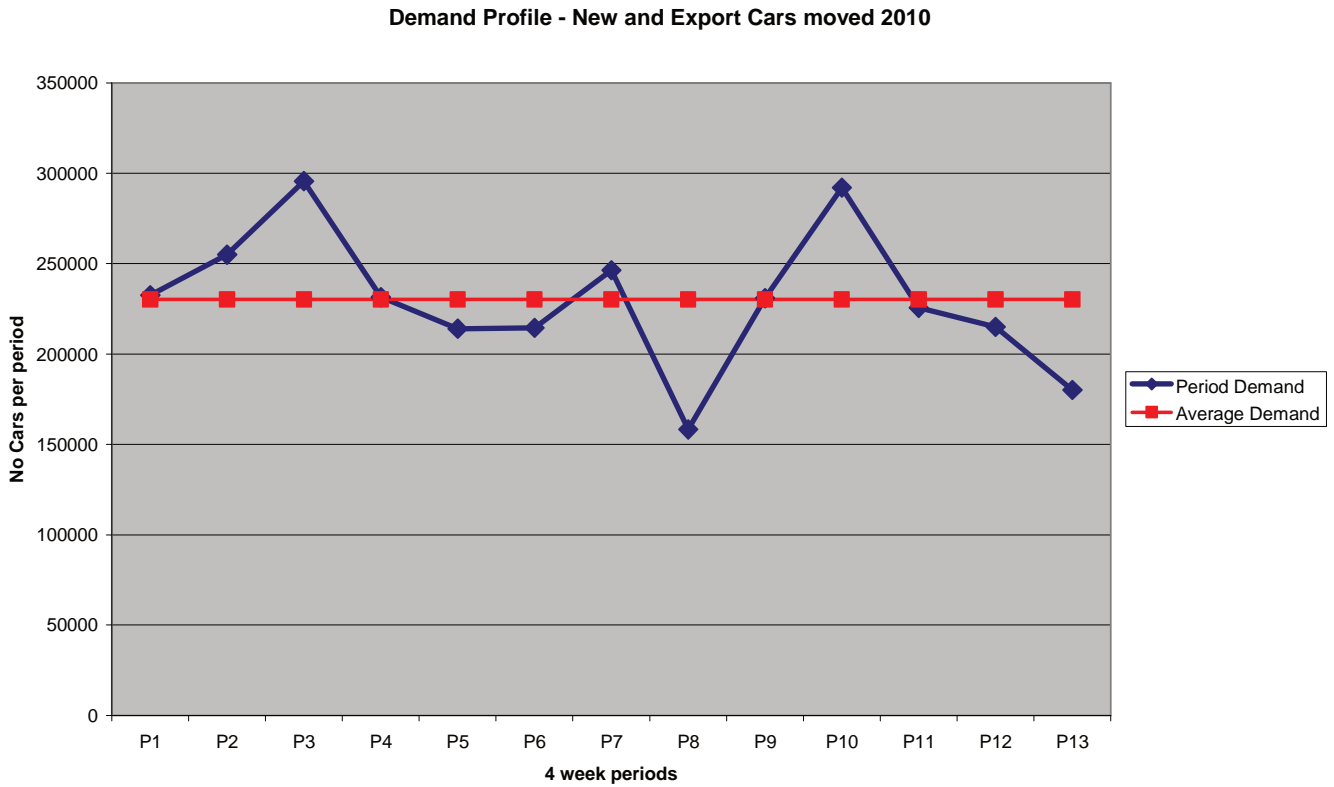
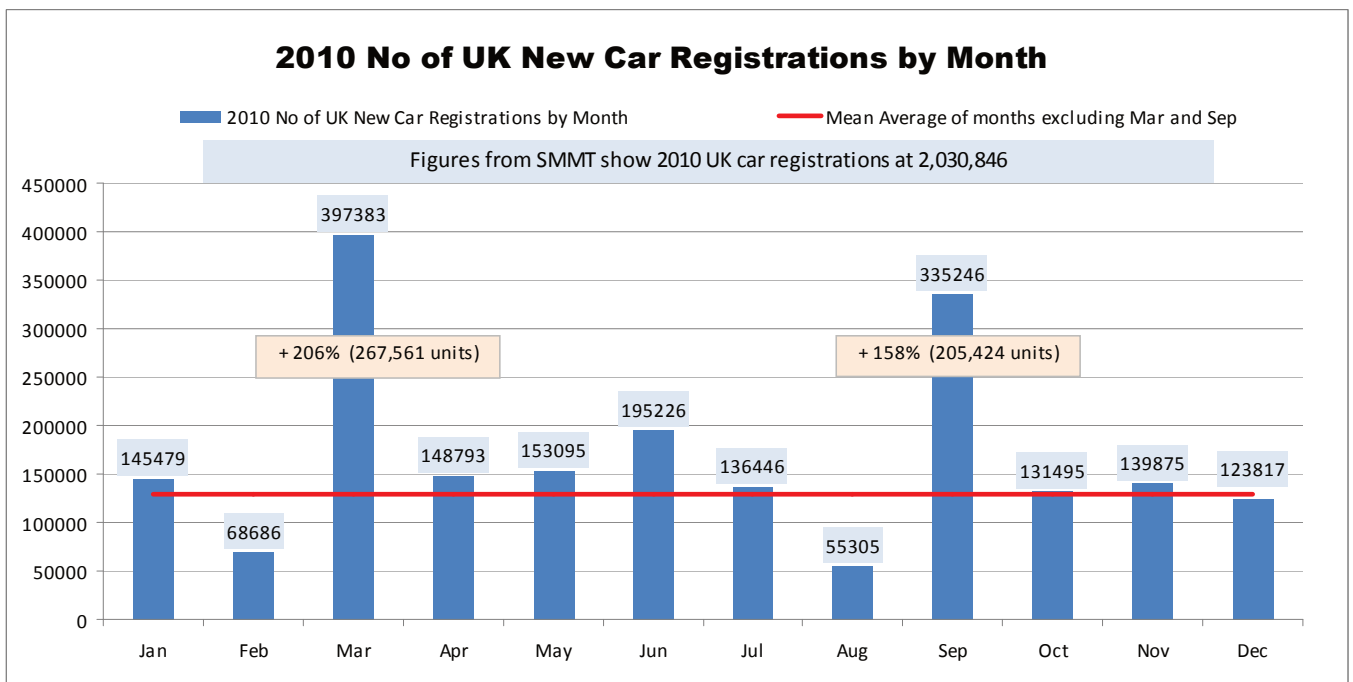
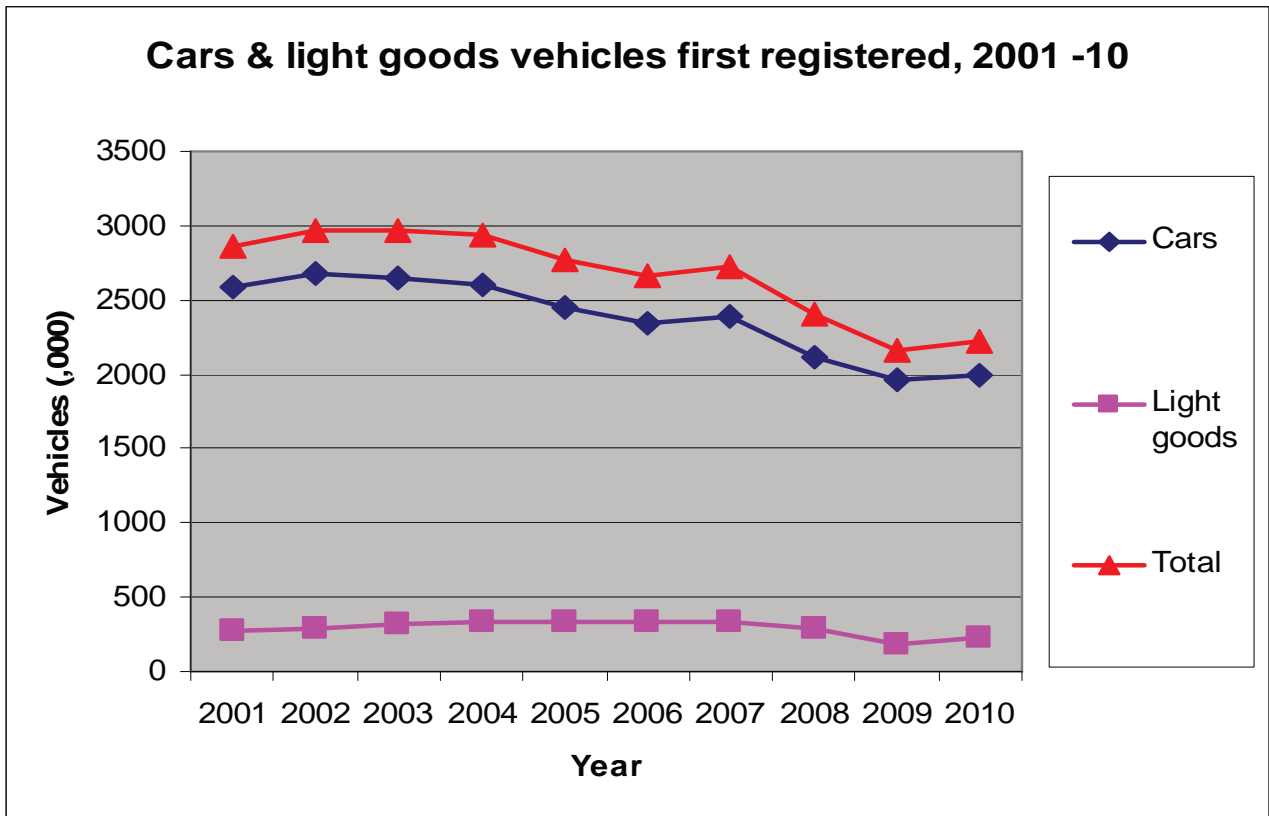


Figure 2 shows the spread of demand for new cars by month. The demand in the second hand market will largely mirror this profile as trade-in vehicles are processed by the industry. Again this highlights the very specific peaks in seasonal activity that the car transporter industry must attempt to meet. The seasonality that applies to export vehicles is different, demand is flatter over the year with a notable decline in transport for export in late July and August when factories shut down for holidays and major model changes.

**Figure 2** New car registrations by month



**Figure 3** Demand for new vehicles and export vehicles between 2001 and 2010



When there is a shortage of haulage capacity to move cars and vans they accumulate at factories and ports during the peak periods. When ports are unable to clear import vehicles it can have an impact on a ports ability to accept vehicles for export. This lack of capacity in the supply chain becomes a bottleneck for UK manufactures distributing vehicles for domestic consumption and export, and for vehicles being imported and distributed in the UK. While no other supply chain problems have been identified in respect of the introduction of the new cabotage rules, it is possible that similar bottlenecks will occasionally occur as a result of bad weather or other emergencies. It is the case that such bottlenecks may be minimised through selective or short-term suspension of cabotage restrictions.

**Figure 4**

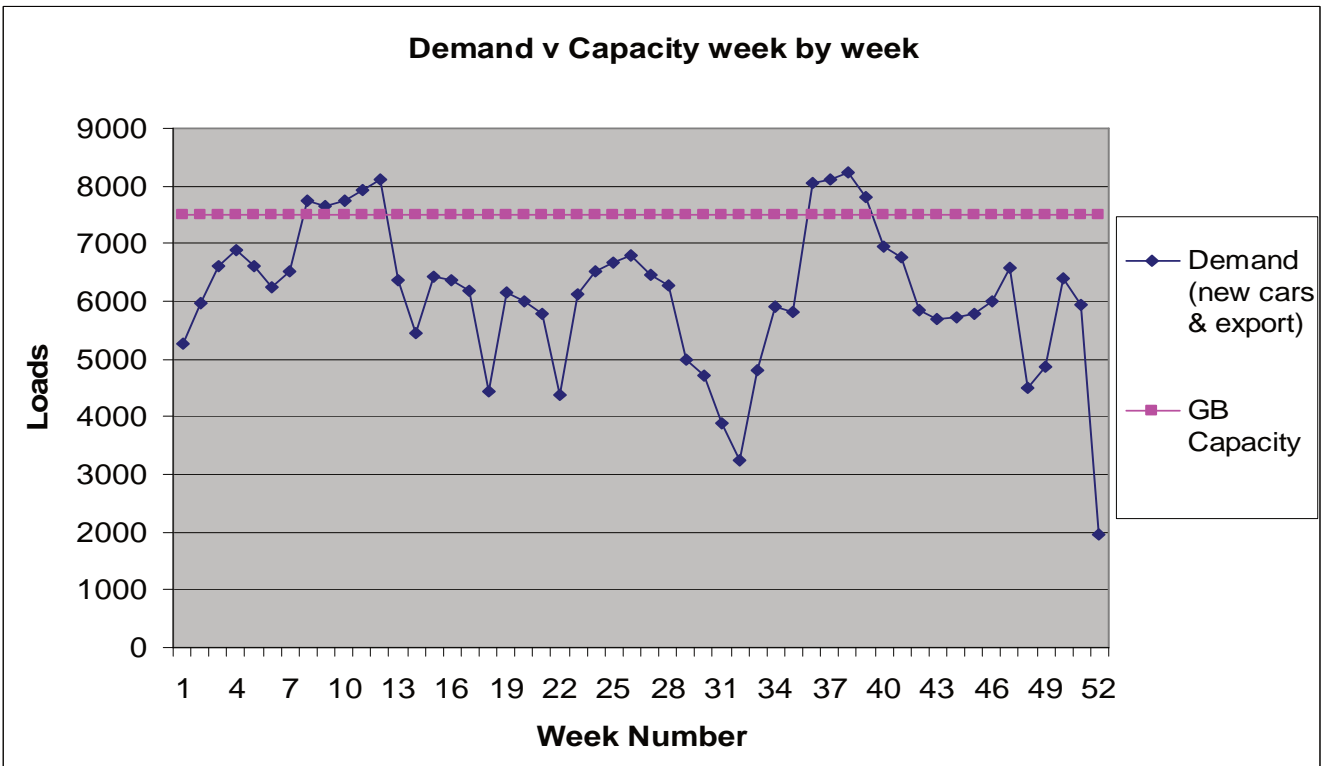


Figure 4 shows the demand profile for new and exports cars and the capacity of the UK haulage fleet to meet that domestic demand week by week during 2010. This information was provided by an industry source.

The information indicates that there is sufficient capacity to move 7,500 loads per week. In two periods there is a shortage of capacity. This is detailed week by week in Table 5. There are approximately 9.4 cars per load – as advised by industry.

**Table 5** - Quantification of weekly periods where capacity is short of demand (2010)

Week Number (2010)	8	9	10	11	12	36	37	38	39
Demand (loaded trips)	7,744	7,665	7,747	7,938	8,106	8,045	8,113	8,233	7,791
Shortage	244	165	247	438	606	545	613	733	291

Over the two periods there is a shortfall in capacity to meet 3,882 loaded journeys, assuming the same 9.4 cars per load for foreign transporters.

This demand may be met by non-UK vehicles. To do so legally the vehicles would be required to exit and re-enter GB after every third loaded journey. That is 1,294 separate entry and exits each year. We expect the foreign transporters to enter GB at the start of the peak, stay in the country to perform as many operations as necessary to satisfy demand from the UK motor manufacturers during the peak and only leave GB at the end of the peak.

### Rationale for intervention

The UK automotive/car transporter sectors did not initially recognise the impact of the new cabotage rules on their significant use of non-UK car transporters during peak periods. Car transporter companies have traditionally employed non-UK car transporters during peak periods each year to assist in servicing the two GB sales peaks. The new cabotage rules as applied in GB substantially constrain this practice due to the limitation on the number of journeys allowed and the period in which operations are permitted.

Industry, thorough the Society of Motor Manufacturers and Traders (SMMT), the Road Haulage Association (RHA), ECM (a car transporting company based in Carlisle) and ECG, the European Association of Vehicle logistics, have lobbied Ministers and officials highlighting the damaging impacts on car makers and dealers of the restrictions. In effect they are not able to legally move the volume of cars needed to be moved in peak periods. There are cases documented of exports being delayed and factories put at risk when end of line compounds became choked with unmoved production as a result of the inability to move enough vehicles in and out of ports since the new rules were introduced.

The solution suggested by the industry is to allow unlimited cabotage movements by non-UK car transporters during each March and September. They claim that the dis-application of the cabotage limits will ensure enough supply of the specialised car transporting vehicles in the market to deliver cars to and from dealerships, ports and factories. The European Commission has confirmed that a Member State may selectively relax cabotage rules providing that the relaxation is done in a way that does not discriminate between other Member States.

It is also feasible that circumstances will arise where it may be desirable to increase supply chain resilience through the temporary suspension of cabotage journey and time restrictions in GB. Circumstances may include weather events or other interruptions to supply chains where capacity to move vital goods cannot be sustained by the GB industry. In such circumstances it may be desirable to allow Ministers to have powers to suspend the cabotage journey or time limits for the movement of nominated goods for a defined period of time.

### Policy objective

The policy objective is to support economic growth. There is a supply chain bottleneck in the automotive sector in periods of peak demand, especially for the manufacturing and retail sectors. We have identified that a temporary increase in the supply of car transporters available in GB would support manufacturers,

reduce the potential for congestion at ports and allow the retail sector to better meet demand. This can be achieved by allowing longer periods of cabotage for car carrying vehicles during peak months.

The Department would like to have rules in place which will allow Ministers to selectively relax the application of EU cabotage rules in GB - specifically aimed at non-GB car transporters at peak periods. This would enable the motor industry to supply new vehicles to buyers and ensure ports do not become congested.

## **Consultation**

A targeted 4-week consultation took place between 9 May 2012 and 5 June 2012. A total of 13 responses were received, the majority of which were supportive of the relaxation proposals. One minor point raised by the Road Haulage Association in their response was the average 8.5 mpg figure for car transporters used in the evidence base. They have suggested that a more realistic figure is 7 mpg as car transporters are not as aerodynamic as other trailer types and have a certain amount of idling time where the engines are used as a pump to operate the car decks. The 7 mpg figure was corroborated by ECM, one of the larger hauliers in the sector. We have therefore used the new figure of 7 mpg in the revised data calculations. It has led to a difference of approximately £10,000 per year in additional savings and £1,000 a year in additional carbon savings for Option 3 compared to the 'do nothing'.

The Association of European Vehicle Logistics and the Ford Motor Company both suggested that any relaxation period should start two weeks before the peak months, i.e. last two weeks in February and last two weeks in August. They suggested that this would allow more vehicles to get delivered for the start of the new registration periods. The Department agrees that it is sensible to allow the relaxation periods to commence before the start of the registration periods and will therefore proceed on the basis of the relaxation periods covering 22 February to 31 March and 25 August to 30 September each year.

The Traffic Commissioners said the Impact Assessment does not reflect likely increased collision rates through using foreign rather than domestic hauliers. They referred to random fleet compliance surveys conducted by VOSA<sup>5</sup> which show that domestic hauliers attract a prohibition rate for mechanical defects of 10.4%. The average for all foreign hauliers is more than double at 21.8%. The Department recognised the point made by the TCs that roadworthiness prohibition levels of foreign hauliers were higher than domestic hauliers. Nevertheless, the Department is not convinced that this is likely to be a significant issue. Car transporters are highly specialised and costly pieces of equipment and we believe they are less likely to be non-compliant with routine roadworthiness requirements than the average HGV. We have also been influenced by new information exchange systems being introduced EU wide in early 2013 that will improve enforcement for vehicles visiting from other EU states.

## **Descriptions of Options**

### **Option 1, Do nothing**

Non legislative options were considered. The Traffic Commissioners, who administer the GB Operator Licensing system, were consulted to see if there was any scope within existing GB legislation which would allow GB operators to specify foreign car transporters on their operator licences. The Deputy Senior Traffic Commissioner advised that this would not be possible under existing legislation.

Do nothing will result in the current limits remaining in place and we envisage the following potential consequences:

1. An increased prosecution of non-UK haulage vehicles carrying cars & vans by the enforcement regime;
2. It will not be possible for the motor industry to supply enough vehicles to UK car dealerships at the peak times;
3. It will not be possible for the motor industry to export new vehicles in sufficient numbers to meet demand and UK ports would be clogged up by car transporters.

### **Option 2, Selective relaxation by Ministers under existing legislation**

DfT Legal were consulted to see if it was possible to allow Ministers to selectively relax the EU cabotage rules under other GB legislation and advised that this was not possible; the only option available to relax cabotage rules is to introduce secondary legislation to effect such a change.

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<sup>5</sup> See tables A1.16 and A1.17 on VOSA Effectiveness Report 2010/11, available through the VOSA website

### **Option 3, Selective relaxation by statutory instrument.**

DfT Legal has advised that the following changes would be required to secondary legislation:

1. The Goods Vehicles (Licensing of Operators) Regulations 1995 (Schedule 3, Part 1, paragraph 23) exempts a goods vehicle from the requirements of operator licensing "which is being used to carry out a cabotage operation consisting of national carriage for hire or reward on a temporary basis in the United Kingdom in accordance with the provisions of Regulation EC 1072/2009...." A new category of permitted cabotage will be needed to permit a relaxation of the cabotage restrictions to allow a targeted relaxation of the rules. This will require an amendment to be made to paragraph 23 of Part 1 of Schedule 3 to the Goods Vehicles (Licensing of Operators) Regulations 1995.
2. Article 5 of the Motor Vehicles (International Circulation) Order 1975 exempts from the payment of vehicle excise duty a vehicle for so long as it is being used for a cabotage operation within the scope of Regulation 1072/2009. An amendment would be required to be made to that Article by an Order in Council (subject to the affirmative procedure) to take account of the further category of cabotage operations created by the amendments to the Regulations referred to in paragraph 1 above.

Although the prime reason for introducing secondary legislation is to relax the cabotage rules for car transporters, ideally, the Department would like the legislation to be amended in such a way that the cabotage rules could also be relaxed for other sectors should the need arise in the future. DfT Legal have advised that any Regulations we propose now could only cover car transporters. However, DfT Legal could aim to draft the new Regulations in a way that would make it easier to capture further categories of vehicle at a later date by simple secondary legislation.

### **Monetised and non-monetised costs and benefits of each option (including administrative burden)**

The proxy benefit of a change in the rules is measurable by the identifiable additional cost that industry needs to absorb through compliance with the 2010 cabotage rules while meeting the demand for vehicle distribution. The way this is done is for a non-UK vehicle to leave GB after 3 loaded journeys and return to GB with an inbound load. There are direct transport costs associated with this and these are quantified below.

In respect of emergency or special cabotage relaxation, it is impossible to predict the circumstances when a relaxation may be needed. It is only ever likely to occur when specialist vehicles are needed to be used as the fleet of general haulage vehicles is large and can be re-deployed quite readily to meet unforeseen peaks in demand. Due to the unknown circumstances surrounding a special or emergency relaxation of the cabotage rules no attempt has been made to assess the costs or benefits of adopting a provision to allow this.

There is no additional administrative burden that arises as a result of relaxing cabotage rules.

The method used to calculate the benefits of the intervention are as follows.

The number of journeys that need to be undertaken by non-UK automotive carrying HGVs in the peak period has been estimated based on the information provided by industry. The demand profile used was 2010. This provides us with hard data; however, as can be seen from Figure 3 above, 2010 is historically low.

Once the number of journeys has been established, the cost of providing a legal service (ie, meeting the legislative requirements) is calculated using Options 1 and 3 (2 is discounted due to unfeasibility).

2010 data supplied by industry indicates that there is a requirement for an additional 3,882 (approximately) loaded journeys by non-UK goods vehicles to be undertaken over the peak periods. If total demand shortfall is 3,882, we can divide this by 3 permitted domestic journeys per entry into GB, which means 1,294 sets of return journeys (or 2,588 inbound and outbound international journeys) are needed to comply with current cabotage restrictions. We assume that operators would comply with the current regulations. however



## Monetised costs of Option 1

We have been able to calculate the cost of doing nothing and making no changes to cabotage regulations, which would mean making 3,882 domestic loaded journeys by non-UK goods vehicles every year within the existing cabotage rules.

The component costs for this option are the additional direct costs incurred in leaving and returning to GB. There is a significant lost productivity caused by time lost in undertaking the additional transport while remaining compliant with all rules including drivers hours.

Under all options, initial entry into GB will be made by vehicles. (Option 2 is not assessed further in this IA as it has been determined that it is not a legally compliant option). This cost is excluded from the assessment as it is common to all options. Under current legislation, the goods vehicle is required to leave GB and re-enter after 3 domestic journeys before it can undertake any more domestic journeys. (The inbound leg is required to be loaded to entitle the vehicle to undertake the three journeys. It is assumed this will occur to ensure compliance with the rules, but at a non revenue generating rate with a notional cargo).

To meet the rules, while making 3,882 loaded domestic journeys, 2,588 additional international inbound and outbound journeys from GB will need to be undertaken by non-UK vehicles each year (1,294 round trips). The cost of these journeys will ultimately be met through costs past through to UK industry and consumers.

### Core assumptions, Option 1.

Vehicle operators will choose the lowest overall cost option when deciding which route to use when entering and leaving GB. This assessment will include the direct ferry cost and the time and distance to get to an appropriate port. For this assessment we have apportioned the routes to be taken in line with the number of movements through the main ferry ports between the Dover Straits into Calais routes and all other channel, North Sea and Irish Sea routes. Based on 2010 port freight statistics for major ports, the Dover Straits accounts for approximately 52% of the vehicles moved, therefore we have estimated that proportion of the international journeys are assumed to use this route (1,346). The remainder will be split between major Irish Sea routes into Ireland and the North Sea routes (1,242).

The industry has advised that indicative ferry costs used for the two routings are £250 each way for the Dover Straits and £450 each way for Irish/North Sea routes.

There is a significant difference in the time taken to use each route from entry to exit of the ports at each end. Including the time from entering the port to exit at the other end we have used 2 hours and 45 minutes for the Dover Straits route and 4 hours 45 minutes for the Irish or North Sea routes (rounded down by 5 mins). These may be at the low end of the time likely to be taken (especially so if a non-Dover Straits route is used as sailing frequencies are expected to add to port dwell times). Table 6 details how the time allocations were built up.

Table 6. Overview of one way transit times used for cost calculations

	Dover	Fishguard
Ferry Transit	90	210
Avg check in	60	60
Exit time	15	15
Total (Mins)	165	285

(Most North Sea routes are longer than the 4 hours sailing time of the Fishguard route, however, for simplicity, and because we do not believe it is proportionate to measure the number of vehicles and the sailing time from each port, we have applied a common time for all non Dover Straits routes. Ferry sailing times can be found at [www.directferries.co.uk](http://www.directferries.co.uk)).

We have also accounted for the time and distance between the end of the last domestic journey and the port of departure on the outward journey. (The reverse also has to be calculated on the inward journey). Advice from industry has been to allow for at least a journey of 40 miles (taking 1 hour) between final domestic journey and the port of departure. Although this would occur twice (to the port and from the port), only one trip is additional, as transporters would normally require one trip repositioning between normal drops and collections.

We are taking a conservative approach to the requirement to collect an import load by using a minimum journey time and distance for collection of a load of two hours and a distance of 20 miles from the port for the round trip and collection. It is unlikely that it will ever be less than this. It should be noted that this load may not necessarily be a normal commercial load - it could be a load sufficient to generate a CMR note to provide technical compliance with the cabotage rules and nothing more.

Based on the above, the total marginal time used for a Dover Straits round trip from delivery of the last load, to the collection of the first load on the (time to undertake the journey less the normal repositioning time/distance for a vehicle between loads) is 5 hours and 45 minutes. The equivalent for an Irish/North Sea route is 7 hours 45 minutes. The marginal road distance used in each case (less the normal repositioning distance) is 60 Miles.

We have used information from the RHA 'Goods Vehicles Operating Costs 2012' tables<sup>6</sup> to determine approximate vehicle costs. For a 44 Tonne Gross vehicle, RHA estimates that time related costs such as depreciation, overheads and insurance (but excluding driver and fuel costs) per annum total £47,100. Using a Department for Transport WebTAG assumption of 1,804 hours worked per year<sup>7</sup>, this gives an hourly cost of £26.11 in 2012. This may be higher than WebTAG standard values for HGV non-fuel operating costs, but we feel that it is justified because car transporters are not a typical type of goods vehicle and the source is a reliable industry association and confirmed by stakeholders.

Driver cost is estimated in 2012 to be £13.88 per hour - this is the WebTAG HGV driver cost in 2012 prices. Although this is the best evidence available, we are aware that it may overestimate the driver costs that apply for non-UK nationals.

Vehicle and driver costs are uplifted each year to reflect real economic growth which increases the value of time. Values of time over the whole appraisal period are shown on page 15.

Tyres, repairs and maintenance have also been accounted for using RHA cost tables – in 2012 these equate to 12.9 pence per mile.

Fuel and carbon costs of the additional travel requirements have been estimated using the latest available fuel<sup>8</sup> and carbon price<sup>9</sup> forecasts from DECC, adjusted for 2012 prices. Although for the sake of simplicity it has been assumed that fuel used is purchased in the UK by foreign hauliers who face the full pump price (and who are not able to reclaim VAT from the purchase of fuel), it is possible that foreign hauliers would choose to purchase fuel abroad rather than in the UK, where it may be slightly cheaper (due to lower fuel duty or VAT rates). We believe that this would make no significant difference to the economic case for this policy.

Although the costs refer to foreign drivers and vehicles not having to make costly extra trips, we believe that the ultimate beneficiaries of cost savings from implementing these measures will be UK-based car manufacturers, hence their inclusion in this appraisal and compatibility with Green Book methodology.

## **Costs of Option 1.**

The above cost assumptions have been applied to 1,294 round trip journeys in and out of GB and in 2013 (the first year of implementation) would equate to:

Direct ferry costs (Dover Straits, 673 round trips, £500 per trip)	£ 336,500
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<sup>6</sup> [http://costs.dffintl.co.uk/Cost\\_Tables\\_2012.pdf](http://costs.dffintl.co.uk/Cost_Tables_2012.pdf), page 21

<sup>7</sup> See, for example <http://www.dft.gov.uk/webtag/documents/expert/pdf/unit3.12.2c.pdf>, para 11.4.12

<sup>8</sup> [http://www.decc.gov.uk/en/content/cms/about/ec\\_social\\_res/iag\\_guidance/iag\\_guidance.aspx](http://www.decc.gov.uk/en/content/cms/about/ec_social_res/iag_guidance/iag_guidance.aspx)

<sup>9</sup> <http://www.decc.gov.uk/en/content/cms/emissions/valuation/valuation.aspx>

Direct ferry costs (Irish/North Sea, 621 round trips, £900 per trip)	£ 558,900
<b>Total ferry costs</b>	<b>£ 895,400</b>
Time costs on ferry (Dover Straits, 5.75 hours @ £40.57/hour <sup>10</sup> )	£157,000
Time cost on ferry (Irish/North Sea, 7.75 hours @ £40.57/hour)	£195,258
<b>Total ferry time cost</b>	<b>£ 354,776</b>
<b>Trip operator costs (60 miles @ 13p/mile, 1.5 hours @ £40.57/hour)</b>	<b>£ 88,841</b>
<b>Fuel cost (60 miles @ 7 MPG<sup>11</sup>, £1.47/l diesel)</b>	<b>£ 74,289</b>
<b>Carbon cost (2.6413kgCO<sub>2</sub>/l diesel @ £56.80/tonne CO<sub>2</sub>)</b>	<b>£ 7,571</b>

**Cost of Option 1 in 2013** **£1,418,360**

The costs have been aggregated over 10 years to assess the NPV. The following table gives the above figures for each year:

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<sup>10</sup> Time costs are driver costs plus vehicle costs (see p15 for individual values)

<sup>11</sup> From [www.freightbestpractice.org.uk/SAFED-for-hgvs](http://www.freightbestpractice.org.uk/SAFED-for-hgvs) - average fuel consumption of trucks

Year	Ferry cost (Dover)	Ferry cost (North/Irish Sea)	Time cost (Dover)	Time cost (North/Irish Sea)	Trip cost	Fuel cost	Carbon cost	Undiscounted cost	PV cost
	673/year	621/year	5.75 hours	7.75 hours	60 miles	60 miles	60 miles		
						7mpg	2.6413kg/l		
<b>2013</b>	£336,500	£558,900	£157,000	£195,258	£88,841	£74,289	£7,571	<b>£1,421,661</b>	<b>£1,421,661</b>
<b>2014</b>	£336,500	£558,900	£159,949	£198,926	£90,321	£74,886	£7,683	<b>£1,432,102</b>	<b>£1,383,674</b>
<b>2015</b>	£336,500	£558,900	£163,242	£203,022	£91,973	£75,552	£7,795	<b>£1,442,417</b>	<b>£1,346,512</b>
<b>2016</b>	£336,500	£558,900	£166,728	£207,357	£93,721	£76,181	£7,907	<b>£1,452,663</b>	<b>£1,310,219</b>
<b>2017</b>	£336,500	£558,900	£169,887	£211,286	£95,305	£76,733	£8,033	<b>£1,461,243</b>	<b>£1,273,389</b>
<b>2018</b>	£336,500	£558,900	£172,991	£215,147	£96,863	£77,208	£8,145	<b>£1,469,864</b>	<b>£1,237,586</b>
<b>2019</b>	£336,500	£558,900	£175,856	£218,710	£98,300	£77,603	£8,271	<b>£1,478,553</b>	<b>£1,202,804</b>
<b>2020</b>	£336,500	£558,900	£178,775	£222,340	£99,764	£77,917	£8,397	<b>£1,487,298</b>	<b>£1,169,003</b>
<b>2021</b>	£336,500	£558,900	£181,742	£226,030	£101,252	£78,214	£8,537	<b>£1,496,178</b>	<b>£1,136,215</b>
<b>2022</b>	£336,500	£558,900	£184,890	£229,944	£102,831	£78,514	£8,677	<b>£1,505,202</b>	<b>£1,104,413</b>
<b>Av annual</b>	<b>£336,500</b>	<b>£558,900</b>	<b>£171,106</b>	<b>£212,802</b>	<b>£95,917</b>	<b>£76,710</b>	<b>£8,102</b>	<b>£1,464,718</b>	<b>£1,258,547</b>

Annex A below provides the underlying assumptions for the calculations on ferry costs, value of time for vehicles and drivers, tyre and maintenance costs, fuel and carbon prices.

### Benefits of Option 1

The only monetised benefit of Option 1 is that if fuel is purchased in the UK, foreign hauliers may pay more in fuel duty and VAT to the Treasury. As discussed above, we have assumed fuel is purchased in the UK, however there is a risk that this assumption does not hold in 100% of cases. In that case, the benefits to government would be reduced. However, we do not believe that this has a significant impact on the net balance of costs and benefits from the policy.

Year	Fuel duty and VAT revenue	PV
<b>2013</b>	£43,402	<b>£43,402</b>
<b>2014</b>	£43,766	<b>£42,286</b>
<b>2015</b>	£44,197	<b>£41,258</b>
<b>2016</b>	£44,589	<b>£40,217</b>
<b>2017</b>	£44,903	<b>£39,130</b>
<b>2018</b>	£45,136	<b>£38,003</b>
<b>2019</b>	£45,288	<b>£36,842</b>
<b>2020</b>	£45,357	<b>£35,650</b>
<b>2021</b>	£45,407	<b>£34,482</b>
<b>2022</b>	£45,457	<b>£33,353</b>

### Option 3

Under Option 3, if the cabotage restrictions for non-UK car transporters are temporarily suspended during the peaks, the costs outlined in Option 1 will be avoided. There are no additional administrative burdens arising from the application of the new rules as all rules other than the limit of 3 journeys in 7 days continue to apply.

There may also be a transaction cost for each entry and exit in terms of booking ferries, changing routings and so on. This unmonetised cost (for Option 1) would also be a benefit but has not been

assessed separately. We believe that there is an additional burden, but makes no significant difference to the conclusions drawn from the analysis.

### **Rationale and evidence that justify the level of analysis used in the IA (proportionality approach)**

Evidence has been obtained from the automotive industry trade body SMMT and one of the larger hauliers in the sector, ECM. The Road Haulage Association representing the haulage industry has supported the case. Further evidence has been obtained from official government statistics.

We believe that the analysis has been conducted at an appropriate level of proportionality that enables readers to identify the key impacts on movements of vehicles at registration peaks in March and September associated with the cabotage restrictions.

Some costs have been identified that have not been monetised, but it is believed that they will not change the conclusions reached by the analysis – these include administration and transaction costs associated with increased restrictions and a precise calculation of time spent for each different possible port that could be used to make a journey out of GB.

### **Risks and assumptions**

The main assumptions for the costs and benefits have been described above. A list of values used for the analysis is below in Annex A.

There is a risk that UK vehicle exports may be undermined if sufficient capacity is unavailable to take vehicles from factory to port. If this happens in the March 2012 peak there may be calls for quicker action than formal processes allow.

It is assumed that existing registration peaks will continue as any changes to the registration system will be too complicated to implement and the automotive sector is generally happy with the current system. The move from the annual registrations to the current twice yearly system was introduced in 1998 to reduce the large number of cars all registered around the same time of year by people trying to get the latest age identifier.

The original rationale for the cabotage restrictions were to ensure a level playing field in member countries, so one might expect there to be some potential costs from relaxing the restrictions in the form of lost business for UK companies – however as we are assuming full employment of UK transporters already during the peaks where relaxation is proposed, there should be nil actual cost. Although there is a risk that more foreign transporters than strictly needed may be employed at the expense of domestic ones, we believe that this is not the case – this view is backed up by the support of the RHA and ECM for this proposal.

However, if rates charged by foreign competitors do fall as a result of cabotage relaxation to a level below that charged by domestic hauliers (based on stakeholder responses we believe this to be unlikely), domestic rates for car transportation must also fall due to competition. This would be a cost to UK haulage businesses and a saving for domestic manufacturers and retailers (a zero net cost transfer within UK business).

The assumptions in the previous paragraph may not be the case if restrictions were relaxed all year round, hence the proposal only to relax during the demand peaks in March and September.

One consultation response also indicated that there may be a risk that the road safety risk posed by foreign transporters would be higher than that of domestic ones. However, as we believe the expected effect of this policy is to reduce the number of wasteful journeys by car transporters (as they would have to be used anyway to satisfy the demand peaks) this would not have an adverse effect on road safety.

It is worth noting that the savings may be an underestimate because we have not taken into account suppressed demand caused by a lack of automotive carriers since the new rules were introduced. Consequential losses at ports due to congestion and the losses costs arising from manufacturers not being able to meet demand have not been assessed as establishing such costs is disproportionate.

We have also disregarded the demand driven by the second-hand market. We have no robust figures to use. With significant numbers of trade-ins during the peak periods we would expect the demand for the movement of second-hand vehicles to broadly follow the pattern in the new car sector. This may also add to the underestimate of the savings to industry of any cabotage relaxation.

### **One in, one out**

The proposed option, Option 3, is an OUT as it relieves business of the requirement to comply with EU cabotage rules during March and September car delivery peaks, leading to an EANCB (equivalent annual net cost to businesses) of -£1.33m, which can be expressed as a **saving of £1.33m per year**, measured in 2009 prices to comply with OIOO calculation methodology. This is calculated by removing the carbon impacts and fuel duty impacts, and using the IA calculator to revalue the impacts from 2012 prices to 2009 prices, as required by the EANCB methodology.

### **Wider impacts**

The supply of additional haulage vehicles will make it easier to move cars and vans made in the UK and imported vehicles. Industries that will benefit are motor manufacturers, motor importers and distributors and dealerships who will be able to maintain the flow of vehicles. Ports will benefit due to improved clearance through the ports of vehicles in transit or stored there.

No impact is expected on rail distribution of motor vehicles as the transport by rail is generally undertaken under long term distribution contracts. In the road sector, it is likely that many larger businesses will have fixed price contracts and so will not be subject to short term price fluctuation, longer term they should benefit from lower contract prices. Smaller customers who do not have fixed demand contracts locking them in to volume commitments for given prices are likely to see flatter prices over the year if the cabotage rules are relaxed. Spiking prices for haulage in peak times will be moderated.

The main beneficiary of any price spike in the current situation is expected to be the non-UK haulier who is providing equipment for non-contracted demand. A higher proportion of local hauliers (compared to non-UK hauliers) would be operating on contracted volumes. When the cabotage rules are relaxed, the marginal demand can be met at a lower cost than otherwise would be the case as additional direct operating costs are also avoided.

There will be a taxation benefit from the cabotage relaxation. As the non-UK vehicles will not be required to leave GB, they will no longer have an opportunity to fill with lower tax fuel during periods of extended cabotage. The lower cost fuel will moderate the savings caused by forced exit and re-entry into the GB. Again, this element has not been quantified as it was deemed disproportionate effort to gather the required evidence for inclusion in this IA.

Consumers are likely to benefit because they will receive goods quicker and trade-ins can be processed more easily at peak times.

The proposal, restricting the cabotage relaxation to the March and September peak periods, is not expected to undermine the core supply of domestic vehicles undertaking carriage in this sector. Full liberalisation is not proposed (no cabotage restrictions throughout the year). It is believed a fully liberalised cabotage regime would impact on the ability to enforce against operator standards in the haulage sector, the number of businesses in GB haulage industry, the number of UK staff employed and the funding generated by the fees and taxes paid by the GB haulage industry.

No impacts are expected on other departments.

The Equalities Impact Assessment screening process has been completed and the answer to all questions was no.

### **Summary and preferred option with description of implementation plan.**

The do nothing option is likely to stifle the export of manufactured vehicles due to a lack of supply chain capacity to move enough vehicles. The preferred option is to allow Ministers to relax the EU cabotage rules so that the distribution of motor vehicles can continue unhindered by a lack of suitable vehicles.

There will be no direct power given to Ministers to relax other cabotage restrictions, however it is envisaged that the legislation will be drafted in such a way that it will be simple to implement in another area, subject to parliamentary approval.

Annex A – list of values used to calculate costs and benefits

Year	LGV (driver or passenger)	RHA Vehicle cost / hour	RHA marginal mileage cost /mile	Ferry Cost (Dover) /return	Ferry Cost (North/Irish) /return	Fuel price (including duty and VAT) /l	Fuel duty and VAT /l	Carbon cost /tonne
2012	£13.88	£26.11	£0.13	£500.00	£900.00	£1.45	£0.85	£56.0
2013	£13.89	£26.68	£0.13	£500.00	£900.00	£1.47	£0.86	£56.8
2014	£14.07	£27.26	£0.13	£500.00	£900.00	£1.49	£0.87	£57.7
2015	£14.35	£27.84	£0.13	£500.00	£900.00	£1.50	£0.88	£58.5
2016	£14.68	£28.41	£0.13	£500.00	£900.00	£1.51	£0.88	£59.4
2017	£15.02	£28.88	£0.13	£500.00	£900.00	£1.52	£0.89	£60.3
2018	£15.34	£29.36	£0.13	£500.00	£900.00	£1.53	£0.90	£61.2
2019	£15.59	£29.85	£0.13	£500.00	£900.00	£1.54	£0.90	£62.1
2020	£15.85	£30.35	£0.13	£500.00	£900.00	£1.55	£0.90	£63.0
2021	£16.11	£30.86	£0.13	£500.00	£900.00	£1.55	£0.90	£64.1
2022	£16.40	£31.37	£0.13	£500.00	£900.00	£1.56	£0.90	£65.2

Other key figures:

- 7 miles per gallon – fuel consumption
- 4.54609188 litres per gallon
- 2.6413 kg CO<sub>2</sub> / l diesel
- 100% of transporters are diesel fuelled