

<b>Title:</b> International Road Transport Permits Regulations 2018 <b>IA No:</b> DfT00402 <b>RPC Reference No:</b> RPC-4287-DfT <b>Lead department or agency:</b> Department for Transport <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>
	<b>Date:</b> 12/08/2018
	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary Legislation
	<b>Contact for enquiries:</b> Paul O'Sullivan HaulageTrailersBill@dft.gov.uk
<b>Summary: Intervention and Options</b>	<b>RPC Opinion:</b>

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANDCB in 2014 prices)	One-In, Three-Out	Business Impact Target Status
n/a	n/a	n/a	n/a	Non-qualifying

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

On exit from the EU we want to ensure that UK companies have the maximum freedom to trade and operate internationally and to let international businesses do the same in the UK. To do this, our aim is to continue to explore options for reciprocal access for road hauliers and passenger transport operators with the EU and to continue our existing arrangements for countries beyond the EU. In addition to allowing the administration of our existing multilateral and bilateral arrangements, this legislation puts in place the necessary framework to deliver potential permit arrangements for road haulage to the EU, should this be required in a negotiated outcome or in the unlikely event we do not reach a deal.

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

1. Ensure that UK operators can continue making international journeys after we leave the EU and to allow European hauliers to continue to make journeys in the UK. To achieve this we will ensure the UK Government can operate a single permit regime that is able to deliver a permit scheme for journeys to the EU, if that is the outcome of negotiations.
2. In doing this, we aim to minimise any unnecessary additional burdens for business arising from any new arrangements.

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

0 Baseline

0.1 Current arrangements/status quo: bilateral permit schemes for non-EU countries and the ECMT (European Conference of Ministers of Transport) multilateral permit schemes operate using administrative powers. These authorise road haulage in non-EU states for vehicles carrying a permit. There is no oversubscription of these permits and no permits are required for road haulage to the EU.

0.2 Do nothing: as above, bilateral and ECMT permit schemes continue to operate using administrative powers. However ECMT permits may be oversubscribed and permits may be needed for the EU (subject to negotiations). There is no system in place to deal with these, thus impacting on international haulage.

1. The International Road Transport Permits Regulations 2018 regulate the existing permit schemes. This issues permits for road haulage to non-EU Member States and ECMT permits and is able to issue permits if required for journeys to the EU. This option is preferred as it allows oversubscribed permits to be issued effectively and ensures arrangements are in place in case permits are required for haulage to the EU.

<b>Will the policy be reviewed?</b> Yes.	<b>If applicable, set review date:</b> 10/2023
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Does implementation go beyond minimum EU requirements?				
Are any of these organisations in scope?	<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)		<b>Traded: n/a</b>	<b>Non-traded: n/a</b>	

***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.***

Signed by the responsible :	Jesse Norman	Date:	12/09/2018
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**Summary: Analysis & Evidence**

**Policy Option 1**

Description: The International Road Transport Permits Regulations 2018 regulate a permit scheme. This issues permits for international road haulage to non-EU Member States and ECMT permits.

**FULL ECONOMIC ASSESSMENT**

Price Base Year 2018	PV Base Year 2018	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: NQ	High: NQ	Best Estimate: NQ

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

**Description and scale of key monetised costs by ‘main affected groups’**

Cost to hauliers – one-off familiarisation costs; time costs of applying for a permit and permit fees, largely in line with current costs.

Cost to Government – one off set-up costs in establishing a new permit system that can allocate permits (including a restricted number of permits); ongoing operational, administration and enforcement costs which will be recovered from permit fees.

**Other key non-monetised costs by ‘main affected groups’**

Cost to traders – businesses dependent on road haulage to move goods internationally may face additional costs if permit costs are passed on by hauliers. Thus there could be a transfer of some or all of the costs from hauliers to traders.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	NQ	NQ	NQ	NQ
High	NQ		NQ	NQ

<b>Best Estimate</b>	NQ		NQ	NQ
<b>Description and scale of key monetised benefits by 'main affected groups'</b> None				
<b>Other key non-monetised benefits by 'main affected groups'</b> The legislation would allow a permit scheme to be operated if required. This would allow UK vehicles which carry a permit to conduct international road haulage, allowing goods to be moved internationally. No additional benefits are expected relative to the current arrangements, but legislation will mitigate the risk that the UK will leave the EU without arrangements for road haulage if required. Due to the surrounding uncertainty over whether a permit scheme will be required for the EU (in addition to our current permit agreements), it is not possible to robustly quantify all associated impacts. There are, however, significant economic benefits to UK hauliers being able to trade and much wider economic benefits for the economy from unconstrained freight flows.				
<b>Key assumptions/sensitivities/risks</b>			<b>Discount rate (%)</b>	
The key sensitivity is whether demand for existing permits will change as a result of exiting the EU. To assess this, a sensitivity analysis has been conducted. Making preparations for a permit scheme will ensure that the UK is ready to continue international road haulage in all scenarios following our exit from the EU.				

**BUSINESS ASSESSMENT (Option 2)**

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>In scope of OITO?</b>	<b>Measure qualifies as</b>
<b>Costs: NQ</b>	<b>Benefits: NQ</b>	<b>Net: NQ</b>		

# Evidence Base

## Background

### Leaving the EU

The United Kingdom is in the process of leaving the European Union and we are negotiating our future economic partnership with the EU. We have always been clear that we want a deal that works for the UK economy and that works for the EU27. A future partnership between the UK and the EU is in the interests of both sides, so we approach these negotiations with the intention of exploring reciprocal arrangements for road hauliers

These regulations cover the UK's existing international agreements for road haulage. They do not change the requirements to conduct road haulage in the EU, which is subject to the outcome of the negotiations. This Impact Assessment measures the impact of the regulations as they are presented to Parliament now, affecting the existing permit agreements. There is brief discussion about impacts if the regulations were to be extended to the EU, but the associated costs would be assessed in a separate, future Impact Assessment that accompanies any changes for the EU.

### Road Haulage in the EU

Road haulage is an important sector to the UK economy – it directly contributes £13.1bn Gross Value Added (GVA) to the UK economy<sup>1</sup>, making up around 1% of the UK's total GVA. It is a key enabler of much of the UK's economy as it ensures that businesses can access inputs for production and sell final goods to customers in the EU. In 2016, UK-registered heavy goods vehicles (HGVs) travelling to or from the UK carried 7.8 million tonnes of freight of which 3.7 million tonnes were exports and 4.0 million tonnes were imports. In 2016, foreign-registered HGVs travelling to or from the UK carried 39.6 million tonnes of goods (24.3 million tonnes imported and 15.2 million tonnes exported), more than five times as much as was carried by UK vehicles<sup>2</sup>. This shows the major role that road freight plays in transporting the UK's exports and imports, and that EU hauliers provide significant supply capacity to move traded goods.

Therefore, it is essential to both the UK and the EU that road haulage can continue to operate across the UK's borders after we have left the EU. The precise arrangements that will apply to road haulage will depend on the outcome of negotiations. It is in both sides' interests to reach an agreement that does not reduce or disrupt current trade levels. Free access enables greater economic activity, thereby raising competition among hauliers and leading to competitive prices and more choice for consumers.

Current EU Regulations on road haulage requires operators hauling goods to hold an Operator's Licence. These require operators to comply with a set of minimum standards including suitable vehicle maintenance and compliance with Drivers' Hours regulations. To haul goods internationally, hauliers with an Operator's Licence must obtain a 'Community Licence'. These are required to conduct hire and reward (i.e. moving goods owned by other parties) in or through EU countries, and a certified copy of a Community Licence must be held within the vehicle travelling internationally. This is not required for own account haulage (i.e. moving your own goods). Although the future arrangements for international road haulage in EU Member States is subject to negotiations, the requirement for all operators to hold an Operator's Licence in the UK will remain in law after we have left the EU.

### Road Haulage beyond the EU

Beyond the EU, the UK has bilateral agreements on road transport with a number of countries which govern the permissions of UK hauliers to operate there and for their hauliers to operate within the UK.

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<sup>1</sup> ONS Annual Business Survey.

<sup>2</sup> DfT Road Freight Statistics.

In addition, the UK is a member of the ECMT<sup>3</sup> multilateral permit scheme which gives the UK up to 1,224 permits for transit to and through 42 other countries. The ECMT regime allows for annual or monthly permits to be issued and runs on a calendar year basis. All EU member states except Cyprus are in the ECMT regime, thus allowing for haulage to be conducted throughout the EU, as well as beyond, with these permits.

### The Haulage Permits and Trailer Registration Act 2018 and the International Road Transport Permits Regulations 2018

The Haulage Permits and Trailer Registration Act ('HPTR') received Royal Assent in July 2018. The Act allows arrangements to be put in place to enable international road haulage to continue after the UK has left the EU. Part 1 of this Act contains provisions for a permit scheme to authorise international haulage and allows regulations to be made detailing when a permit is required and the administrative processes for managing a permit scheme. These regulations are the International Road Transport Permits Regulations 2018.

The regulations create a framework for a permit scheme that can be used where permits are required for international haulage. This includes setting criteria which will be used to decide which application should be granted a permit, where there are more applications than permits available. They apply to the UK's existing permit schemes with non-EU countries and the multilateral ECMT permit scheme. The regulations do not implement a permit scheme for haulage to EU Member States as future arrangements remain subject to negotiations. *If* UK hauliers are required to hold a permit for haulage in the EU, which is not the Government's preferred approach, then the regulations would be amended to require permits for journeys to the EU.

This Impact Assessment measures the impact of the International Road Transport Permits Regulations 2018 as they are presented to Parliament now. It does not assess the potential costs and benefits of a permit scheme if it is required for journeys to EU Member States. These would be assessed in a separate, future Impact Assessment.

### **Problem under consideration and rationale for intervention**

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<sup>3</sup> ECMT (European Conference of Ministers of Transport) permits are multilateral licences issued under the International Transport Forum for the international carriage of goods by road transport in ECMT member countries.

Following the UK's exit from the EU, the existing EU regulations that allow UK hauliers to operate in other Member States will cease to apply (other than the ECMT permit scheme). The arrangements that will replace these rules at the end of the implementation period are subject to negotiation between the UK and EU. The importance of road haulage to the economy of the UK and to EU Member States is clear and, as outlined in the Government's White Paper, we intend to explore a deal which allows for reciprocal arrangements between UK and EU hauliers to continue after we have left the EU.

To achieve this, we are putting in place the necessary processes to operate a permit scheme, which is a possible outcome of negotiations, albeit not the Government's preferred outcome. This means we will be able to issue permits to UK operators if they need them.

The permit schemes that the UK currently operates use administrative powers. This means that there is no legislation that regulates when a permit is required, how to apply for a permit, and how it should be decided whether to grant a permit to an operator. This has not presented a problem to date as our current permit schemes are undersubscribed. However, future permit schemes may be oversubscribed as hauliers seek specific types of permit to allow continued international activity. As such, it is necessary that there is a clear basis for how decisions to grant permits should be made where they are restricted in number, that gives hauliers certainty in how permits will be allocated and that is robust to legal challenge.

This legislation is required to operate such a scheme swiftly and smoothly. It also gives certainty and clarity for the industry regarding the practical implementation of such a scheme if necessary.

To avoid creating new and different requirements for operators for the different permit schemes the UK has, we are putting in place a single permits regime that will deal with the bilateral permit arrangements we have with non-EU countries, the multilateral ECMT permit scheme and any future permit scheme we may have with the EU. Therefore, these regulations create the framework for a permit scheme and require permits in line with our existing permit arrangements.

## **Policy Objectives**

There are two key objectives from this work on the implementation of a permits scheme:

1. Ensure that UK operators can continue making international journeys and to allow international hauliers to continue to make journeys in the UK after we leave the EU. To achieve this, we will ensure the UK Government can operate a single permit regime that is able to deliver a permit scheme for journeys to the EU, if that is the outcome of negotiations. Haulage journeys to non-EU countries will be unaffected.
2. In doing this, we aim to minimise any unnecessary additional burdens for business arising from any new arrangements.

## **Consultation**

The Department has engaged widely with UK stakeholders on the need for, and impact of, a permits scheme. The Department held a public consultation on the proposals, including draft regulations. Responses were received from affected hauliers, trade associations and the devolved administrations. This consultation addressed the principles to be used when allocating permits and the criteria to be used, fees, and enforcement. It also sought views on whether these regulations would constrain the amount of international haulage conducted and any other impacts there would be. We also held workshops with hauliers and trade associations to consider the effects of the proposals. Responses indicated that these regulations would not impact significantly, though much greater impacts may be felt in the future if haulage to the EU was restricted.

The Driver and Vehicle Standards Agency (DVSA) have conducted user testing on the operation of the permit scheme. This has provided more detailed feedback on the criteria for allocating permits, what information they are able to provide in applications and therefore the familiarisation and time costs

associated with applying for permits. These responses have influenced the criteria and application process to be used so that it is clearer and easier for businesses.

Stakeholders want steps to be taken to ensure the continued international movement of goods and are seeking clarity in the requirements that will apply to hauliers once the UK has left the EU. Like the Government, they do not want there to be a limit on the number of permits available.

## **Description of options considered (including baseline)**

### **1. Baseline**

#### **0.1 Status quo - Current arrangements**

Permits are issued under administrative powers as required:

- UK operators travelling to Belarus, Georgia, Kazakhstan, Morocco, the Russian Federation, Serbia, Tunisia and Ukraine are authorised by bilateral, single journey permits;
- UK operators travelling to Armenia, Azerbaijan, Bosnia and Herzegovina, Moldova, and Montenegro are authorised by ECMT permits;
- UK operators travelling to the EU do not require permits and are authorised to conduct international road haulage by holding a Community Licence.

In the status quo, no permits are oversubscribed and no permits are needed for haulage to EU Member States.

#### **0.2 Do nothing – No legislation**

Permits are issued under administrative powers as currently:

- UK operators travelling to Belarus, Georgia, Kazakhstan, Morocco, the Russian Federation, Serbia, Tunisia and Ukraine are authorised by bilateral, single journey permits;
- UK operators travelling to Armenia, Azerbaijan, Bosnia and Herzegovina, Moldova, and Montenegro are authorised by ECMT permits. These permits may also be used for haulage within the EU.

For hauling goods internationally in the EU, a future arrangement may require permits. This may or may not limit the number of permits available. This would represent a large increase in the number of permits issued and, if permits are oversubscribed, there would be no framework for how permits should be allocated to ensure their best use. This requires a clear, legislative basis for issuing permits, charging fees and enforcement powers, rather than relying on administrative powers.

Clearly, if we were unable to issue the appropriate documents to hauliers to allow them to conduct international haulage, there would be significant costs if the movement of goods was interrupted. This would also impact on their customers who rely on the transit of their goods and supplies to continue trading. Therefore, “do nothing” is not a suitable option and we are putting in place measures to ensure we can issue hauliers with the documents they may need.

This Impact Assessment will predominantly use the status quo baseline to compare the direct effects of introducing the legislation on the affected parties. In addition, it should be noted that while there are impacts associated with introducing the legislation compared to the alternative (do nothing), this means that we will be able to effectively allocate permits and issue the documents to allow international road haulage to continue.

**Scenario 1: The International Road Transport Permits Regulations 2018 regulate a permit scheme, as existing permits arrangements are required to conduct international road haulage to non-EU Member States**

In this scenario, regulations require hauliers to carry a permit as their authorisation to conduct international road haulage to a number of non-EU states, in line with the status quo. The permit scheme will operate in accordance with the International Road Transport Permits Regulations 2018, issuing bilateral and ECMT permits, with the ability to also issue permits for journeys to the EU, if this is the outcome of negotiations.

As negotiations on the future economic partnership with the EU are not yet concluded, demand for ECMT permits (which also authorise haulage within the EU) may rise. Three scenarios (low, medium and high case) will be discussed. Under this arrangement, free and unlimited movement of goods continues (maintaining exports and imports). Journeys by UK hauliers to third countries (such as Belarus, Georgia, Kazakhstan, Morocco, the Russian Federation, Serbia, Tunisia and Ukraine) will continue in line with the status quo. Hence no change in demand or costs associated with bilateral permits is expected.

**The regulations, as introduced here, do not implement a permit scheme for EU Member States.**

**The introduction of the regulation is considered to be a ‘non-qualifying’ measure. It is deemed not to qualify as the equivalent annual net direct cost to business (EANDCB) of the preferred option is expected to fall well below the £5m threshold.**

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

The impact analysis provides an indication of the costs and benefits that would arise from a permit scheme, compared to the baseline.

#### **Costs and benefits of Scenario 1: The International Road Transport Permits Regulations 2018 regulate a permit scheme, as existing permits arrangements are required to conduct international road haulage to non-EU Member States**

In this scenario, hauliers are required to carry a permit as their authorisation to conduct international road haulage to a number of non-EU states, in line with the status quo. The permit scheme is operated in accordance with the International Road Transport Permits Regulations 2018. The current ECMT permit arrangements will still be operational. The demand for ECMT permits (which also authorise haulage within the EU) is uncertain. Three scenarios have been considered for the ECMT permit system:

- a. **Low** – Current demand levels for ECMT permits continue. ECMT permits are undersubscribed with around 15 ECMT permits applied for per year which is below the 1,224 ECMT permits available annually;

This low level of demand reflects a situation where an agreement is made with the EU for road haulage well in advance of exit that means hauliers do not apply for ECMT permits.

- b. **Medium** - Demand for ECMT permits is increased (to 1,224) and matches the number of ECMT permits available;

The medium level of demand reflects a situation where the number of ECMT permit applications increases as a result of EU exit, but where all applicants do receive a permit. This will create additional costs to hauliers seeking permits but does not mean that any hauliers do not receive the permit they apply for and are consequently restricted in the haulage they can conduct; and

- c. **High** - ECMT permits are oversubscribed with a maximum demand (of around 80,000<sup>4</sup>) for ECMT permits exceeding the number of available ECMT permits

The high level of demand reflects a situation where the demand for permits is greater than the number of permits available. This means successful applicants will have permit application costs but will be able to conduct international haulage. Unsuccessful applicants will have costs in applying for permits and will be unable to conduct international haulage.

Permits issued for haulage to non-EU countries are unaffected.

#### *Expected costs:*

Under Scenario 1, the following costs are expected relative to the status quo baseline.

#### *Direct costs*

- Cost to hauliers<sup>5</sup>

The total familiarisation<sup>6</sup> costs (one-off cost at £28 per operator) are presented in the table below. These include one-off familiarisation costs associated with understanding changes to the third country bilateral and ECMT permit schemes. We assume it takes 2 hours for each haulage operator to understand changes to each of the permit systems (see footnote). The total one-off familiarisation costs are estimated to be between £6,500 in the low case to around £230,000 in the high case.

*Table 1: Total one-off familiarisation costs*

	Number of operators <sup>7</sup> , ECMT permits	Number of operators, third country bilateral permits	Total familiarisation costs
Low case	14	222	£6,500
Medium case	242	222	£13,000
High case	7,960	222	£230,000

<sup>4</sup> Based on the number of vehicles specified on Standard International Licences. Hence should ECMT permits be required for hauliers to access the EU, then up to 80,000 permits could be demanded to maintain current UK haulage activity in the EU. 80,000 permits is the maximum number of applications we would expect to receive.

<sup>5</sup> These costs are estimated based on DfT expert judgement and benchmarked against assumptions used in other analysis.

<sup>6</sup> One-off business familiarisation costs reflect the time UK hauliers would have to spend understanding changes to the bilateral and ECMT permit systems as the requirements to apply for a permit will have changed. We assume it takes 2 hours for each haulage operator to understand changes to each of the permit systems. This is based on benchmarking against other DfT road programmes which have been introduced or changed in the past, and applying professional judgement of DfT and DVSA (who operate the current permit scheme). We have used the average salary for administrative and sectorial occupation from the Annual Labour Force Survey (£13.96 per hour) having applied the BEIS non-wage uplift to account for non-wage costs such as National Insurance and pension contributions. DVSA Management Information data on the current permit schemes indicate that, on average, 5 permits are issued to a single haulier. For the bilateral permit scheme, 1,108 such permits were issued in 2016-17. This means 222 haulage operators are estimated to be in scope for bilateral permits. For the ECMT permit system, the same assumption has been used for the medium case, so the number of hauliers affected is 242. In the low case we have assumed the number of operators affected is the actual number of operators who applied for ECMT permits previously. For the high case, the number of hauliers facing familiarisation costs is based on the total number of hauliers eligible to hold a Community Licence (7,960), assuming that each of these hauliers would apply for ECMT permits. These figures are the number of operators who will have familiarisation costs. This differs from the number of permits they will seek (shown in the low, medium and high scenarios).

<sup>7</sup> The number of operators data is from the Traffic Commissioners' annual report, 2017. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/663189/2016-to-2017-traffic-commissioners-annual-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/663189/2016-to-2017-traffic-commissioners-annual-report.pdf)

The time cost of applying for a permit (estimated to be around £14 per operator<sup>8</sup>) is presented in the table below. These are estimated to result in additional total costs to hauliers, relative to the status quo baseline, of up to £56,000. The low case assumes no increase in demand for permits, so no additional time cost of applying for a permit is incurred. There are no expected changes in demand for third country bilateral permits.

Table 2: Total additional time application costs

	Number of operators	Total additional time cost of applying for ECMT permits
Low case	-	-
Medium case	242	£3,400
High case	7,960	£111,500

Hauliers will also incur an application and issuing fee when applying for a permit. The permit fees in regulations are:

	Application fee	Issuing fee
Bilateral permit	£2	£6
ECMT permit	£10	£123

The combination of application and issuing fee is the same as the current single fee charged for these permits. The total purchasing cost of permits<sup>9</sup> to hauliers, relative to the status quo baseline, is presented in the table below, and is estimated to be £160,000 under a medium scenario and £950,000 under a high scenario.

There is no additional cost of purchasing ECMT permits relative to the status quo baseline in the low scenario as there is no increase in permits issued. Similarly for third country bilateral permits, under all scenarios, there are no additional purchasing costs nor a change in the number of permits purchased relative to the status quo baseline.

Table 3: Total purchasing costs

	Number of additional ECMT permits applied for	Total purchasing costs of ECMT permits
Low Scenario	-	-
Medium scenario	1,210	£160,000
High scenario	80,000	£950,000

<sup>8</sup>This cost is based on the time and labour costs associated with applying for a permit. It currently takes 30 minutes to apply for a bilateral or ECMT permit. It is assumed that under these regulations it would take 30 minutes to apply for a bilateral permit and 60 minutes to apply for an ECMT permit. This is based on benchmarking against other DfT road programmes which have been introduced or changed in the past, and applying professional judgement of DfT and DVSA (who operate the current permit scheme). Bilateral permits are currently applied for individually. In the future, hauliers will be able to apply for multiple bilateral permits together, thereby reducing the time taken to apply for a permit. Therefore 30 minutes is a conservative estimate for how long a bilateral permit application would take.

For ECMT permits, hauliers will complete a single application for their business, specifying the number of permits they need. This will require hauliers to provide some information about their business so will take longer than the current 30 minutes. User research into how hauliers will apply for permits has been conducted by DVSA.

Therefore this cost isn't incurred for those operators who currently apply for bilateral permits, applies in full for additional applicants of ECMT permits, and applies for 30 minutes for existing ECMT permit applicants who continue to apply, relative to the status quo. Using the average salary for administrative and sectorial occupation from the Annual Labour Force Survey (£13.96 per hour having applied the BEIS non-wage uplift to account for non-wage costs such as National Insurance and pension contributions), we estimate the time cost to business of applying is around £14 per application per operator. Under the medium case an additional 242 operators will apply for permits rising to 7,960 under the high case. 7,960 is the number of hauliers who hold an international operator licence and who are eligible for a community licence.

<sup>9</sup> The following number of permits will be applied for and issued (if available): a total of 14 ECMT permits and 1,108 bilateral permits (low case); 1,224 ECMT permits and 1,108 bilateral permits (medium case); and 77,858 ECMT permits and 1,108 bilateral permits (high case).

To note, under the high scenario, it is assumed that hauliers would apply for a permit for each vehicle (around 80,000 per annum<sup>10</sup>) that has travelled internationally in previous years. In practice, many hauliers may not seek a permit for each vehicle and these costs would be lower. As this scenario means permits are oversubscribed, some applicants incur application costs with the risk of not obtaining a permit. These hauliers do not pay the issuing fee.

Under the high scenario where a haulier seeks ECMT permits but are not allocated them due to over-subscription, the haulier would not be able to conduct international road haulage in the EU after exit day without a deal with the EU. As negotiations are ongoing, we are not setting out the impacts of any outcome, as agreed by Parliament. This impact would be mitigated or avoided entirely by an agreement with the EU or member states on other arrangements for international road haulage (which would be assessed elsewhere).

The total cost to a haulier in obtaining an ECMT permit is £133 per permit; time for application costs of £14 per haulier and a one-off familiarisation cost of £28 per haulier as aforementioned.

The total cost to a haulier in obtaining a bilateral permit (from fees and time for application) is £15 per permit; with a one-off £28 familiarisation cost per haulier. Under the bilateral permit scheme, an application has to be made per permit required hence the time for application cost is on a per permit level.

- Cost to Government – There will be one off set-up (such as a new IT system, recruiting additional staff etc.) costs in establishing a new permit system that can receive applications, and grant and issue permits. We estimate it will cost £4.7 million<sup>11</sup> to set up the permits scheme, though this may vary depending on the extent of any permit scheme we have. These costs are being funded from part of the £75.8m funding from HM Treasury to the Department for Transport to prepare for EU exit.

There will also be ongoing operational costs, such as administering applications and issuing documents, from running a permit scheme. Additional operational costs are expected relative to the status quo baseline as changes will be made to both types of permit system. Also, under the medium and high scenarios for ECMT permits, the number of applications is expected to be higher than currently (the scheme is currently undersubscribed; only 14 ECMT permits were issued in 2016-17). Under the high scenario, the number of applications for ECMT permits is expected to exceed the number of ECMT permits available. This means an allocation system would be required for issuing permits to ensure fair and efficient use of the restricted number of permits. There will include some additional enforcement of permit applications including verifying the details provided by hauliers.

We expect the Government's total running costs to be £8.4 million per year. We intend to recover the ongoing costs via permit fees, so effectively this will be a transfer of costs from the Government to businesses. The fees will be reviewed once we know the number and type of permits to be issued to ensure they operate on cost recovery.

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<sup>10</sup> Based on the number of vehicles specified on Standard International Licences. Hence should ECMT permits be required for hauliers to access the EU, then up to 80,000 permits could be demanded to maintain current UK haulage activity in the EU.

<sup>11</sup> This estimate is based on DVSA's costs of building and testing a digital system for permits. The DVSA consulted their IT and digital contractors when estimating the cost. This cost will vary depending on the extent of any permit scheme. We have budgeted up to £8.2 million for total set-up costs, factoring in optimism bias.

### *Indirect costs*

- Cost to traders and consumers – Hauliers may choose to pass on the costs of permits to their customers, thereby creating a cost to businesses who rely on road haulage to import and export goods. Where permits are restricted in number, traders may choose to change to alternative methods of transporting their goods (such as containerised transport or operating ‘unaccompanied trailer’ business models). There is no data available to estimate either the cost to traders of switching to alternative modes of transport or the number of traders who may choose to do so. However, these costs would be avoided by an agreement with the EU on international road haulage.

The costs to hauliers in Scenario 1 is the same relative to both baselines.

### *Expected benefits*

Introducing the legislation would mean that current numbers of non-EU bilateral and ECMT permits can be allocated and issued efficiently, even if they are over-subscribed. This allows international road haulage to continue and a process to be implemented to support with effective allocation of permits which advantages the haulage sector and businesses who rely on the movement of their goods and supplies. A further advantage is the higher confidence provided to hauliers regarding future haulage activity (though this advantage does not apply for some hauliers in the high scenario where they did not receive ECMT permits due to oversubscription). This would allow hauliers to continue to benefit from current arrangements and allow informed investment and business activity planning.

While the International Road Transport Regulations 2018 allow for the allocation of ECMT permits, which may be used to undertake haulage within the EU, further amendments would allow for this legislation and system to be applied for the broader application of multilateral or bilateral permit regimes within the EU, as will be outlined below. This will ensure that, whatever the outcome of the negotiations, a new arrangement can be implemented swiftly and smoothly. Without this legislation there would be significant uncertainty for the industry regarding the practical implementation of what is agreed in the negotiations.

### *Possible future application of the regulations to EU member states*

As outlined, if the outcome of negotiations is to require permits for international road haulage to EU Member States, the scope of the regulations will be expanded to include those journeys. This would be in addition to the current permit schemes with non-EU permits, such as ECMT and bilateral arrangements with third countries. The implementation of this scheme will offer clarity over the UK’s ability to robustly implement the terms of an agreement with the EU. However, it is not yet possible to robustly quantify the impacts of any deal as negotiations are ongoing. Hence a discussion of this scenario is presented below.

Permits may be multilateral (a single permit authorises haulage in all EU Member States) or bilateral (a permit is required for each Member State), annual (allowing any number of journeys in a calendar year) or single journey (authorising only one journey to the EU/individual Member State). Each of these permit types could be either unlimited or restricted in number. The nature of any road haulage agreement is dependent on UK-EU negotiations.

The fees for any permit scheme are set in these regulations and so the unit cost to a haulier of obtaining permits to the EU, whether from the existing permit scheme or a future permit scheme, if this is what is agreed in negotiations, is as below.

The unit cost to a haulier of obtaining an ECMT permit, as aforementioned, is £133 in fees plus one-off familiarisation and time for annual application costs of £35. The ECMT permit is an annual, multilateral permit so this provides an estimate of the unit costs of annual multilateral permits if they are required for journeys to EU Member States. We estimate that if there were a future annual, multilateral permit scheme with the EU, this would issue around 80,000 of these permits, based on current levels of international haulage.

As aforementioned, the total cost to a haulier in obtaining a bilateral permit is £8 in fees and £14 in time cost per permit, plus one-off familiarisation costs of £28. These permits authorise a single journey to a single country so this provides an estimate of the costs of single journey, bilateral permits if they are required for journeys to EU Member States. We estimate that if there were a single journey, bilateral permit scheme with EU member states, around 800,000 of these permits would be issued, based on current levels of international haulage.

While these regulations deal with ECMT permits and existing bilateral arrangements, if a permit scheme is required for journeys to the EU, this will be implemented by amending these regulations. The impact of this would be assessed in a separate Impact Assessment that accompanies those regulations.

A permit system extended to apply to EU Member States would incur, broadly, the same types of additional costs per permit as those incurred in scenario 1, relative to the status quo and do nothing baselines.

As our White Paper set out, the UK wants to explore options for reciprocal access for road hauliers and passenger transport operators. However, the Government is taking the necessary steps so that a permit scheme can be operated to authorise international road haulage and effectively allocate and issue permits to operators. All the other costs to business and Government from operating a permit scheme for journeys to the EU, as stated above, **would only be incurred if the current arrangements do not persist** and we need to introduce a permit scheme.

#### *Summary assessment relative to the current arrangements*

The Government's objective is to explore options for reciprocal access for road hauliers and passenger transport operators with the EU. The advantage of introducing this legislation is that it would provide certainty that the Government is able to effectively allocate and issue the necessary documents to hauliers to conduct international road haulage. The small impacts associated with introducing the legislation will be greatly offset by the mitigated risks of introducing legislation compared to the alternative (do nothing).

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

This Impact Assessment provides an analysis of a permit scheme for international haulage for the UK's existing permit arrangements under the ECMT and bilateral arrangements. The analysis uses the best available data to inform the costs that will fall to hauliers and follows the HMT Green Book guide to appraisal as far as possible. Further information on the impacts to hauliers was sought at consultation. This provided some qualitative information which has been considered to inform the assumptions used. However, there is insufficient data to predict how haulier behaviour will change as a result of EU exit. Therefore a sensitivity analysis has been used to assess a range of different outcomes. Where impacts are difficult to monetise, we have provided a qualitative assessment of the impact.

## **Risks and assumptions**

The extent of any permit schemes will depend on the outcome of negotiations and the detailed design of a permits scheme for haulage to the EU. This means that the regulations must accommodate a number of variants of permit scheme - whether it is multilateral, bilateral or ECMT.

The main uncertainty in the analysis arises from a lack of information over how haulier behaviour will change as a result of leaving the EU. This has been assessed by considering different scenarios on the number of permit applications. The impact assessment assumes that the use of permits for haulage beyond the EU will remain at current levels.

There is also uncertainty on how the criteria used for allocating permits will impact which hauliers are allocated permits if they are oversubscribed. This results from a lack of detailed data on how hauliers currently use their vehicles for international haulage. Therefore, this has been assessed qualitatively.

Making preparations for a permit scheme will ensure that the UK is ready to continue international road haulage and provide certainty to businesses that conduct and rely on road haulage. These regulations will establish a system for the robust allocation and issue of permits and deal with ECMT multilateral permits and existing bilateral arrangements. However, amendments would also allow the Government to implement the outcome of a deal with the EU and offer certainty to operators of the UK's ability to smoothly implement the terms of a deal on road haulage. This will also mitigate the risk that the UK will leave the EU without a scheme for road haulage if required, which would present significant cost to businesses and individuals in the UK.

## **Competition Assessment:**

In the scenario where ECMT permits are oversubscribed, those who receive a permit will have greater confidence and certainty on their ability to conduct international haulage. Unsuccessful applicants will not have this certainty until an agreement with the EU on international road haulage is finalised. This may provide a competitive advantage to those with permits who may be more able to enter into future contracts, though only with certainty for a calendar year (the length of permit validity). This advantage is inherent from issuing permits. By using criteria to issue permits in a strategic manner, the competitive advantage will fall on hauliers who meet the strategic objectives of the criteria (see below).

A permit system which restricts the number of firms able to conduct international haulage would be expected to reduce competition. Such a system would increase the costs for firms planning to enter the international market, creating an additional barrier to entry. In addition, it could restrict the capability for businesses or consumers to utilise their existing suppliers. These effects will be mitigated by an agreement with the EU on international road haulage.

The criteria, listed below, included in regulations will determine which hauliers receive a permit and which do not. The criteria have been selected to ensure the maximum economic benefit from international road haulage, to protect strategic national interests for the UK, protect the interests of UK hauliers and provide fair and equitable impacts. There is limited data on how each of these criteria is distributed across the haulage sector. Instead, where possible, we have used representative data<sup>12</sup> to determine the relative impacts on different hauliers of these criteria and have discussed the impacts below. The criteria have been chosen with the intention of minimising competition effects – particularly between larger and smaller operators - while still maximising the economic benefit of continuing international road haulage. The criteria are assessed using information of a haulier's previous business activity. This may create a barrier (after issuing permits for 2019) for new hauliers seeking to conduct

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<sup>12</sup> (Administrative Data and data collected from hauliers from the International Road Haulage Survey)

international haulage where they cannot demonstrate previous international haulage. The criteria will be reviewed for future years to address possible negative effects for new entrants and may be amended in case unforeseen effects occur.

**Environmental standard of the vehicle** – This criterion means ECMT permits may only be used by Euro VI emission class vehicles. This will advantage hauliers with newer vehicles as Euro VI standard has been required of all new HGVs registered since 2014. There is no data on which hauliers hold Euro VI vehicles and whether any specific groups of hauliers will be adversely affected by this. Anecdotal contributions provided in response to the consultation indicated that this would favour larger operator who typically have newer vehicles than smaller operators.

This effect could be mitigated by not using the environmental standard of the vehicle as a criterion. Although this would allow users of non-Euro VI vehicles to use ECMT permits, it would also mean that the UK has fewer ECMT permits available than if only Euro VI vehicles are used. The cost of fewer permits being available (from less international haulage being conducted by UK hauliers) may be significant – far more significant than the effect on competition of using this criteria.

**Intensity of use** – This criterion means that the hauliers who will make the greatest number of international journeys per permit are more likely to receive permits. This has an economic benefit as it maximises the revenue generated from moving goods internationally, when there is a fixed number of permits. The data on the number of international haulage journeys conducted by hauliers indicates that larger hauliers make more journeys to the EU. This is to be expected as these hauliers have more vehicles than smaller hauliers. There is no data to indicate whether larger operators make more journeys *per vehicle* than smaller hauliers, though we can speculate that larger hauliers would be able to use a permit more efficiently than smaller hauliers (by being more able to use the permits across different vehicles at different times). This may cause a small increase in the chance of larger hauliers receiving a permit, though measuring this criterion based on journeys per permit will reduce this effect.

**Sectoral Split** – This criterion provides a number of permits to each sector of the economy (proportionate to the amount of goods moved in that sector). Using the representative data, the sectoral split does not favour either larger or smaller operators. It does, however, prevent the allocation process from leaving some sectors of the economy (and therefore the hauliers that specialise in moving those goods) from having a greater or lower likelihood of being issued a permit, though operators will not be constrained to lifting only those goods.

**Proportion of international business** – This criterion prioritises hauliers who are more reliant on conducting international haulage, based on the proportion of their haulage that is international. There is no data to suggest which hauliers this would benefit, but it does give greater certainty for those hauliers who may be less resilient to changes in the international haulage market. It is also likely that there are economic benefits to traders from UK hauliers taking these loads – those who have managed to specialise and provide a high quality premium service against a background of low-cost Eastern European competition are generally where the freight being carried is specialist and high value (for example art, music tours) with reliability and quality being crucial.

**Random selection** – This method of allocating permits uses an element of random selection alongside the other criteria to allocate permits. This means that hauliers who meet the other criteria have a greater likelihood of being issued permits. Without random selection, permits would be issued to hauliers with the highest 'intensity of use' score leading to a smaller number of hauliers receiving all the permits that they applied for, and other operators receiving none. This would have reduced competition within the haulage sector and would likely favour larger operators, in line with the intensity of use criterion above.

Analysis using the representative data indicates that using random selection increases the number of operators receiving permits by up to four times the number who would obtain permits without it. In

particular, this benefits smaller and medium sized operators who complete a large number of international journeys, but fewer than the largest operators, and allows increased competition within the sector. Random selection therefore mitigates potential competition effects caused by the other criteria

**Secretary of State discretion** – This criterion allows the Secretary of State to issue permits to applicants in cases of emergency or other special need, such as haulage that is of economic or strategic importance. The number of permits issued in this way will be very small, so is not likely to meaningfully have any competition impacts. It does, however, mean that hauliers are not entirely eliminated from being able to gain a permit, even where they are unlikely to meet the other criteria.

The Department consulted on other criteria including operator reputation, commodity or type of goods being carried, vehicle weight and size of operator. These criteria will not be used for allocating permits. This is primarily because there was no clear objective means to assess these criteria, either because there is no robust data or because applicants would be unable to provide the required information at the time of making the application. This would have caused barriers to trading for some hauliers without a strong basis for this, so we have decided not to use those criteria.

### **Small and Medium Business Assessment:**

The road haulage sector is largely made up of small and medium sized businesses, with international activity making up 4% of the sector's total activity<sup>13</sup>. In 2016 there were around 17,480 road freight transport businesses (including removal services), of which the vast majority (99.6%) were SMEs (17,410). These SMEs employ around 69% of road freight employees and account for about 45% of road freight turnover. It is worth noting that the proportion of SMEs in this sector is very similar to the national average, where 99.5% of businesses are SMEs<sup>14</sup>. However, we do not know what proportion of international haulage is undertaken by SMEs and international haulage is a small proportion of the total road haulage sector.

The requirements of a permit scheme are set out in international agreements and apply to all sizes of operator. This is discussed in detail below. Therefore, there will be no exemptions for SMEs in the regulations. The Government has consulted on allocation criteria to ensure that they are as fair and transparent as possible for small and medium sized businesses. The emissions standard criterion may proportionately favour larger operators, though it does mean that there are more permits overall (so more permits available for SMEs). Taking account of the number of international journeys could make it more difficult for SMEs to obtain permits. To mitigate this, as discussed above, we will take in account how many journeys made *per permit* so that small operators seeking fewer permits are not disadvantaged. Random selection is also included so that permits will be distributed to a greater number of hauliers. This is beneficial for SMEs as it means not all permits would be allocated to a small number of larger operators. The criteria have been selected so that, in combination, all sizes of operator will have a fair chance of obtaining permits.

Fees will be charged on a per permit basis with the expectation that larger businesses will require more permits, make more applications, and therefore pay more fees, in line with the size of their business. As mentioned above, there will be no exemptions in fees for SMEs. The only cost that does not apply on a per permit basis is the familiarisation cost. However, operators typically have tight profit margins<sup>15</sup> and smaller scale businesses may have more difficulty absorbing new costs related to a permit scheme.

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<sup>13</sup> Department for Transport, Road Freight Statistics, 2016:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/651249/rfs0144.ods](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/651249/rfs0144.ods)

<sup>14</sup> Business Population Estimates for the UK and Regions 2016. Available at:  
<https://www.gov.uk/government/statistics/business-population-estimates-2016>

<sup>15</sup> the Freight Trade Associations publication reported that the profit margin for the top 100 road hauliers in the UK in 2017 was 4%. Available at:  
<https://fta.co.uk/CMSPages/GetFile.aspx?guid=f34d2685-a763-4cd1-bda8-221020fcd3b&lang=en-GB>

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

These regulations create a framework for a permits scheme that will be used to issue the existing permits required for haulage to non-EU countries. They ensure that the UK is ready to implement any new arrangements required after we have left the EU. This permit scheme will be able to issue permits for journeys to the EU if this is required, though our preferred outcome is still to avoid the need for hauliers to carry permits for haulage to the EU.

The regulations create a small cost to business but provides the benefit of certainty that permits can be provided to those who require them. We aim to minimise the costs for business arising from any new arrangements. The permits system will operate from late 2018 and be able to issue permits for 2019 and exit day if required.

## **Post Implementation Review**

We plan to undertake a review of the legislation introduced within 5 years of implementation. This will consider the extent of any permit schemes and the effects of the criteria used to allocate permits, taking into account the future arrangements for haulage in the EU. We are likely to rely on using MI operational data from DVSA (who will issue the permits), to inform the post implementation review.

## Post Implementation Review (PIR) Plan insert for IA template

1. **Review status:** Please classify with an 'x' and provide any explanations below.

<input type="checkbox"/>	Sunset clause
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<input checked="" type="checkbox"/>	Other review clause
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<input type="checkbox"/>	Political commitment
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<input type="checkbox"/>	Other reason
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<input type="checkbox"/>	No plan to review
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2. **Expected review date** (month and year, xx/xx):

1	0	/
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2	3
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**4. Rationale for PIR approach:**

Circle the level of evidence and resourcing that will be adopted for this PIR (see Guidance for Conducting PIRs):

**low**

We plan to undertake a review of the legislation within 5 years of implementation. We will aim to review the effectiveness of the permit system, how efficiently it is operated, and assess whether any cost savings can be made. We are likely to rely on using Management Information operational data, from DVSA who will operate any potential permit scheme, to inform the post implementation review. We plan to also consult stakeholders making trips to the EU to assess the effectiveness of the scheme.

**3. Net costs/benefits set out in original legislation:** Please refer to Impact Assessment

**Key Objectives, Research Questions and Evidence collection plans- template**

Describe the main objectives of the regulation(s) under review as well as the key questions that will need to be researched to measure whether objectives have been successful. Next, consider any existing data/evidence sources that may help you answer this question as well as any new evidence that you may wish to collect, where proportionate.

Key objectives of the regulation(s) (add rows as appropriate)	Key research questions to measure success of objective	Existing evidence/data Please consider: a) The data/evidence sources b) The <i>timeframes</i> they reference	Any plans to collect primary data to answer questions? Please consider: a) <i>How</i> stakeholder views will be collected b) <i>Timeframes</i> for evidence collection c) Why collecting new data is (or is not) necessary/proportionate
