

Title: Road Freight Transport after EU Exit: Possible Arrangements IA No: DFT00397 Lead department or agency: Department for Transport Other departments or agencies:	Impact Assessment (IA)
	Date: 7/2/2018
	Stage: Development/Options
	Source of intervention: Domestic
	Type of measure: Primary Legislation
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Summary: Intervention and Options	RPC Opinion: Green

Cost of Preferred (or more likely) Option
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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		

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 with and operate within European markets – and to let European businesses do the same in the UK. To do this, our aim is to continue to have a liberalised road freight market allowing current levels of access to continue. This legislation is designed to ensure Government has in place the necessary framework and powers to deliver a range of potential arrangements for road haulage, including possible permit requirements, in a negotiated outcome or in the unlikely event we do not reach a deal. Our preferred outcome is to avoid the need for hauliers to carry permits for international road haulage to allow current arrangements for both UK and EU hauliers to continue.

What are the policy objectives and the intended effects?

The objective is to have in place by exit day the necessary arrangements to allow continued road freight transport for a number of scenarios depending on the outcome of EU negotiations, though our intention is for a liberalised road freight market without restriction on haulage levels. It is our objective to ensure that future arrangements do not impose unnecessary additional burdens for UK hauliers.

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

0. Current arrangements: there is mutual access for EU and UK hauliers and the current ECMT permit system continues. This is the baseline against which the other scenario is assessed.

1. A permit scheme is developed, under this legislation, to authorise international road haulage to EU member states. This could take a number of forms, depending on negotiations, including where the number of available permits places a restriction on haulage levels or equally a permit scheme which enables current haulage levels to continue.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: /

Does implementation go beyond minimum EU requirements?				
Are any of these organisations in scope?	Micro	Small	Medium	Large
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)		Traded: n/a	Non-traded: n/a	

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 Minister: _____ Date: 6/2/18

Summary: Analysis & Evidence

Policy Option 1

Description: A permit scheme is developed, under this legislation, to authorise international road haulage to EU member states. This could take a number of forms, depending on negotiations, including where the number of available permits places a restriction on haulage levels or equally a permit scheme which enables current haulage levels to continue.

FULL ECONOMIC ASSESSMENT

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

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

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

The exact nature and costs of a permit scheme made under this legislation is dependent on our negotiations with the EU. Due to the surrounding uncertainty over how these scenarios might develop, it is not possible to provide analysis of associated impacts. A narrative type approach, which describes the expected costs and benefits, is considered the most appropriate approach.

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

Costs listed here will only be incurred if the current arrangements do not persist and a permit scheme is introduced.

Cost to hauliers – one-off familiarisation costs, time costs of applying for a permit, and permit fees. Potential costs from a rise in journey times if there is greater enforcement activity to check permits. There may be further costs to hauliers (and the wider economy) if the number of permits available restricts the levels of haulage activity, though a permit system in principle does not necessitate a restriction on haulage levels.

Cost to Government – there will be one off set-up costs in establishing a new permit system that can allocate permits (including a restricted number of permits), on-going operational, administration and enforcement costs.

Cost to traders – businesses dependent on road haulage to move goods to and from the EU may face additional costs if permit costs are passed on by hauliers.

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

High	NA		NA	NA
Best Estimate	NA		NA	NA

Description and scale of key monetised benefits by 'main affected groups'
 Due to the surrounding uncertainty over how these scenarios might develop, it is not possible to robustly quantify all associated impacts. In addition, DVSA are continuing discovery work on the costs of delivering a permits scheme so robust data on this is not available. A narrative approach providing high level indicative analysis of the expected costs and benefits, is considered the most appropriate approach. The detail of the policy will be defined in secondary legislation.

Other key non-monetised benefits by 'main affected groups'
 If the current arrangements do not persist, introducing the legislation would mean that a permit scheme could be introduced that would allow UK vehicles which carry a permit to conduct international road haulage, allowing goods to be moved to and from the EU up to the value of the current arrangements.

No additional benefits are expected relative to the current arrangements, but legislation will mitigate the risk that the UK will leave the EU without a scheme for road haulage to fall back on if required.

Key assumptions/sensitivities/risks	Discount rate (%)
<p>The impact of the scenarios considered will depend on the detailed design of a permits scheme which is currently unknown and subject to negotiations. Making preparations for a permit scheme will ensure that the UK is ready to continue international road haulage, should this be required once we leave the EU.</p>	

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: NA	Benefits: NA	Net: NA		

Evidence Base

Background

Leaving the EU

The people of the United Kingdom voted to leave the European Union, but we are not leaving Europe. We want a deep and special partnership with the EU. We have set out the Government's objectives for leaving the EU in our White Paper and the Prime Minister's Article 50 letter. We have always been clear that we want a deal that works for the UK economy and one that works for the EU27.

We are confident that a future partnership between the UK and EU is in the interests of both sides, so we approach these negotiations anticipating success. However, a responsible government should prepare for all potential outcomes. We have said that wherever we can, we will be open and clear with businesses, the public and our international partners about the UK Government's preparations for exit.

Road Haulage

Road haulage is an important sector to the UK economy – it directly contributes £11.2bn GVA to the UK economy¹, making up around 1% of the UK's total GVA. It is an indispensable 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 2014, UK-registered heavy goods vehicles travelling to or from the UK carried 8.9 million tonnes of freight of which 4.3 million tonnes were exports and 4.6 million tonnes were imports. In 2014, foreign-registered HGVs travelling to or from the UK carried 34.2 million tonnes of goods (20.8 million tonnes imported and 13.5 million tonnes exported), nearly four times as much as was carried by UK vehicles². 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 for a liberalised road freight market allowing current trade levels to continue. Free access enables greater economic activity thereby raising competition among hauliers leading to competitive prices and more choice for consumers.

Current EU Regulations on access to the international road haulage market requires operators hauling internationally, to hold a Standard International Operator's Licence. This requires operators to comply with a set of minimum standards including suitable vehicle maintenance and compliance with Drivers' Hours regulations. Operators who hold international operator's licences can also request 'Community Licences'. 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. Although the future arrangements around Community Licences and authorisations to drive in EU Member States is subject to negotiations, the requirement for operators to hold an Operator's Licence will remain in UK law after we have left 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. In addition, the UK is a member of the ECMT³ permit scheme which give the UK up to 1,224 permits for transit to and through 43 countries including all EU states except Cyprus. The ECMT permit scheme will continue following the UK's exit from the EU; alongside any other agreement with the EU.

¹ ONS Annual Business Survey

² DfT Road Freight Statistics

³ 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.

Problem under consideration and rationale for intervention

Following the UK's exit from the EU, the existing EU regulations that allow UK operators to haul in other Member States will cease to apply (other than the ECMT permit scheme). The arrangements that replace these rules will be 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 significant and we want the trade of goods to continue after we have left the EU.

There are a number of possible outcomes from negotiation. Without legislation, the UK may not have in place the necessary framework to effect any new arrangements with the EU that differ from the current arrangements. This risks UK operators are unable to conduct international road haulage, so we are taking steps to avoid this.

This legislation allows the UK to implement these various outcomes. A permit scheme does not necessitate a restriction on haulage levels, which is subject to negotiations with the EU, and would allow the movement of goods between the UK and the EU up to the unrestricted levels that currently takes place. This legislation is required to operate such a scheme swiftly and smoothly if it is required, and to allocate permits if they are restricted in number. It also gives certainty and clarity for the industry regarding the practical implementation of what is agreed in the negotiations.

A permit scheme operating under this legislation would apply to UK hauliers. There is another potential outcome from negotiations where mutual road haulage access is agreed without the requirement for permits. Such an outcome would not require primary legislation. This impact assessment measures the costs and benefits resulting from the Bill, therefore this scenario is not assessed here.

Policy Objectives

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

1. Ensure that UK operators are able to continue making international journeys after we leave the EU and to let European businesses continue to make journeys in the UK. To achieve this we will ensure the UK Government is prepared to deliver the outcome of negotiations, whether that requires a permit scheme or not.
2. In doing this, we aim to minimise any unnecessary additional burdens for business arising from any new arrangements.

Consultation

The Department has engaged with UK stakeholders on the need for, and impact of, a permits scheme. They want steps to be taken to ensure the continued international movement of goods and are seeking certainty in the requirements that will apply to hauliers once the UK has left the EU. Further consultation will be conducted, including a formal consultation period on the content of secondary legislation raised under this legislation.

Description of options considered (including baseline)

The scenarios considered are illustrative of the potential outcome of negotiation and the associated impacts. These scenarios are presented below:

Current arrangements

The baseline against which the legislation scenario is assessed: UK and EU operators are authorised to conduct international road haulage by holding an Operator's Licence. This allows free and unlimited movement of goods (maintaining exports and imports) to and from the EU. Traders (i.e. businesses dependent on road hauliers for the movement of intermediate and final goods between the UK and EU)

have a choice of UK or EU based hauliers to work with. In 2014, 43.1 million tonnes of goods were transported internationally – 8.9 million tonnes by UK operators, 34.2 million tonnes by EU operators⁴.

Scenario 1: The legislation is used to introduce a permits scheme, where permits are required to conduct international road haulage to EU Member States

In this scenario, hauliers are required to carry a permit as their authorisation to conduct international road haulage to EU Member States. These permits would be (i) ECMT permits, up to the maximum of 1,224, and (ii) any other permits agreed in negotiations.

This scenario is only necessary if the current arrangements do not persist. The exact nature of a permit scheme is dependent on UK/EU negotiations, including possible outcomes where there are:

- a) 'Unrestricted' permits – there are enough permits to be issued to operators, i.e. the supply of permits meets demand.
- b) Restricted permits – the number of permits is less than that required to maintain haulage activity in each EU Member State, i.e. the demand for permits exceeds supply, thereby restricting the current levels of haulage by UK operators.

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. Owing to the uncertainty surrounding how these scenarios might develop and limited data, it is not possible to robustly quantify impacts. We therefore consider that a “narrative” Impact Assessment is appropriate.

Costs and benefits of Scenario 1: The legislation is used to introduce a permits scheme, where permits are required to conduct international road haulage to EU Member States. This scenario includes either an unrestricted or restricted number of permits. .

Should the current arrangements not persist, a permit scheme may be required that would allow hauliers to continue to transport goods between the UK and EU Member States. The nature of this scheme is dependent on UK/EU negotiations.

Expected costs:

Direct costs

- Cost to hauliers – these include familiarisation costs associated with understanding the permit scheme; time costs of applying for a permit; and the permit fee.

There could also be additional costs for hauliers from enforcement checks, though the Government is keen to minimise any costs or delays for hauliers. Delays in journeys could lead to losses for hauliers arising from productivity losses (e.g. drivers being paid to sit in queues and costs of a HGV being idle) and a loss of trade especially for hauliers transporting time critical or perishable goods.

A restricted number of permits, which is subject to the outcome of negotiations, creates uncertainty as hauliers may not be sure of obtaining a permit for international journeys they wish to make. This may make it more difficult for hauliers to enter into/retain contracts with customers.

Increased journey times for hauliers –There could be uneven impacts for hauliers operating in different Member States. A rise in journey times may mean hauliers incur additional costs, such as higher fuel and wage costs.

⁴ Source: DfT international road freight statistics and Eurostat

- Cost to Government – there will be one off set-up costs in establishing a new permit system that can receive, grant and issue permits. Discovery work is ongoing to determine what this will be.

There will also be on-going operational costs, such as administering applications and issuing costs, from running a permit scheme. This would be in excess of the current operating costs where only ECMT permits and existing bilateral permits are issued.

We expect the Government to recover the ongoing costs from fees for permit, this being a transfer from business to Government. We are working with DVSA to understand these costs, and consequently the fees, but this is dependent on the precise details of the permit scheme to be delivered, and therefore on the negotiations with the EU.

- Enforcement costs (to Government) – currently some HGVs are stopped and checked to ensure that they are complying with the current regulations. If the permits scheme requires additional checks there would be additional enforcement costs associated with this. There may be further enforcement costs in monitoring compliance with the permit scheme. The extent of this will depend on the detailed design of the scheme.

Indirect costs

- Cost to traders – businesses dependent on road haulage to import and export goods to the EU may face additional costs if permit costs are passed on by hauliers.

The Government is taking the necessary steps so that a permit scheme can be operated to authorise international road haulage, which includes set-up costs. All the other costs to business and Government from operating a permit scheme, as stated above, **would only be incurred if the current arrangements do not persist** and we need to introduce a permit scheme.

The extent of these costs will depend on how many permits are issued under a permit scheme. If the number of permits is restricted, there will be some additional costs from a permit scheme. A restricted number of permits (now or in the future) would restrict the quantity of international road haulage that could be carried out by UK hauliers, with consequent costs to affected hauliers. This may present indirect costs to traders who use these hauliers.

Expected benefits

Introducing the legislation would mean that a permit scheme could be introduced, if the current arrangements do not continue. This could allow UK vehicles carrying a permit to conduct international road haulage with advantages for the haulage sector and the wider economy. UK vehicles carried 8.9 million tonnes of freight to and from the EU (2014 figures) and we want this movement of goods to continue. A permit scheme allows goods to be moved to and from the EU up to the value of the current arrangements.

This legislation helps to ensure certainty and clarity for the industry. It 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.

Long term impacts

Future activity of UK hauliers in the EU is uncertain. Therefore a limited number of permits could impede growth of international road freight if permits number do not rise in line with demand.

Summary assessment relative to the current arrangements

On exit from the EU we want to ensure that UK companies have the maximum freedom to trade with and operate within European markets – and to let European businesses do the same in the UK. The

advantage of a permit scheme is that it would allow for the movement of goods between the UK and the EU to continue, for vehicles carrying a permit. Compared to the current arrangements, a permit scheme would incur costs but would allow up to unrestricted numbers of vehicles to travel. We aim to minimise the costs for business arising from any new arrangements.

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

This Impact Assessment provides a high level indicative assessment of the impacts from a potential permit scheme for road haulage. This is because this Impact Assessment is for primary legislation so there is currently insufficient information to quantify expected impacts more fully. We plan to refine our cost benefit analysis once the design of a permit scheme is clearer and we create regulations. We will quantify the costs (mentioned above) in compliance with the Green Book guidance on appraisals. We will use the best available evidence (such as DfT published Road Freight Statistics) as far as we can to ensure the analysis is robust and comprehensive. Where impacts are difficult to monetise, we will provide a qualitative assessment of the magnitude of the impact.

Risks and assumptions

The impact of the scenarios considered will depend on the outcome of negotiation and the detailed design of a permits scheme which is currently unknown and subject to negotiations. Making preparations for a permit scheme will ensure that the UK is ready to continue international road haulage, should this be the outcome of negotiations with the EU. This will allow the benefits of international road haulage to be realised and give some certainty to businesses that conduct and rely on road haulage. This will also mitigate the risk that the UK will leave the EU without a scheme for road haulage to fall back on if required, which would present significant cost to businesses and everyone in the UK.

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 activity⁵. 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 SMEs⁶. 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.

If a permit scheme is implemented in the UK, all hauliers making journeys to the EU will be required to purchase a permit, including small and medium sized haulage operators. Fees would be charged on a per permit basis with the expectation that larger businesses will require more permits and make more applications. Therefore we expect that the costs to an individual business arising from a permit scheme would be higher for larger businesses. There could, however, be some asymmetric impact as smaller businesses may find it harder to absorb the additional costs of a permit scheme. Operators typically have tight profit margins⁷ and smaller scale businesses may have more difficulty absorbing the new costs related to a permit scheme. This may in turn lead to small and medium sized hauliers losing some of their market share for international haulage to larger hauliers. As we develop the detailed regulation, in particular the allocation system for permits, we will aim to mitigate the potential adverse impact on small and medium sized businesses.

Summary and preferred option with description of implementation plan

We want to ensure that UK companies have the maximum freedom to trade with the EU. Our preferred outcome is to avoid the need for hauliers to carry permits for international road haulage, and this

⁵ Department for Transport, Road Freight Statistics, 2016:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/651249/rfs0144.ods

⁶ Business Population Estimates for the UK and Regions 2016. Available at:
<https://www.gov.uk/government/statistics/business-population-estimates-2016>

⁷ Statista reported that the profit margin for the top 100 road hauliers in the UK in 2015 was 4%

wouldn't require new primary legislation. However, we wish to ensure that the UK is ready to implement any new arrangements required after we have left the EU. The introduction of a permits scheme would create additional costs for government and hauliers. Should this be required, we aim to minimise the costs for business arising from any new arrangements.

Post Implementation Review

Ordinarily the Government undertakes post-implementation reviews as a way of checking whether regulatory burdens are justified. This legislation is intended to allow the UK to operate a permit scheme if the current arrangements do not continue, so that the movement of goods between the UK and EU can continue. These circumstances mean that the Government takes the view that a post-implementation review of the primary legislation would be of limited value and would be impractical. This does not remove the general need to review and improve legislation in due course and where appropriate, but rather removes rigid review requirements as they relate to the Bill.