

Briefing: UK Logistics, Taxation and Charges

Introduction

Logistics in the UK faces an array of taxes and charges from the public authorities. Primarily these go to the UK’s general tax fund, but some are also for environmental purposes, to fund specific pieces of infrastructure or to manage congestion levels.

Taxation is necessary, and usually unpopular. Logistics faces a challenge in that neither the taxes it pays nor the effects of changes to them are well understood.

Therefore, FTA has set out this explanation of the tax and changing regime for UK logistics, and how taxes and charges do and do not affect behaviour in the industry. Our focus is primarily on domestic logistics.

It should be noted that the UK logistics industry is highly efficient. The percentage of ‘empty running’ by HGVs is lower in the UK than the EU average, and specifically lower than in Germany, which utilises extensive Road User Charging for HGVs¹.

Taxes and UK logistics

UK road freight is currently the most highly taxed in Europe. Fuel Duty is far higher than in other European countries. Even when taxes are combined with road user charging costs, which are more widespread in some European countries such as Germany, UK operators still pay more for their operations per mile.

Other modes, such as rail, also pay taxes and charges on their operations.

There is a valid desire for social impacts (environmental pollution, road casualties and congestion) of logistics to be minimised. Combined with a need to raise Government revenue, and the attractiveness of doing so not directly from voters, logistics is always under consideration for tax changes.

It is important that any proposed changes to taxes are based on a full understanding of how much the industry is taxed already, and do not ignore or misunderstand how the industry reacts to changes in costs.

Costs and UK logistics

Firstly, in logistics, service is king. No freight trains, lorries or freight vans move for fun – they go when they are needed, to where they are needed, at the time they are needed by the customer. Thus, movements are largely determined by the needs of UK producers, manufacturers and retailers, as well as now the home delivery customer.

This is why further taxation of fuel, routes, times, locations within the transport network does not necessarily drive significant change within logistics – if the customer needs the goods delivered into central London during the congestion charging period for example, then that is what the operator will do.

Secondly, many aspects of behaviour in logistics already have high marginal operational costs which incentivise behaviour. Fuel typically comes to about one third of operating costs², so companies are already highly incentivised to

European Country	Fuel Duty (pence per litre)
United Kingdom	57.95
Italy	53.64
France	52.92
Belgium	52.15
Netherlands	43.76
Ireland	43.36
Estonia	42.84
Portugal	42.20
Malta	41.05
Germany	40.87
Slovenia	40.75
Finland	39.96
Sweden	39.59
EU average	38.29
Denmark	37.06
Czech Republic	36.98
Greece	36.60
Croatia	35.80
Cyprus	35.68
Austria	35.59
Slovakia	34.55
Romania	33.52
Latvia	33.36
Spain	32.93
Hungary	30.88
Lithuania	30.15
Poland	29.77
Luxembourg	29.11
Bulgaria	28.70

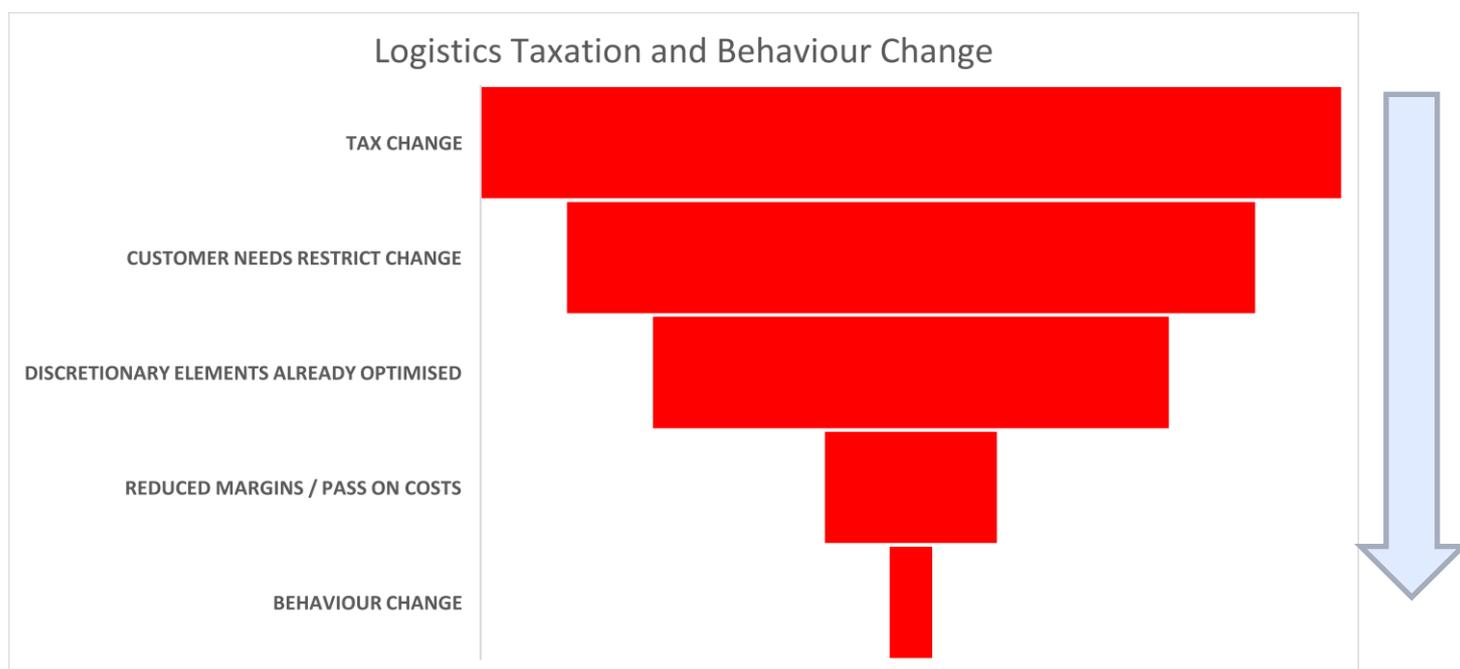
¹ Eurostat figures

² FTA Manager’s Guide to Distribution Costs

minimise fuel use. Having a lorry stuck in traffic costs an operator £1 per minute³, so congested roads are avoided wherever possible. This means that any anticipated positive effects of increased taxation would be negligible as these areas are already highly incentivised.

Thirdly, the way logistics responds to overall costs changes is at first to absorb the costs (reducing profit margins and increasing the risk of smaller firms going out of business), and over time to pass costs on to customers. The end effect therefore of each cost increase is a marginal decrease in the competitiveness of UK producers and manufacturers, and an increase in the cost of living. These are always small and incremental, so the effect is not noticed and therefore can be politically acceptable, but it is real nonetheless.

The consequence of this is that broad tax changes do not lead to exponential behaviour change – see diagram below:



Road, rail and water

The process above also explains why the modes (road and rail) are not always price sensitive in competition with each other. Some bulk commodity movements, where large volumes of materials are moved are better suited to rail, equally some road freight traffics are not well suited to substitution by rail or water.

Rail market share (tonne miles) is currently around 10%. There is significant scope for increasing quantities moved by rail and water, but achievable volumes will depend on available capacity on the rail network, amongst other issues. There is a wide range of forecasts, but it is reasonable to assume that a large majority of freight will continue to be moved by road in the foreseeable future.

International competition

It should be noted that where UK logistics directly competes with operators from other countries (in the transportation of goods between the UK and the Continent), taxes have had a massive detrimental effect on UK companies. When the fuel duty escalator was introduced in 1993, British hauliers carried half of the goods moving cross-Channel. Today, this figure is just 14%.⁴

³ ibid

⁴ FTA Logistics Report 2018

Explanation of logistics taxes and charges

Rail freight

- **Taxes**

Rail freight operators pay **Fuel Duty**. Because the majority of the UK rail network is not electrified, freight trains are mostly diesel – as they need a go anywhere capability. The diesel that rail freight uses is taxed, albeit at a lower rate than that of road diesel. This is known as rebated, or Red Diesel. The charge on this is 11.14p per litre (ppl)⁵.

This costs rail freight service providers around £22m per year⁶. Whilst service and capability are major drivers of maximising rail's role in the UK supply chain, this charge on a clean, safe and more efficient way of moving goods within the UK is clearly a negative factor limiting rail's ability to maximise its role.

- **Charges**

Rail freight operators have to pay direct fees for the infrastructure they use: known as their **Track Access Charge** (TAC). The full range of charges is complicated, as it depends on power source, commodity carried, distance and number of wagons. But the total paid by the industry in today amounts to £87m per year. This represents an increase of £15m per year compared to charges in 2014.⁷

Worryingly, the TACs faced by rail freight are due to increase in the next 'Control Period' (from 2019 to 2024) by 10% in real terms, further hindering the growth of rail in the areas where it can compete on service with road.

Rail Freight Operators also pay **fees** to the Rail Safety and Standards Board of around £385k a year and a safety levy to the Office of Rail and Road of around £530k a year.

Water freight

- **Taxes and charges**

Inland waterway and shipping around the UK also pay **fuel duty**. As with rail this is the rebated Red Diesel rate. Sea-going ships will obviously pay fees for use of ports, though this is an entirely private sector arrangement. Canal inland waterway movements also pay **fees** to the canal owner for movements, again as a commercial private sector arrangement.

HGVs

- **Taxes**

Over 90% of the tax that HGVs⁸ pay is **Fuel Duty** - see chart below. The current rate of duty on diesel is 57.95 pence per litre – the highest in Europe and indeed the developed world – see above.

Fuel Duty has the merit of being a highly effective environmental charge on operations and is very cheap for the Government to collect. However, it is the major burden on UK road freight operators, makes them uncompetitive with operators from other European countries, and adds to the cost of living and of doing business in the UK.

⁵ HMRC

⁶ FTA calculation based on Office of Rail and Road (ORR) figures re rail freight diesel consumption

⁷ Department for Transport (DfT) Rail Freight Strategy, 2016

⁸ An HGV is defined as a freight vehicle over 3.5 tonnes in total potential weight

Independent research⁹ has shown that due to the very direct effect on economic activity, a cut in fuel duty would not only boost the economy but would also be self-funding for the Government, through increases in tax receipts from other sources.

Vehicle Excise Duty (VED) on HGVs is a small charge in comparison to Fuel Duty, but can still be as high as £1,850 per vehicle per year. From 2020, VED will be hypothecated towards roads spending.

The **HGV Road User Levy** was introduced as a device to ensure that

foreign operators using UK roads pay towards the maintenance of those roads. The Levy was not intended to have an effect on UK haulier operations. Foreign operators do not pay UK VED and typically avoid buying the more expensive diesel in the UK, thereby circumventing the main forms of taxation. The Levy now raises £50m per year from foreign HGV operators using UK roads. UK operators pay the Levy as well, but HGV VED was cut by a small amount at the same time as the introduction of the Levy to compensate British operators for the new charge.

- **Road access charges**

Alongside other motor vehicles, HGVs pay for the use of key estuarial crossing such as Dartford and the Mersey, which charge more for HGVs, as well as to access central London.

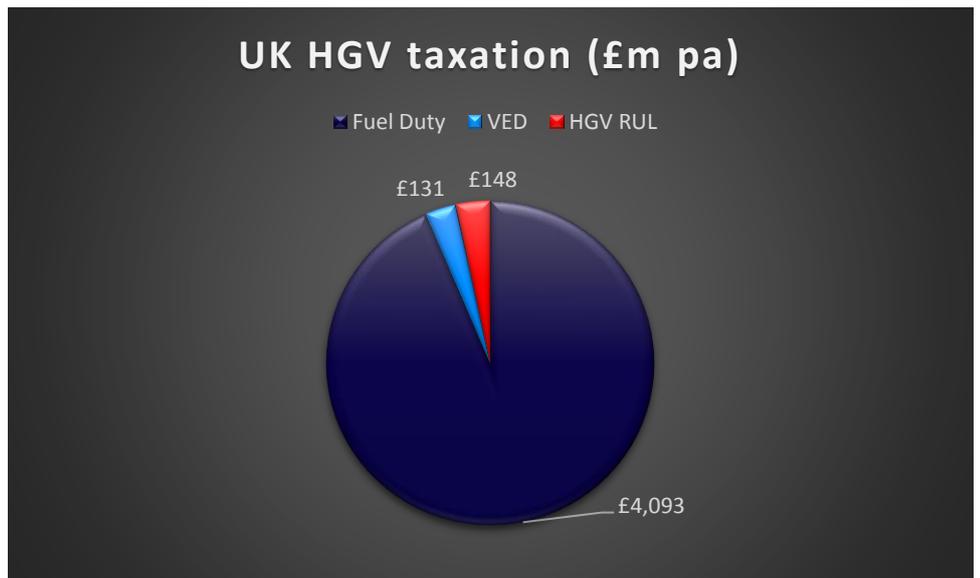
- **Fees**

Despite the level of tax that is paid by HGV operators, the enforcement of HGV rules and standards is not paid for by the Government, but by the industry directly. HGV operators pay an Annual Test fee of up to £177 per vehicle, of which a third is used to pay for the general HGV enforcement work carried out by the Government agency DVSA. HGV users also have to pay an Operator Licensing fee which can be up to £450 every five years for a single HGV. This pays for the Traffic Commissioner system that regulates the HGV industry on a day-to-day basis.

Transport spending

In 2015-16, only £4.7bn was spent on maintenance of roads in the UK – so HGV taxation contributes enough taxation to pay for 93% of this.

HM Treasury figures compiled by



Freight vans

It should be noted that most vans¹⁰ are *not* used for freight, but rather for the transporting of servicing tools and equipment, for example for construction, utility companies or electricians/plumbers etc. Less than a third of vans' miles are for freight. Home or parcel deliveries, which are often blamed for all growth in van use, in fact only make up 10% of van miles.¹¹

Whilst a few light vans are petrol powered, freight's uses tend to be at the heavier end (up to 3.5tonnes) where diesel is necessary instead (as with trains and HGVs, diesel provides the torque necessary to more heavier vehicles).

⁹ CEBR Report: Assessing the impact of lower Fuel Duty on the UK economy, 2017

¹⁰ Vans are defined as commercial vehicles of up to 3.5 tonnes in weight

¹¹ RAC Foundation: The Implications of Internet Shopping Growth on the Van Fleet and Traffic Activity, 2017

As with HGVs the main tax paid by van operators is **Fuel Duty**. The total paid by van users in diesel duty is around £3.2bn per year¹². Vans also pay **VED** at £250 per year, which, based on around 4m vans in use, raises around £1bn per year for the Government. As with other road vehicles vans also pay **access/congestion charges** at the major estuaries and for central London.

Alternatively fuelled logistics

Whilst alternatively powered logistics has not taken off en masse yet, alternatives to diesel are getting closer to being viable, for road operations at least.

Electrification is the right option for lighter vehicles, as battery technology is within sight of making these vehicles suitable for enough uses. For heavier vehicles however, alternative fuels are required if we are to reduce the environmental footprint of logistics before electrification may become possible, some decades from now. Vehicles that are 100% electric are not charged VED.

Alternative fuels pay Fuel Duty. Of the options currently available and potentially offering environmental savings, some attract a reduced level of tax, but others do not.

Liquefied petroleum gas (LPG) and natural gas such as biogas both have lower rates (31.61p per kg and 24.7p per kg respectively). These lower rates have been confirmed until 2024, offering some certainty to operators regarding the business case for investing. However, biodiesel and bioethanol are taxed at the same rate (57.95ppl) as standard diesel, despite substantial emissions savings being possible.

The Government is in the process of defining what it considers an 'Ultra-Low Emission Truck' to be. It is hoped that further consideration of tax reliefs may take place once this is done.

Urban restrictions and charging regimes are increasingly applying the car 'ultra-low emission vehicle' standard to their scheme across the full range of vehicles. So, alternatively powered HGVs or hybrid vans capable of being zero emission whilst in city centres, are still in practice being prohibited or charged in full. This is hindering take up of alternatives to diesel amongst commercial vehicles.

Rail freight has been set a challenge of moving away from diesel as a power source. However, as freight trains are multiple times heavier than passenger trains, many possible options suggested for passenger trains are not an option for freight trains. The Rail Safety and Standards Board has commissioned a study looking at the practicality of other options for future rail freight locomotives, and this is expected to be published in late 2019.

Electrification is an established technology for rail that has been successfully in use on the railway for many decades. FTA supports a long-term strategy of further electrification of the rail network, which would enable the future procurement of electric locomotives rather than diesel locomotives. At the moment there are key gaps in the electrified network that mean the procurement of further electric locomotives cannot be pursued.

Cleaner engines and fuel use / carbon

In the fight to improve air quality there is often an assumption that if you make fuels more expensive, cleaner engines will be used as a result.

In fact, 'cleaner' engines are **not** more fuel efficient.

The Euro standards for new vehicles that have been progressively deployed since the 1990's are the primary reason that lorries have not become more fuel or carbon efficient. The improvement and development of engines has been aimed at engineering out local air pollutants, which makes the engine less efficient, relatively speaking, in terms of motive power

This is not to say this process has been wrong, but it does explain why making fuel more expensive will not drive operators to use cleaner engines.

¹² FTA calculation based on DfT stats table Env0101

Conclusion: Improving the UK through tax/charging reform – what the FTA is calling for

- Road diesel duty should be cut by 3ppl as this would stimulate the UK economy, have minimal cost for the UK Exchequer, and would not result in increased freight volumes.
- Rail freight diesel duty should also be cut by an equivalent or greater amount to reflect the social good (environmental, social and for congestion) that rail freight brings.
- Rail Track Access charges increases should be cancelled to avoid harming rail freight prospects, and long-term reductions targeted.
- Road charging discounts and access restrictions should be offered to Ultra Low Emission Trucks and vans, not just applying only the car standard as the test for this.
- Lower levels of duty should be applied to lower emission road fuels that heavier HGVs can take up now.
- Capital tax reliefs should be offered to companies seeking to purchase alternatively powered vehicles, to help stimulate this market towards self-sufficiency.



We support, shape and stand-up for efficient logistics

FTA is one of the biggest business groups in the UK, supporting, shaping and standing up for efficient logistics. We are the only organisation in the UK that represents all of logistics, with members from the road, rail, sea and air industries, as well as the buyers of freight services such as retailers and manufacturers whose businesses depend on the efficient movement of goods.

An effective supply chain is vital to Keep Britain Trading, directly impacting over seven million people employed in making, selling and moving the goods that affect everyone everywhere. With Brexit, technology and other disruptive forces driving changes in the way goods move across borders and through the supply chain, logistics has never been more important to UK plc.

As champions and challengers, FTA speaks to government with one voice on behalf of the whole sector, greatly increasing the impact of our messages and achieving amazing results for members.

FTA members:

 **50%**
operate more than 200,000
lorries – almost half the UK fleet

 **90%**
deliver over 90 per cent
of freight

 **70%**
consign 70 per cent of UK
visible exports by sea

 **70%**
consign 70 per cent of
UK visible exports by air