



### **Key Measures at this Budget**

1. The Freight Transport Association (FTA) wishes to propose action on three areas at this Budget. Each would support the efficiency of the UK economy and promote confidence in the immediate economic future of the UK. In the run up to the exit of the EU it is more important than ever that the UK's economy is efficient and competitive internationally. Action in these three areas would help deliver that, whilst also aiding the Government's environmental agenda as well.
2. The three areas are:
  - Fuel Taxation
  - Infrastructure Investment
  - Skills

### **Fuel Taxation**

3. FTA has welcomed the Chancellor's successive decisions to freeze fuel duty since 2011. Fuel accounts for around 31 per cent of the cost of running a 44 tonne truck currently. The cost has risen dramatically over the past 20 years. FTA estimates that just one penny increase in duty adds around £470 per year to the cost of running one truck. Many FTA members run fleets numbering hundreds or thousands of such vehicles. The current rate of fuel duty costs industry around £7.0bn a year, or £121m per penny of duty.<sup>1</sup>
4. In the Spring Budget the Treasury announced its intention to review diesel taxation in the light of air quality concerns. Fuel duty would be the wrong mechanism to use to try to shape use of diesel, especially as far as the commercial vehicle sector is concerned. At an operational level, viable alternatives to diesel are still only being developed and tested or used as part of marketing strategy, not as a mass market option. No increase in diesel taxation would change this in the short term, as it is largely a question of capability and capacity - not marginal cost. Euro VI heavy duty vehicles are delivering 80% reductions in local air pollutants<sup>2</sup> and so the benefits of upgrading the fleet to newer vehicles massively outweigh any change in level of use a duty increase would bring about. Euro VI HGVs are, if anything, more fuel intensive than their predecessors. So increases in fuel duty will negatively affect those operators who are seeking to upgrade to comply with the Government's agenda on air quality, meaning fewer operators would be able to afford to make the switch.
5. The Government's main approach on air quality - which is effectively mandating the introduction of urban chargeable Clean Air Zones (CAZs) - will drive the uptake of Euro VI vehicles. FTA has many reservations about this policy. But given that, in some form, it will go ahead, it would be massively undesirable to add further cost to the whole logistics industry in the form of an increase in fuel duty just at a time when this industry is having to cope with the costs of upgrading the fleet early (and the loss in value of existing vehicle stock). Small and Medium sized Enterprises (SMEs) using commercial vehicles will be worst hit by the CAZ policy due to their greater tendency to utilize older vehicles, and they would be also be hit by the costs of increased fuel duty - making their business models even less viable at this difficult time.
6. The Government now has the opportunity to off-set the cost of CAZ compliance on the industry through a diesel duty cut. Given that CAZs will be driving Euro VI uptake, and that alternative fuels are not currently a viable mass market option, this approach would not

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<sup>1</sup>

[http://www.fta.co.uk/export/sites/fta/\\_galleries/downloads/fuel\\_prices/Fuel\\_duty\\_update\\_x\\_Autumn\\_statement\\_2016.pdf](http://www.fta.co.uk/export/sites/fta/_galleries/downloads/fuel_prices/Fuel_duty_update_x_Autumn_statement_2016.pdf)

<sup>2</sup> For example TfL on road testing data.

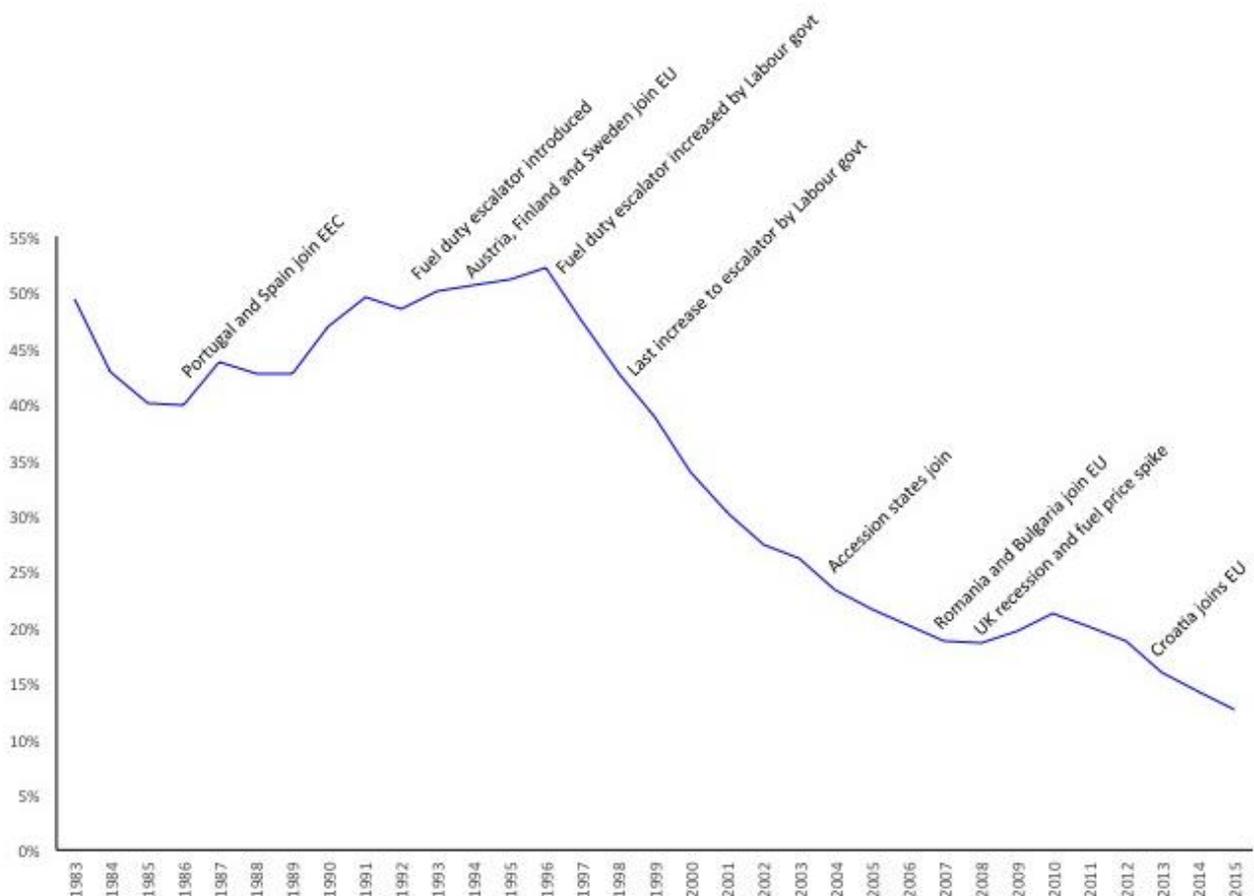
# BUDGET November 2017

## FTA submission to the Treasury

negatively affect the air quality agenda. There would be concern that the any cut in diesel duty could once again give an incentive to car user to buy or hold on to diesel cars. A diesel tax cut could be offset by adjustments to diesel car Vehicle Excise Duty (VED) to ensure this did not occur - therefore still promoting change in behaviour amongst those who have a choice.

7. In considering diesel duty the Government needs to consider the negative effect comparatively high levels of duty has the competitiveness of UK logistics. This is demonstrated most starkly by the numbers of UK registered vehicles travelling to mainland Europe. The fuel duty escalator was introduced in 1993 and increased in 1996 when just over half (52 per cent) of all powered vehicles travelling to mainland Europe were UK registered. By the end of 2015 that figure was 12.54 per cent dropping to 11.98 per cent at the end of Q3 2016. In the 20 years to end of 2015, the number of UK registered powered vehicles travelling to mainland Europe fell by nearly half whilst the number of foreign registered vehicles quadrupled (figure 1). Foreign based operators have a significant cost advantage over British operators due to the much lower rates of duty on diesel on the Continent. This has enabled them to win business from British operators. Any increase in diesel duty would make this situation worse, any reduction would help alleviate it.

**Figure 1:** UK-registered vehicles as a proportion of total vehicles travelling to mainland Europe 1983-2015



8. Thanks to the action already taken by Government fuel duty is far lower than it would have been – in fact saving industry £8.48bn in extra duty by 2016/17 - had the previously planned increases been introduced. Government is to be commended for providing this much-needed relief.



9. However, FTA believes the Government should go further. As part of work by the FTA and the campaign group FairFuel UK, two studies have been produced – the first by CEBR<sup>3</sup> (Centre for Economics and Business Research) and the second (on Treasury's recommendation) by NIESR<sup>4</sup> (the National Institute for Economic and Social Research) – looking at the economic impacts of a freeze in fuel duties and then of a cut in duties. What both pieces of work demonstrate is that a change of approach could deliver significant benefits including creating jobs, boosting GDP, and in some circumstances, delivering a net increase in tax revenues.
10. Very significant gains for the economy can be achieved at high level of fuel duty cut. For example, a cut of 10ppl would result in an increase in economic activity of 0.71% in just one year. It would result in the creation of over a quarter of a million jobs. A radical measure such as this would provide a dramatic boost to the UK economy, as well as allowing UK hauliers to regain competitiveness with foreign operators as we build up to Brexit.
11. A less radical cut would still offer a notable economic boost whilst have the added advantage of being close to self-funding for the Government. With a 3ppl cut, tax income from other sources rises enough due to the increase in economic activity that this nearly off-sets for the Government the reduction in fuel duty income. A 3ppl cut would therefore offer a significant boost to the economy, help operators cope with the transition to cleaner diesel vehicles over the next three years, and cost the Government very little.
12. The Government has also said it wishes to review the use of Red Diesel. Red Diesel is used for many purposes but we would emphasise its importance within rail freight services. Rail freight offers emissions, road congestion and economic efficiency benefits to the UK. Alongside any cut in standard diesel duty, FTA believes the UK should cut Red Diesel rates for rail freight services due to wider social benefits this would bring.
13. In the long run it is necessary for environmental reasons (and is also Government policy) to move away from diesel. FTA wants to accelerate the point at which alternative fuels or power sources are a viable option for van and HGV operators. Much of this will depend on technological development, but the pace of that development and then deployment can be encouraged by a more advantageous fiscal climate. To that end the Government should reduce duty on all road fuel alternatives that offer Greenhouse Gas (GHG) or local pollution benefits. These would include natural gas, biodiesel, bioethanol and Used Cooking Oil.

***Policy Recommendation: to meet its economic goals the Government should cut diesel duty by three pence per litre, with commensurate or larger reductions in duty for red diesel for rail operations and alternative fuels for road transport, with adjustments in car VED to ensure environmental objectives are not compromised.***

### Infrastructure Investment

14. Efficient and effective transport infrastructure networks are crucial for the logistics industry to be able to support the needs of UK businesses. Inefficiencies add cost to living and doing business in the UK, and also cause avoidable emissions.
15. The Government now has good systems in place to manage road and rail infrastructure planning at the policy level. This summer's Transport Investment Strategy was a welcome confirmation of the continued commitment to longer term thinking and funding.
16. To deliver the benefits we need to see continued commitment to quantity of funds available to deliver road and rail enhancements now and into the 2020's.
17. In rail, it is vital that the specific interests of freight are not missed amidst the political pressure to deliver passenger projects. Freight focused spending on rail can deliver real benefits for the UK as a society and an economy and must be pursued.

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<sup>3</sup> Report by CEBR

<sup>4</sup> "The Impact of Fuel Duty on the Macro-Economy" NIESR, September 2012



18. While the capital funding for improvements and new build is important, maintenance of the existing network must not be overlooked. It has become too easy to look to the revenue budget for maintenance and cut that allocation only for the network to deteriorate and become unsafe and defective. Despite the government's commitment to £6 billion of funding for local road maintenance between 2015 and 2021, according to the ALARM<sup>5</sup> survey of local highways departments in England overall budgets have dropped by 16 per cent. The government's announcement of a £50 million Pothole Action Fund for England in 2016/17 is welcome news but more investment is needed to provide and preserve the quality of roads the UK requires.

**Policy recommendation: The Government should reconfirm commitment to rail and road infrastructure improvements into the 2020's, protect the role of freight related improvements in rail spending, and provide more funds for maintenance of the existing road network.**

### Skills

19. With the implementation of the Apprenticeship Levy in April, businesses are now paying a levy of 0.5% if they have a paybill of greater than £3 million. Within logistics especially, there are vocational qualifications that must be completed. However due to proposed apprenticeship standards being rejected there is currently no way to fund this using apprenticeship levy funds.
20. Apprenticeships in general have been complicated by the 20% off the job training rule which is preventing take up amongst logistics businesses (and other sectors) as apprenticeships do not suit their training needs. Some businesses are now viewing the levy as a tax as they are unable to utilise the funds, as the cost of running an apprenticeship programme is greater than the levy payment.
21. FTA propose that the Apprenticeship Levy should become a Skills Levy, to be used for all vocational training and not limited to a minimum of 12 months training as per apprenticeships. This funding should be available to temporary workers and the self-employed. Workers who are currently unable to benefit from the funds raised by the Levy would then be able to access funds to upskill and retrain.

**Policy Recommendation: The Government should reform the Apprenticeship Levy to make it a Skills Levy – open to more forms of training and workers as this would ensure the upskilling of the UK's workforce is as wide as possible and suits all business needs.**

### About FTA

The Freight Transport Association is one of the UK's largest trade associations and represents over 16,000 members relying on or providing the transport of freight both domestically and internationally, to or from the UK. Our members include hauliers, freight forwarders, rail and air freight operators, through to customers – producers, manufacturers, wholesalers and retailers. They cover all modes of transport – road, rail, air and sea. FTA members operate over 210,000 commercial goods vehicles in the UK, approximately half of the UK fleet of goods vehicles, 90 per cent of goods moved by rail and around 70 per cent of goods moved by air and sea.

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<sup>5</sup> <http://www.asphaltindustryalliance.com/alarm-survey.asp>