



Response of the Road Haulage Association to All Party Parliamentary Group on Road Freight & Logistics

Inquiry on Clean Air Zones

11 March 2020

Summary

1. The RHA strongly welcomes the Inquiry by the All Party Parliamentary Group (APPG) on Road Freight & Logistics into Clean Air Zones (CAZ) within England. This controversial policy is expensive, inflexible, not as effective as it should be and has vexed our members since its conception.
2. As a UK-wide association, the RHA supports the policy aim to improve local air quality across the United Kingdom. However, it is vital that the right policy frameworks are in place to achieve it. Well-designed standards, phased in appropriately as market supply allows, works well for everyone.
3. We regret that CAZ is a significant “mis-step” on the path to a sustainable environment. The approach designed by DEFRA and DfT for England has been to create a model that emphasises high charges for pre-Euro VI diesel vehicles and which discriminates by vehicle type (e.g. HGVs vs cars) through the creation of CAZ “classes”. The principle mistake made by Government policymakers has been a failure to **phase in** CAZ compliance as the market supply of the required Euro VI diesel vehicles allowed – there has been a failure to understand vehicle lifecycles.
4. This mistake is causing the “stranded asset” effect – assets that suffer an unanticipated or premature devaluation due to a public policy measure.¹ The impact is most acutely felt on the Euro V fleet of HGVs, which represents 24% (120,000 lorries) of the current UK HGV fleet – see annex 1. As much as £1.2 billion has been wiped off the value of the Euro V HGV fleet as a direct result of the Government’s intervention.
5. Compounding the “stranded asset” effect is the associated inflated market price in second-hand Euro VI lorries. This double effect is impacting the viability of many businesses who are forced to pay uneconomic prices to upgrade vehicles. The combined impact is that market forces are perversely conspiring against operators upgrading to the clean HGVs policymakers claim they wish to see.

¹ See: <http://www.lse.ac.uk/GranthamInstitute/faqs/what-are-stranded-assets/>



The Road Haulage Association

6. There is no evidence we can see of any recognition by Government of the highly competitive nature of the haulage industry and the price benefit consumers derive from low transport costs.
7. We are separately concerned by the bureaucratic burden that CAZ policy is placing on SME hauliers, who face a confusing array of different charges, exemptions and implementation delays by local authorities. The most clear example of this is the lack of an “autopay” system to allow fleet managers to pay the relevant charges efficiently. Fines can be automated, so we believe payments can too.
8. We have not heard a satisfactory explanation as to why the Government will not allow autopay. We believe there is a lack of understanding by officials on the complexity for operators, combined with a bureaucratic desire to make payments as difficult as possible. Officials have informed us that “behavioural change” is a clear driver behind CAZ but, given the cumulative impact of the issues we flag in this response, we question the appropriateness and subsequent disproportionate effect on HGV operators of the approach being undertaken.
9. The RHA believes there are better ways to achieve cleaner air. We have consistently highlighted the many flaws in the design of the CAZ framework and provided alternative approaches. We regret this has fallen on deaf ears within the Government’s Joint Air Quality Unit (JAQU) and, together with the on-going and real-time implementation problems, the uncertainty and anxiety it is causing our members and their ability to forward-plan and invest-with-confidence.
10. By contrast, we welcome the constructive dialogue between the RHA and Scottish authorities on the design of Low Emission Zones, where Scottish authorities have understood the need to phase in compliance as the market supply of Euro VI vehicles allows. Within Wales, the RHA has engaged with the Welsh Government’s consultation on its Clean Air plan which closed on 10 March 2020. Here, we have advised that the Welsh Government is well-placed to adopt best practice from Scotland and avoid the mistakes made in England.
11. The RHA is calling for DEFRA/DfT to conduct an urgent review into its CAZ approach and, as an immediate first step, to amend the policy framework by introducing “intelligent phasing”² to negate the “stranded asset” effect. Failure to do so will see SME operators going out of business and price rises for consumers. Medium-term, when heavy duty vehicles (HGVs & buses) accounted for just 5% of total NOx emissions in 2017 (see chart 2), we call for a redesign of the policy framework where a more proportionate response that targets the most-polluting vehicles across all vehicle types is implemented.

² See: <https://www.rha.uk.net/getmedia/7669b7fa-cab8-40e5-a3c4-e5c124b7b7d3/180114-Policy-Paper-CAZ-Alternative-v1.pdf.aspx>



The Road Haulage Association

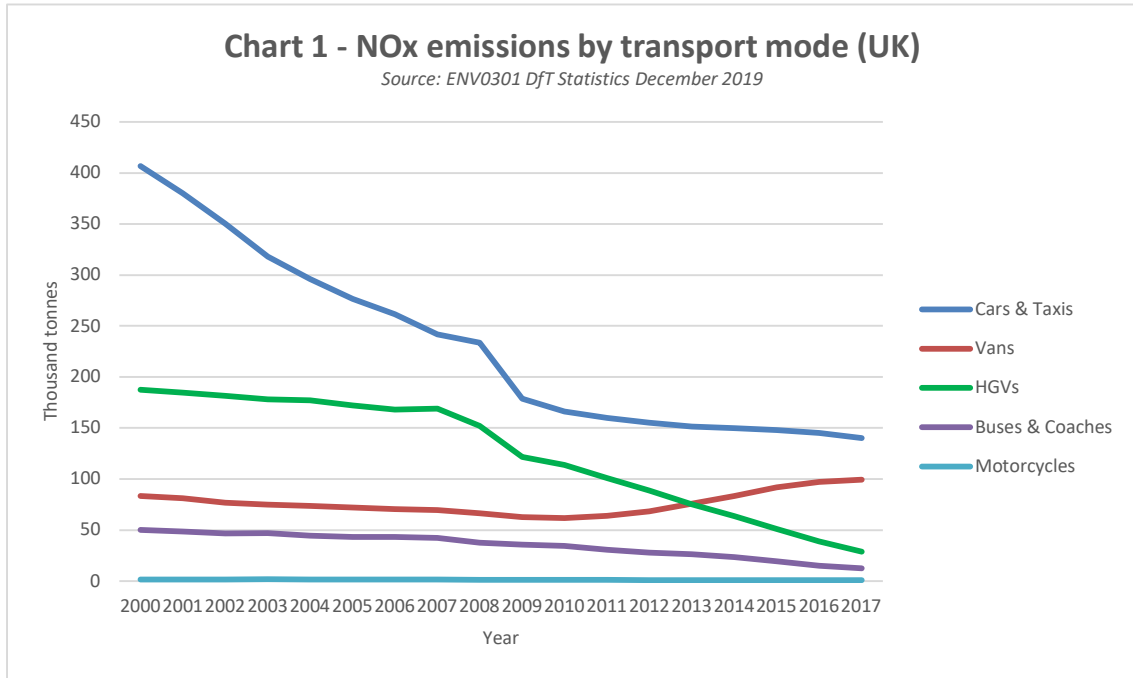
Background about the RHA

12. The RHA is the leading trade association representing 7,200 road haulage and distribution companies across the UK. Our members operate around 250,000 HGVs (i.e. half of the UK fleet), ranging from a single-truck company to those with thousands of vehicles.
13. We proactively encourage a spirit of entrepreneurialism, compliance, profitability, safety and social responsibility. We do so through a range of services, such as advice, representation, and training. We also work alongside policymakers and haulage companies to identify ways to move freight more efficiently at a lower cost based on our widespread knowledge and expertise in the area.
14. Our comments are set against a context where:
 - a. 54,800 SMEs are involved in haulage and 52% of lorries operate in fleets of less than 20 (Source: Traffic Commissioners - 2016/17). These SMEs typically work on a 2% profit margin (Source: Statistica 2018). Any additional cost incurred cannot be absorbed, and will either be passed on to the consumer or cause the HGV operator to go out-of-business.
 - b. the purchase cost of an HGV starts from £85,000 and its life span is typically 12 years. In the case of low mileage, specialist-built vehicles such as mobile cranes, the lifespan can be much longer (30yrs +) and cost considerably more to purchase (£200,000+).

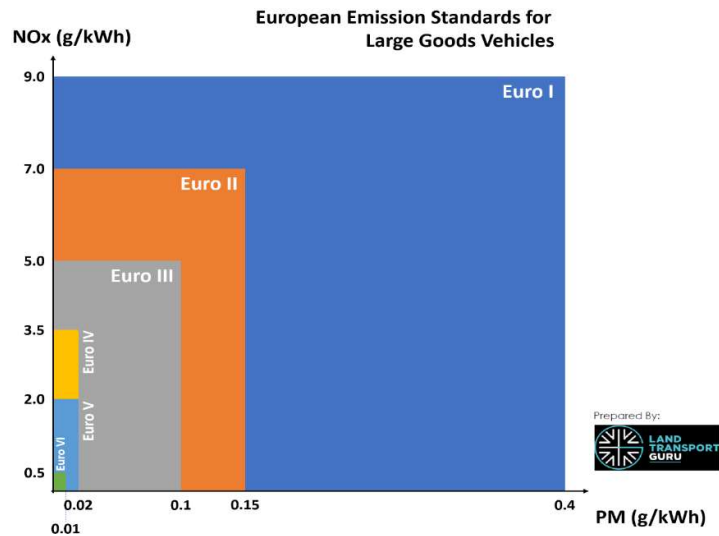
RHA consideration

15. Hauliers have already taken great strides to clean up the environment. An extra £1.9bn has been invested in the latest Euro VI lorries which the RHA estimates has contributed to NOx emissions from HGVs falling by around 60% since 2013.³ Data published separately by the Department for Transport – see chart 1 – confirms this downward trend.
16. Despite this investment, DEFRA/DfT has pressed ahead with a flawed, discriminatory CAZ policy in England that has disregarded the market availability of the desired technology (Euro VI) and accordingly distorted the haulage sector, unjustly impairing its viability for minimal net gain in reducing overall harmful NOx emissions.

³ See: *RHA NO_x Emission Assessment – April 2019* (available from: www.rha.uk.net)



17. There are two key flaws with the CAZ model. First, basing CAZ compliance only on the Euro VI diesel emission standard is an inflexible and indiscriminate way to reduce emissions, as it does not account for lower emissions from other Euro standards (e.g. Euro V) – see graphic below *European Emission Standards for Large Good Vehicles*.

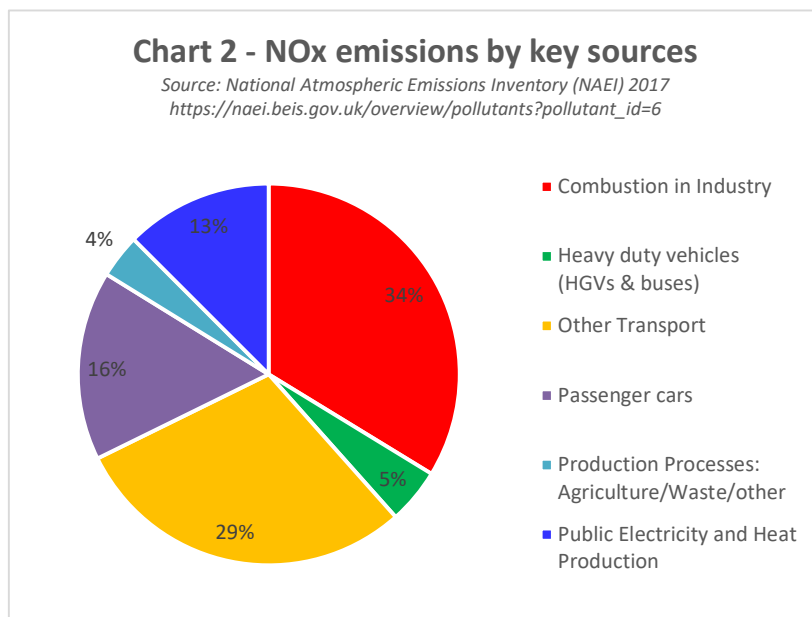


18. Secondly, the Government has designed an inflexible “class” system to target specific vehicle-types within a CAZ – see annex 2. However, paragraph 125 from the Government’s CAZ guidance document states: *For a given class of zone all vehicle types identified as in that class should be*

subject to the restrictions. A local authority should not select individual vehicle types within a class, or ‘mix and match’ vehicles across classes. (For example a zone could not charge only coaches and LGVs - a zone covering all vehicles up to LGVs would have to be introduced).⁴

19. The RHA fundamentally asserts that this restriction is misguided for the following four reasons:

- a. in 2017, heavy duty vehicles (HGVs and buses) accounted for just 5% of total NOx emissions (see chart 2) and is a disproportionate response;
- b. it gives local authorities insufficient flexibility to determine the precise sources of vehicle pollution within their locality, and to target those sources appropriately;
- c. based on the emerging evidence at the time of writing, of the eleven local authorities who have published firm CAZ plans, seven are choosing not to impose charges on non-compliant cars. Yet, other forms of transport including cars accounted for 45% of NOx emissions in 2017 (see chart 2);
- d. the impact of this specious restriction on HGVs has caused a market reaction where the resale values of Euro V HGVs has fallen because, put simply, there is little to no demand for a Euro V HGV that is now erroneously deterred from entering a CAZ. This is compounded by little demand in traditional export markets, such as Africa.



⁴ See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863730/clean-air-zone-framework-feb2020.pdf

20. Instead, the RHA believes that CAZ policy should be redesigned with a clear and consistent national standard that takes account of vehicle replacement cycles and phased in as market supply allows. The focus should be on vehicles over 12 years old across all vehicle-types (ie. cars, vans, taxis, HGVs and buses). Policy should also provide consistent and appropriate incentives for owners of the oldest, most-polluting vehicles to upgrade to newer cleaner vehicles. This approach will not undermine business investment in vehicles, as is the case now.
21. We believe the English CAZ model will ultimately be counter-productive because, on an assumption that consumer demand remains constant or increases, there will be a corresponding increase in the use of vans to transport freight otherwise carried by non-compliant HGVs. One 44-tonne HGV is equivalent to 12 largest vans of up to 3.5-tonne gross weight. A trend of replacing HGVs with vans is likely to cause more congestion and more air pollution - see chart 1.
22. The flawed CAZ model is compounded by two further policy errors. First, retrofitting is not a feasible option for most HGV operators. Unlike buses and coaches, the fragmented nature of different HGV vehicle specifications means that a viable commercial market to retrofit non-compliant HGVs is unrealistic for the majority of hauliers.
23. Secondly, a loophole exists in the English model as enforcement against non-compliant non-UK lorries is overlooked in the policy framework. Enforcement of non-compliance against non-UK registered lorries has been passed to local authorities and is not technically possible. In effect, non-UK vehicles are therefore exempted creating a competitive disadvantage for UK businesses. We are disappointed that DEFRA and DfT have repeatedly ignored the concerns we have raised on this issue.
24. Finally, the use of scrappage schemes should be seen in context. Used appropriately, the limited public funds permitted under “state aid” regulations can assist marginal operators to upgrade to the desired technology. However, given the current direction-of-policy-travel on CAZ and the volume of HGVs adversely affected, CAZ-related scrappage schemes are a restrictive and inefficient use of public money. Our experience is that it is a “postcode lottery” as to whether a haulier can qualify for scrappage funding. Instead, the RHA considers that new technology appropriately incentivised and phased in as market supply allows is a more cost-effective, rational and fairer method of introducing the clean vehicles desired. Vehicles replaced in line with natural business investment cycles means there is less recourse to public funds.

Final Comments

25. 98% of all goods consumed in the UK are moved by road, with 2.54m people employed in the haulage and logistics sector, and around 530,000 HGV's over 3.5 tonnes operating on UK roads. Not only does the haulage industry make a significant contribution to the UK economy (£124bn GVA), it also plays a fundamental role in facilitating the operation of other sectors, such as construction, housing, food, and retail.



The Road Haulage Association

26. The RHA recognises that poor air quality is a serious environmental risk to public health, and our membership is committed to investing in the technology needed to achieve improved air quality. However, the regulatory framework underpinning clean air must support the investment lifecycle (typically, 12 years) that hauliers make. This is so that the “stranded asset” problem is avoided.
27. Well-designed standards, appropriately phased in as market supply allows, will also shape how we address the next challenge of decarbonising the haulage sector. We strongly recommend that the current CAZ model **is not replicated** when addressing this debate, as the current approach has undermined haulier confidence-to-invest in the clean HGVs desired.
28. We believe that the CAZ approach led by DEFRA and DfT should be a case-study in how not to manage change in a competitive commercial environment. With £1.2bn wiped from the value of the Euro V fleet, CAZ is an expensive way to upgrade to the desired technology when, as we set out above, the policy will ultimately be counterproductive.
29. Policymakers must learn urgent lessons from CAZ so that a much better and sensitive policy framework is designed and implemented that achieves what everyone wants to see – a sustainable, healthy environment that supports jobs and economic growth. The RHA stands ready to work with policymakers to achieve this.

11 March 2020

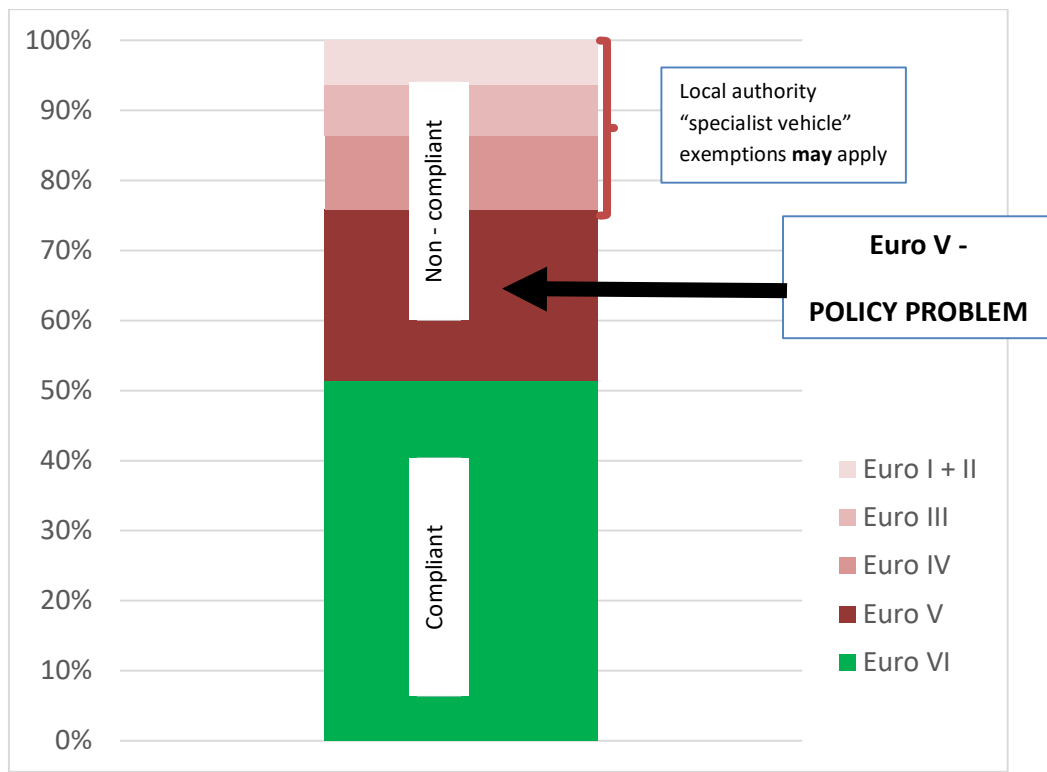
Duncan Buchanan: Policy Director – England and Wales
Chris Ashley: Head of Policy – Environment & Regulation
Road Haulage Association
c.ashley@rha.uk.net

Profile of UK HGV fleet

Profile of HGV fleet (UK)		
	Number	Percentage
Euro I + II	31,519	6.3%
Euro III	36,522	7.3%
Euro IV	53,032	10.6%
Euro V	120,072	24.0%
Euro VI	259,155	51.8%

Source: RHA estimate based on DfT Statistics VEH0511 (Apr 2019)

UK HGV fleet as mapped against Clean Air Zone “class” criteria



Source: RHA estimate based on DfT Statistics VEH0511 (Apr 2019)



Clean Air Zone “classes”

<u>Class</u>	
A	Buses, coaches, taxis and private hire vehicles (PHV)
B	Buses, coaches, taxis, PHVs and heavy goods vehicles (HGV)
C	Buses, coaches, taxis, PHVs, HGVs and vans
D	Buses, coaches, taxis, PHVs, HGVs, vans and cars (m’bikes/mopeds optional)

Source: Clean Air Zone Framework Principles for setting up Clean Air Zones in England - February 2020 (DEFRA/DfT), pp28-30

- No ability for local authorities to adopt a “mix-and-match” approach that is targeted to local sources of vehicle emissions.
- Enforced by automatic number plate recognition (ANPR) cameras.
- Penalties apply if charge not paid within time specified by local authority.
- No “autopay” facility exists for fleet managers.
- No ability to enforce against non-UK registered HGVs.