

Presentation by the Verona Murphy, President of the Irish Road Haulage Association to the Oireachtas Select Committee on Budget Oversight on the equalisation of petrol and diesel excise duty

Tuesday 3rd July 2018

Mr Chairperson, and members of the Committee,

Thank you for the invitation to appear before your Committee this afternoon for what I believe is the first presentation by the IRHA before this Committee.

The IRHA

The IRHA is the representative body for the licensed haulage sector in Ireland. We estimate that 47,200 people are employed in the Freight Transport, Distribution and Logistics Sector in Ireland accounting for 2.5% of total national employment. Our members play a key role in that sector.

The Economic Context for the Irish Road Haulage Sector

Merchandise trade is a very important component of the Irish economy. Exports and imports of goods are key to the functioning of the economy, both from a consumer and a business perspective. In 2017, Ireland's merchandise exports totalled €122 billion and its merchandise imports totalled €79 billion. When combined, total merchandise trade was equivalent to 68% of Irish Gross Domestic Product (GDP) in 2017.

The road haulage sector is central to this two-way trade in goods and consequently to the proper functioning of the economy. As such it is essential for Ireland's future growth and prosperity that the road haulage sector is as efficient and effective as possible. IRHA members are a key cog in the efficient functioning of a vibrant and dynamic economy. In a very real sense we can be described as the wheels of Irish trade and commerce.

The operating environment for Irish road hauliers is very challenging at the moment and the sector is also facing many pressures and uncertainties over the coming years.

Present challenges

Our present challenges include;

- Increasing costs – especially fuel costs, but also high levels of insurance premia and new daily levies being imposed in the UK on Irish trucks, which do not apply to UK trucks operating here.
- Very high levels of competition driving down margins to unsustainably low levels.
- New regulatory impositions leading to a tougher and costlier operating environment – one change reduced some members load capacity by 7%.
- A labour shortage – which is really stretching our members capacity to recruit drivers.
- Currency fluctuations – in particular recent sterling movements are having a negative impact on many operators – the difficulties that Irish Exporters are

facing are directly being visited on Irish hauliers who are having to deal with lower business volumes.

Brexit and future challenges

Future challenges are even more concerning, including;

- Brexit poses enormous potential challenges for the sector. Ireland is the only EU country that shares a land border with the UK. Each week, €1.2 billion worth of trade in goods and services is carried out between Ireland and the UK. In addition, over 80% of road freight to Europe travels through the UK. Anything that might act to disrupt this trade such as adverse currency movements or border controls will be damaging to Irish road haulage activities and consequently to the Irish economy.
- The risks to the Irish economy from a 'hard Brexit' are very clear. The Irish Road Haulage Sector is the sector that will be most exposed to Brexit and is already feeling its impacts through increased currency differentials, a loss of business confidence and a declining lack of available credit for future investment in rolling stock and support services.
- The road haulage industry is at the forefront of the economic relationship between the UK and Ireland and hence it looks the most vulnerable and exposed sector in the event of a negative Brexit outcome. Policy makers in Ireland need to ensure that this vital component of Irish economic life is supported to the greatest extent possible. And one way of supporting the sector is to ensure that we do not introduce new domestically conceived charges, taxes or rules which add to the challenges which we have as a

sector. We cannot fully deal with the uncertainties that are emerging from what looks like an increasingly chaotic Brexit. But we can ensure that we do not make the economic position of exposed sectors any worse through misdirected or inappropriate new rules or charges.

Fuel costs and the Irish Road Haulage Sector

Fuel costs are a very significant overhead for Licensed Irish Hauliers – representing up to 35% of the operating cost of a vehicle.

Licensed hauliers have no alternative but to use diesel. They do not have substitutable alternative fuel sources which they can choose as prices fluctuate. Diesel is the most cost effective, carbon and energy efficient fuel for use in heavy road transport.

Diesel offers the best combination of power, torque and cost efficiency. Other fuels require more space (gas) or weight (batteries), reducing payload and increasing the number of journeys. Even in the USA where cars and light commercials are predominately run on gasoline, heavy duty trucks run on diesel.

Furthermore Diesel, as a fuel, has slower combustion characteristics as compared to petrol. So, they produce higher torque at low speeds, which is the primary requirement of a heavy goods vehicle. High torque is needed to move heavy loads. The diesel engine remains the only viable option for Irish hauliers.

In simple terms diesel is the only readily available fuel source for hauliers and any increase in the cost of diesel represents a direct and immediate charge on the cost

of business for a haulier. As such, a proposal to equalise the excise duty between diesel and petrol will lead to an immediate 10% increase in the fuel costs of our members.

Flawed economic analysis

Regrettably many of the public policy debates on this issue are conducted with a very poor understanding of the complex issues underpinning the use of diesel by our sector. One particularly poor piece of analysis was conducted by the ESRI and was published in February 2018. This report suggests a worryingly misinformed point of view which appears to favour the recent narrative to see diesel as a bad fuel type no matter what the circumstances. The IRHA contends that the significant analytical flaws and lack of objectivity demonstrated in this Report should preclude its use to inform Government taxation policy on fuel excise levels. It is certainly not fit for that purpose.

The report completely misses the point that the road haulage industry has no alternative but to use diesel and that modern trucks are leading the way in slashing air quality pollution levels. It also ignores the vast investment by truck manufacturers in designing highly efficient diesel engines in line with Euro 6 standards.

Sustainable transport modes

There have been huge investments by truck manufacturers to reduce air quality pollutant levels to near zero. For instance, new Euro 6 engines, which have been fitted in commercial vehicles constructed since 2014 actually deliver an exhaust particle content which is comparable and at times cleaner than the ambient air.

As for nitrogen oxides, or NO_x, Euro 6 trucks emit at least 90% less nitrogen oxides than earlier diesel engines in real world operation, a finding that has prompted claims in the industry and NGOs that these engines now emit less than a 1.6 litre petrol car.

Real world testing and compliance for heavy goods vehicles has proven to be far better than cars where emissions cheating devices were discovered. This is partly due to HGVs being more expensive and having more physical space to enable manufacturers fit the best technological solutions to meet the standards required. Only 10% of Euro 6 cars meet emissions limits in real-world driving conditions. And in real world testing of nitrogen oxides as a percentage of CO₂, Euro 6 cars proved to contain more than ten times that found in Euro 6 trucks.

So, in short a simplistic analysis which proposes that the excise duty on petrol and diesel should be equalised, so that the price of diesel will increase, will do nothing for the environmental sustainability of our national road haulage fleet, other than to take trucks off the road as haulage businesses fail due to excessive fuel costs. Fuel price equalisation between diesel and petrol will not produce any positive environmental benefits from the national road haulage fleet, but will inflict grievous financial damage to a sector already facing huge costs and massive uncertainty.

A revised Diesel Rebate Scheme

The Diesel Rebate Scheme was introduced in 2013 by Minister Michael Noonan. The intention behind the Scheme is to sustain operators through fluctuating oil prices and to bring certainty to the cost base for haulage operators when contracting to provide haulage services into the future. This certainty in turn benefits exporters by helping to control transport costs and reduce at least one aspect of the variable component to costs.

Under the Scheme the Revenue Commissioners will repay a portion of the mineral oil tax on fuel provided that the purchaser is a qualifying road transport operator who meets specific conditions.

The Scheme has not worked effectively since it was introduced, as the applicable floor for diesel rebates was set too high – at €1.00. The IRHA believes that for the Scheme to make a substantial difference in current conditions, the floor should be reduced to €0.85 per litre. Additionally, we believe that the maximum rebate available under the Scheme should be increased from 7.5c to 15c per litre with a maximum rebate of 15c per litre once the price of diesel reaches €1.00 ex VAT. Such a move would alleviate cost pressures on the sector, would benefit the Irish Exchequer by reducing fuel tourism and bring certainty for Irish exporters by helping to control and predict stable transport costs.

I should stress that this proposal is based on current conditions. Should equalisation of the excise duty between diesel and petrol be contemplated, the

diesel rebate scheme must be used to recompense the haulage industry in full for that increase.

CONCLUSION

The IRHA believes that rather than demonising diesel engines in an unthinking and fad-driven fashion, the ESRI and the environmental lobby should be calling on the State and the EU to make the most of the solutions brought to market by Euro 6 by encouraging the acceleration of fleet renewal and/or fleet retrofitting. Retrofitting to Euro 6 standard was undertaken on a grand scale by Transport for London and proved to be hugely successful.

The IRHA hopes that in Budget 2019, the Government, when determining appropriate budgetary measures will take account of the strategic importance of the Licensed Road Haulage Sector, note the precarious operating environment applying at present, and note the threats coming at the sector from Brexit.

In particular we believe that the current economic context requires no increase in fuel costs for hauliers by way of taxation and necessitates a recalibration of the Diesel Rebate Scheme to levels that are applicable in other EU Countries and which will assist licensed hauliers plan for the extremely challenging period ahead.

I would be happy to answer any questions you wish to raise.

Thank you.

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