We are pleased to again be supporting FTA in the production of this year’s Logistics Report. The detailed analysis provided testifies to the ongoing difficulties faced by the sector. However, it is pleasing to see that despite a tough economic climate, the UK logistics industry continues to respond and indeed make a valuable contribution to defining moments such as the successful 2012 Olympics. The importance of investment in transport infrastructure and continued innovation are key themes in the report and we believe these are essential to maintaining the UK’s relative international competitiveness and driving future growth.

Coolin Desai
UK Transport & Logistics Leader
PwC

PwC firms provide industry-focused assurance, tax, deals and consulting services to enhance value for their clients. More than 161,000 people in 154 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice. See www.pwc.com for more information.

The PwC Transportation & Logistics practice is composed of a global network of approximately 5,200 industry professionals who support over 93 per cent of the transportation and logistics companies listed in the Fortune 500.
Introduction

Once more, I am delighted to introduce our annual Logistics Report, a review of the achievements and challenges of the last year.

As previously, the report is written and produced by FTA, in association with PwC, allowing us to combine the two organisations’ respective knowledge, research and analysis to review 2012 and identify key trends for the future, as well as assess their potential impact on logistics.

This is an opportunity to reflect on what an outstanding year 2012 was, in the face of the economic growth which largely eluded us. Logistics was central to the delivery of the two biggest shows on earth, the Olympic and Paralympic Games. Not only that, our expertise and professionalism enabled one of the world’s greatest cities to continue to function, in spite of the increased demand for travel and goods.

In these austere times, it has been reassuring to learn that companies have nevertheless increased their level of innovation. Those engaged in logistics have put in place ground-breaking practices and pioneering technologies to make their businesses more efficient and competitive, whilst continuously striving to achieve greater sustainability in their operations.

At a time when Government is, of necessity, focusing on stimulating economic recovery, this report also serves as a timely reminder of some of the things FTA believes it can do to improve UK logistics and enable it to adapt to changing needs. Government can help by:

- reducing fiscal and other burdens on business, including our high operating costs compared to our mainland European competitors
- ensuring that necessary infrastructure, in terms of transport networks and alternative fuels, gets built
- promoting investment by early adopters in more efficient and cleaner technologies – allowing more sustainable and competitive logistics
- continuing to support academic and in-company initiatives – to promote the acquisition of key skills required for logistics in the future

These are uncertain times, and continued volatility in the Euro Zone casts its long shadow over our prospects for future growth. Yet, there will also be opportunities, and the task facing all of us is to ensure that logistics will be able to play its part in enabling the UK to capitalise on these when they arise.

We hope that you find the Logistics Report 2013 an informative and thought-provoking assessment of the last year:

Theo de Pencier
Chief Executive
Freight Transport Association
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>The year in logistics</td>
<td>6</td>
</tr>
<tr>
<td>The logistics dashboard</td>
<td>10</td>
</tr>
<tr>
<td><strong>Chapter 1</strong></td>
<td></td>
</tr>
<tr>
<td>Growth agenda</td>
<td>14</td>
</tr>
<tr>
<td><strong>Chapter 2</strong></td>
<td></td>
</tr>
<tr>
<td>Staying strong</td>
<td>34</td>
</tr>
<tr>
<td><strong>Chapter 3</strong></td>
<td></td>
</tr>
<tr>
<td>Taking care</td>
<td>50</td>
</tr>
<tr>
<td><strong>Chapter 4</strong></td>
<td></td>
</tr>
<tr>
<td>Nurturing talent</td>
<td>64</td>
</tr>
<tr>
<td>Evidence base</td>
<td>76</td>
</tr>
</tbody>
</table>
The year in logistics
The year in logistics

**ENVIRONMENT**

**Carbon**
- Introduction of mandatory greenhouse gas reporting announced by Deputy Prime Minister Nick Clegg. Mandatory reporting to come into effect for quoted companies from October 2013
- Low Carbon Vehicle Partnership and Transport Knowledge Transfer Network publish Ricardo-AEA report into low carbon vehicles
- Department for Transport launches its 2012 Freight Carbon Review

**Air quality**
- London Low Emission Zone, standards tightened
- UK application for extension of air quality reduction deadline partially rejected by European Commission. Some of the cities affected explore low emission zones
- Euro VI emission standards apply to new vehicle types

**PAYING FOR INFRASTRUCTURE**

**Government launches consultation on charging heavy goods vehicles for use of roads (UK vignette)**

**Prime Minister announces that private investment is to be encouraged in roads infrastructure, starting with the A14**

**Announcements on crossing charges and tolls**
- HGV Road User Levy Bill presented to Parliament
- CBI issues Bold Thinking – a Model to Fund our Future Roads
- Increases in Dartford Tolls postponed from April to October. Consultation on ‘free flow’ charging at the Dartford Crossing announced, followed by consultation on enforcement
- Much delayed publication of report into economic impact of the Severn Crossing by Welsh Government. Welsh First Minister rules out scrapping Severn tolls if Welsh Government gains control of them
- Humber Bridge toll reduced following deal between Government and bridge trustees

**CONNECTIVITY**

**Rail**
- Office of Rail Regulation launches consultation on Freight Track Access Charges
- DfT publishes its Command Paper on Railways. West Coast franchise deal collapses
- High Speed 2 gets the go-ahead

**Road**
- Chancellor announces in Autumn Statement that some major road schemes are to be accelerated

**Sea**
- Road Equivalent Tariff removal affects cost of moving goods to Scottish islands
- FTA launches survey on the impact of the Sulphur Regulation on Short Sea Shipping
- Government publishes National Policy Statement for Ports
- SeaFrance goes into official liquidation

**Air**
- Government consultation on the Aviation Policy Framework
- Secretary of State, Patrick McLoughlin, announces that there will be no expansion at Heathrow Airport in this Parliament but that the Davies Commission will be formed to report into the issue by the end of 2013

**SAFETY**

**Cyclist and hgv safety**
- The Times’ Cities Fit for Cycling campaign launched
- Transport Hub Sharing the Road Safely events at party conferences. Senior politicians experience the Cemex Exchanging Places’ truck at all main party conferences

**Speed limits**
- PM suggests the speed limit on motorways may increase to 80mph
- Government consults on increasing heavy goods vehicle speed limit to 50mph on some single carriageway roads
The year in logistics

REGULATION
EU agrees changes to type approval legislation, meaning that UK can continue to allow trailers over 4m height to be built and operated. Regulation published in the EU’s Official Journal
VOSA introduces major changes to the way OCRS is calculated
Introduction of own account operator licensing in Northern Ireland
Problem with faulty digital tachograph cards causes confusion for thousands of drivers
Government announces planned closure of 39 DVLA local offices, promises replacement with online services
Bath and North East Somerset Council’s proposals for an HGV turning ban in Bath, that would affect the strategic road network, are overruled by the Department for Transport
Transport for London publishes its Code of Practice for quieter out-of-hours deliveries

OLYMPICS AND PARALYMPICS

Olympic Torch Relay 19 May–27 July
Olympic Route Network goes live in London, 25 July
Paralympic Route Network goes live on 25 August. Removal of Olympic Route Network starts midnight, 14 August. Removal of Paralympic Route Network starts, 9 September
Opening Ceremony for the 2012 London Olympic Games, 27 July. Closing Ceremony for the Olympics, 12 August
Opening Ceremony for the Paralympic Games 29 August. Closing Ceremony for the Paralympic Games 9 September

GOVERNMENT AND NATIONAL EVENTS
Listening to Industry event held
Threat of fuel tanker drivers’ strike leads to panic buying of petrol and diesel
Londoners elect Boris Johnson as Mayor for second term, also elections in Scotland and Wales
Ministerial reshuffle, new Secretary of State for Transport (Patrick McLoughlin) and two new Transport Ministers
Queen’s Diamond Jubilee weekend
‘Cyber Monday’, 3 December, busiest day for online orders

FUEL DUTY

Government action
Chancellor’s Budget Day speech, announced 3ppl fuel duty increase to go ahead in August
Chancellor later postpones fuel duty increase planned for August
Autumn Statement, January’s 3ppl increase cancelled and following April’s postponed to September 2013
OFT launches inquiry into petrol and diesel prices

FairFuelUK
National Fair Fuel Day – 7 March
CEBR report, cutting fuel duty would be good for business, promote economic growth and create jobs
NIESR report, further evidence of harmful impact of higher fuel duty levels and benefits of lower duty
All Party Parliamentary Group on Fair Fuel holds Select Committee’ style inquiry to highlight the impact of the duty increase planned for January 2013
The logistics dashboard
The logistics dashboard

Logistics is the backbone of the economy, providing the efficient, cost effective flow of goods on which other commercial sectors depend. The logistics dashboard brings together a range of over 50 indicators (LDIs) that give different perspectives on logistics and the performance of the wider economy. The stagnating UK economy is reflected in the 2013 edition of the logistics dashboard, which captures the impact of weak economic growth, and a deepening European recession, on logistics.

Goods vehicle operator licences are down 15 per cent in 2011, compared to pre-recession levels (2007). New van registrations peaked in 2007 but since then have fallen, a reduction of 29 per cent by 2012. New hgv registrations dropped by 10 per cent over the same period, but recovered slightly in 2012, increasing by 6 per cent on 2011. Road transport operator profit margins fell to around 1 per cent in 2012 and the price of oil has hovered around $100 per barrel (bbl) for the past two years, resulting in little change to the high pump price for a litre of fuel. The economic crisis in the Euro Zone saw unaccompanied trailer movements falling in 2012 by 6 per cent compared to 2011 and levels are now well below those of 2007. The impact of the worsening European economic crisis also saw a reduction in port and air freight traffic in 2012 compared to 2011.

Domestic intermodal rail has continued to increase, reaching 6.4 billion tonne kilometres in 2012, as more operators explore different modes to transport goods. In terms of compliance, better targeting by enforcement agencies led to an increase in detection of incidences of overloading, drivers’ hours and roadworthiness prohibitions. Hgv first time test failure rates remain the same, while van failure rates increased slightly. Safety continues to improve with workplace accidents and road casualties linked to hgvs down in 2012 compared to 2011.

This year, it was not possible to update efficiency indicators related to road transport due to the delayed publication of the Department for Transport’s Road Freight Statistics 2011.

### ROAD TRANSPORT INDUSTRY

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reported profit margin of top 100 road hauliers</td>
<td>2%</td>
<td>1%</td>
<td>4%</td>
<td>4%</td>
<td>1%</td>
<td>28</td>
</tr>
<tr>
<td>2</td>
<td>Number of goods vehicle operator licences</td>
<td>95,436</td>
<td>91,200</td>
<td>87,747</td>
<td>84,072</td>
<td>63,494</td>
<td>19</td>
</tr>
<tr>
<td>3</td>
<td>Population of hgv licensed</td>
<td>416,328</td>
<td>397,160</td>
<td>389,761</td>
<td>383,941</td>
<td>16,930</td>
<td>19</td>
</tr>
<tr>
<td>5</td>
<td>Population of hgv trailers (based on number tested)</td>
<td>240,094</td>
<td>230,966</td>
<td>227,057</td>
<td>224,714</td>
<td>8,526</td>
<td>19,28</td>
</tr>
<tr>
<td>6</td>
<td>Hgv registrations</td>
<td>57,410</td>
<td>56,746</td>
<td>54,458</td>
<td>62,944</td>
<td>65,702</td>
<td>19,31</td>
</tr>
<tr>
<td>7</td>
<td>Van registrations</td>
<td>289,463</td>
<td>286,386</td>
<td>322,915</td>
<td>260,153</td>
<td>239,641</td>
<td>28</td>
</tr>
<tr>
<td>8</td>
<td>Number of hgv drivers in employment (thousands)</td>
<td>306</td>
<td>299</td>
<td>274</td>
<td>288</td>
<td>280</td>
<td>25</td>
</tr>
<tr>
<td>9</td>
<td>Claimant count (hgv drivers for December)</td>
<td>8,880</td>
<td>10,665</td>
<td>6,550</td>
<td>5,870</td>
<td>5,050</td>
<td>25</td>
</tr>
<tr>
<td>10</td>
<td>Hgvs laid up (SORN)</td>
<td>63,390</td>
<td>64,109</td>
<td>60,709</td>
<td>61,979</td>
<td>10,477</td>
<td>20</td>
</tr>
</tbody>
</table>

### SAFETY

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Hgv motor vehicle initial test pass rate (&gt;3.5 tonnes gvw)</td>
<td>68%</td>
<td>73%</td>
<td>75%</td>
<td>75%</td>
<td>3%</td>
<td>28</td>
</tr>
<tr>
<td>12</td>
<td>Van initial test pass rate (Class 7)</td>
<td>51%</td>
<td>50%</td>
<td>51%</td>
<td>50%</td>
<td>-</td>
<td>28</td>
</tr>
<tr>
<td>13</td>
<td>Hgv roadside encounter prohibition rate percentage – roadworthiness (UK drivers only)</td>
<td>33%</td>
<td>32%</td>
<td>30%</td>
<td>31%</td>
<td>1%</td>
<td>28</td>
</tr>
<tr>
<td>14</td>
<td>Hgv roadside encounter failure rate percentage – drivers’ hours and tacho (UK drivers only)</td>
<td>17%</td>
<td>15%</td>
<td>17%</td>
<td>20%</td>
<td>1%</td>
<td>28</td>
</tr>
<tr>
<td>15</td>
<td>Hgv roadside encounter failure rate percentage – overloading</td>
<td>31%</td>
<td>38%</td>
<td>58%</td>
<td>61%</td>
<td>1%</td>
<td>28</td>
</tr>
<tr>
<td>16</td>
<td>RIDOR reportable workplace accidents for transport</td>
<td>21,905</td>
<td>21,003</td>
<td>17,015</td>
<td>15,801</td>
<td>19</td>
<td>28</td>
</tr>
<tr>
<td>17</td>
<td>Road casualties linked to hgvs (number killed or seriously injured)</td>
<td>1,712</td>
<td>1,439</td>
<td>1,379</td>
<td>1,334</td>
<td>9%</td>
<td>28</td>
</tr>
</tbody>
</table>

### EFFICIENCY

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Percentage of hgvs empty running</td>
<td>29%</td>
<td>28%</td>
<td>29%</td>
<td>data not available</td>
<td>-</td>
<td>28</td>
</tr>
<tr>
<td>19</td>
<td>Percentage of inland freight moved by rail (billion net tonne kilometres)</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>data not available</td>
<td>-</td>
<td>28</td>
</tr>
</tbody>
</table>

1 FTA estimate
### Efficiency (continued)

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Lading factor percentage for hgv (&gt;3.5 tonnes gvw)</td>
<td>58%</td>
<td>57%</td>
<td>59%</td>
<td>data not available</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Hgv fuel consumption (mpg) (articulated vehicles)</td>
<td>7.7</td>
<td>7.7</td>
<td>7.6</td>
<td>data not available</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Use of alternative fuels in hgv</td>
<td>0.8 mt of oil equivalent</td>
<td>1.0 mt of oil equivalent</td>
<td>1.2 mt of oil equivalent</td>
<td>1.1 mt of oil equivalent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Average hgv payload capacity (tonnes)</td>
<td>7.2</td>
<td>6.9</td>
<td>7.4</td>
<td>data not available</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Traffic Flows

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>Containers handled by major UK ports (thousand TEUs)</td>
<td>8,714</td>
<td>7,373</td>
<td>8,222</td>
<td>8,141</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Freight handled by air (tonnes)</td>
<td>2,282,153</td>
<td>2,047,861</td>
<td>2,324,822</td>
<td>2,297,601</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Goods moved by hgv (&gt;3.5 tonnes gvw) (billion tonne kilometres)</td>
<td>146</td>
<td>125</td>
<td>139</td>
<td>data not available</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Van kilometres (billion vehicle kilometres)</td>
<td>66.9</td>
<td>65.5</td>
<td>66.1</td>
<td>66.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Cabotage within the UK (million tonne kilometres)</td>
<td>1,712</td>
<td>1,231</td>
<td>1,272</td>
<td>1,054</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Goods moved by rail (billion tonne kilometres)</td>
<td>20.6</td>
<td>19.1</td>
<td>19.2</td>
<td>21.1</td>
<td>21.5</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Goods moved by domestic intermodal rail (billion tonne kilometres)</td>
<td>5.3</td>
<td>5.3</td>
<td>5.6</td>
<td>6.2</td>
<td>6.4</td>
<td>24</td>
</tr>
<tr>
<td>31</td>
<td>Channel Tunnel rail freight volumes (tonnes)</td>
<td>1,239,445</td>
<td>1,181,089</td>
<td>1,128,079</td>
<td>1,324,673</td>
<td>1,227,139</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Number of rail freight train movements</td>
<td>316,684</td>
<td>278,431</td>
<td>265,127</td>
<td>273,870</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Rail freight performance measure (percentage of freight trains arriving on time at their final destination)</td>
<td>70.2</td>
<td>74.5</td>
<td>74.1</td>
<td>74.8</td>
<td>75.3</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Percentage penetration of cross Channel market by UK hgv</td>
<td>19%</td>
<td>20%</td>
<td>21%</td>
<td>20%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Hgv movements to mainland Europe (unaccompanied trailers only)</td>
<td>709,000</td>
<td>611,000</td>
<td>673,000</td>
<td>660,000</td>
<td>619,000</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Hgv movements to mainland Europe (all powered vehicles)</td>
<td>2,060,000</td>
<td>1,764,000</td>
<td>1,794,000</td>
<td>1,812,000</td>
<td>1,810,000</td>
<td></td>
</tr>
</tbody>
</table>

### Economic Indicators

#### UK economic activity

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>37</td>
<td>GDP (Q4 annual percentage change)</td>
<td>-5.4%</td>
<td>-0.8%</td>
<td>1.7%</td>
<td>0.7%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Average weekly online retail sales (£ million)</td>
<td>£264.58</td>
<td>£340.76</td>
<td>£407.31</td>
<td>£480.89</td>
<td>£554.4</td>
<td></td>
</tr>
</tbody>
</table>

#### UK exports

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>39</td>
<td>Volume of goods exported to the EU (annual percentage change)</td>
<td>-3.6%</td>
<td>-13.7%</td>
<td>+7.8%</td>
<td>+4.6%</td>
<td>-4.0%</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Volume of goods exported to the rest of the world (annual percentage change)</td>
<td>+7.3%</td>
<td>-10.5%</td>
<td>+15.6%</td>
<td>+10.0%</td>
<td>+6.8%</td>
<td></td>
</tr>
</tbody>
</table>

#### UK imports

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>Volume of goods imported from the EU (annual percentage change)</td>
<td>-3.3%</td>
<td>-13.6%</td>
<td>+11.1%</td>
<td>+2.8%</td>
<td>+2.5%</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Volume of goods imported from the rest of the world (annual percentage change)</td>
<td>+0.9%</td>
<td>-11.5%</td>
<td>+14.7%</td>
<td>-1.6%</td>
<td>+0.9%</td>
<td></td>
</tr>
</tbody>
</table>

#### UK inflation and currency

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>43</td>
<td>Retail Prices Index (annual inflation in December)</td>
<td>0.9%</td>
<td>2.4%</td>
<td>4.8%</td>
<td>4.8%</td>
<td>3.1%</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>Consumer Prices Index (annual inflation in December)</td>
<td>3.1%</td>
<td>2.9%</td>
<td>3.7%</td>
<td>4.2%</td>
<td>2.7%</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>£/$ exchange rate (average for December)</td>
<td>$1.4854</td>
<td>$1.6242</td>
<td>$1.5588</td>
<td>$1.5614</td>
<td>$1.6148</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>£/€ exchange rate (average for December)</td>
<td>€1.1070</td>
<td>€1.1115</td>
<td>€1.1791</td>
<td>€1.1849</td>
<td>€1.2304</td>
<td></td>
</tr>
</tbody>
</table>

#### Costs

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>47</td>
<td>Wage settlements (annual change in basic pay)</td>
<td>+2.7%</td>
<td>+0.1%</td>
<td>+2.1%</td>
<td>+2.6%</td>
<td>+3.0%</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>Total hgv operating costs (annual change for 44t gvw artic)</td>
<td>-1.4%</td>
<td>+5.4%</td>
<td>+7.0%</td>
<td>+4.0%</td>
<td>+0.7%</td>
<td></td>
</tr>
</tbody>
</table>

#### Fuel

<table>
<thead>
<tr>
<th>KPI</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Most recent year on year change</th>
<th>Page ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>49</td>
<td>Bulk diesel (average pence per litre in December ex VAT)</td>
<td>82.35</td>
<td>89.99</td>
<td>103.30</td>
<td>112.05</td>
<td>110.61</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Gas oil (average pence per litre in December ex VAT)</td>
<td>39.01</td>
<td>44.05</td>
<td>55.11</td>
<td>64.92</td>
<td>63.47</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Rotterdam French diesel (average per tonne in December)</td>
<td>€479.78</td>
<td>€624.50</td>
<td>€797.65</td>
<td>€948.10</td>
<td>€955.63</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>Brent blend (dated) (average per barrel in December)</td>
<td>$40.26</td>
<td>$74.52</td>
<td>$91.78</td>
<td>$108.19</td>
<td>$109.56</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>Jet fuel (Rotterdam kerosene) (average per tonne in December)</td>
<td>€482.64</td>
<td>€663.11</td>
<td>€831.09</td>
<td>€978.35</td>
<td>€1,007.91</td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>Rotterdam gas oil (average per tonne in December)</td>
<td>€457.73</td>
<td>€610.95</td>
<td>€761.87</td>
<td>€926.87</td>
<td>€932.58</td>
<td></td>
</tr>
</tbody>
</table>

Note: The publication date for Road Freight Statistics 2011 was delayed therefore efficiency indicators (shaded in grey) were not updated at time of going to press.
Growth agenda
As the outlook for the UK and much of the global economy continues to disappoint, are there indicators that the UK is able to break away from the pull of the stagnant Euro Zone and depressed consumer economy? Has Government implemented policies that will work with logistics to enable future growth?

Global economy

World economic growth in 2012 stood at 2.4 per cent, as the promised economic recovery eluded developed economies such as the Euro Zone and the UK. In March 2013, PwC forecast projected global growth for the year (figure 1.1). This shows that the global economic outlook is at times bleak and uncertain enough to test even the most resilient organisations. The Euro Zone is still in recession and

“...the key to managing in the current world economy is not to look back and try to recover the trends we had before, but to recognise that we are in a 'new normal' in which the UK, and other western economies, are likely to continue to see disappointing growth and heightened volatility.”

Andrew Sentance CBE
Senior Economic Adviser, PwC

---

1 Global Economy Watch, PwC, March 2013 (provisional figure, based on market rates)
not expected to contribute to global growth in 2013, and the US economy is expected to grow by a modest 2 per cent. Even the BRIC countries are seeing a slowdown, with growth in China expected to be lower but still 8 per cent, 6 per cent growth in India, 3 per cent in Brazil and 3.8 per cent in Russia.

In the UK, a gradual recovery is hoped for but there are fears that the country may miss its potential for growth, principally because of uncertainty in the Euro Zone. Confirmation that the Euro Zone was in recession came in the third quarter of 2012, and economists warn that businesses should not expect the current situation to change very quickly. PwC says, “businesses should recognise that the structure of the Euro Zone economy is fundamentally changing and they will need to change to thrive in the future. This will involve reviewing whether their existing business model and supply chains can deliver in the ‘new normal’ environment.”

The pace of recovery in the Euro Zone will be dictated by the extent to which decision makers can push through fiscal, banking, economic and policy reforms while managing negative economic headlines and possible social unrest. If reform stays on track in the face of counter-pressures, a more integrated Euro Zone of the future could emerge in the course of 2013.

“We are beginning to see the return of organic growth, with clear signs that firms offering the right products into the right markets are growing sales and expanding. Recent business surveys also give grounds for cautious optimism about our forward prospects... The potential for Euro Zone tensions to flare up again, coupled with tough conditions in the domestic market, explain why business confidence remains patchy. After the uncertainties of 2012, the fear of external storm clouds lingers.”

John Cridland
Director General, Confederation of British Industry

Over half the CEOs taking part in PwC’s 16th Annual CEO Survey think the global economy will stay the same in 2013. This outlook is unpromising but it is more positive than the same survey last year; when nearly half were convinced the economy would contract. In transport and logistics, only a minority of CEOs, 24 per cent, were very confident of growth in the next 12 months (figure 1.2). Not only were these professionals less optimistic than last year; they were less confident than those in other sectors. By contrast, in its survey of leading UK logistics businesses, FTA found that nearly 37 per cent of respondents anticipated growth in the coming year. Later in this chapter some of the possible reasons for this difference are considered.

---

2 Global Economy Watch, PwC, March 2013
3 Ibid

---

FIGURE 1.2 • Logistics CEO’s confidence levels for revenue growth in the next 12 months

How confident are you about your company’s prospects for revenue growth over the next 12 months?

Transport and logistics CEOs

<table>
<thead>
<tr>
<th>Confidence Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very confident</td>
<td>4%</td>
</tr>
<tr>
<td>Somewhat confident</td>
<td>22%</td>
</tr>
<tr>
<td>Not very confident</td>
<td>50%</td>
</tr>
<tr>
<td>Not at all confident</td>
<td>4%</td>
</tr>
</tbody>
</table>

All CEOs

<table>
<thead>
<tr>
<th>Confidence Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very confident</td>
<td>36%</td>
</tr>
<tr>
<td>Somewhat confident</td>
<td>15%</td>
</tr>
<tr>
<td>Not very confident</td>
<td>45%</td>
</tr>
<tr>
<td>Not at all confident</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: 16th Annual CEO Survey, PwC, 2013
Growth agenda

**UK economy**

The UK economy experienced weak growth in 2012, despite emerging from recession in September with a 0.9 per cent increase in GDP for the third quarter. This performance has been the product of fragile domestic demand, with consumers' purchasing power eroded by high inflation (CPI inflation remained well above the Government target of two per cent), low wage growth and tight credit conditions. What growth there was came from net trade but this is also under threat as a result of turmoil in the Euro Zone.

At the end of 2012, there was concern that the UK economy could be heading for an unprecedented triple-dip recession, as GDP dropped by 0.2 per cent in the last three months of 2012. A fall in manufacturing output dragged down the economy, countering a small rise in construction between October and December last year.

However, by the first quarter of 2013, revised figures from the Office for National Statistics showed that whilst Q4 growth remained unchanged, full-year GDP for 2012 grew 0.2 per cent, instead of zero, raising hopes that a slide back into recession was less likely. The Office of Budget Responsibility is forecasting GDP growth of 0.6 per cent in 2013. PwC scenarios also predict modest growth (figure 1.3).

**Figure 1.3 • UK economic outlook**

PwC expects UK GDP growth to pick up gradually through 2013, rising to around 2 per cent in 2014.

---

**Insights • Opportunities in the ‘new normal’**

All transport sectors are quite cyclical and sensitive to the rate of growth. So the first point is we are in a continuing slow growth environment. If growth picks up to around two per cent over the next couple of years along with our forecast this year, that would actually be quite a good outcome. We should think of figures close to two per cent or so as being relatively good for an economy like the UK in this climate.

Despite modest growth, there are many ways in which businesses can find new opportunities, for example, through tapping into growth opportunities in the dynamic parts of the world, in Asia and emerging markets, helping customers manage their transport distribution costs through skills and innovation technology improvement, and finding new ways of achieving energy efficiency to contain energy cost rises.

Business success in the current climate will also hinge on being a well managed business. Companies which are waiting for a return to the trends we saw before the crisis are likely to struggle in the ‘new normal’ world of slower growth we now inhabit.
UK responses to the PwC CEO survey indicate a possibly entrenched short-term view and the expectation that economic difficulties will continue. The challenge for businesses is to focus on making themselves more resilient and adaptable, so they can navigate a way forward in an increasingly unpredictable and volatile world.

**UK logistics market**

Economic and activity indicators for the logistics industry were sluggish in 2012. Demand for movement of goods suffered as a result of the continuing effect on businesses and consumer spending of the Euro Zone crisis, fears over a further recession and perceptions of a lack of a clear Government strategy to deliver growth.

This fall in demand because of the downturn meant that the number of goods vehicle operator licences (businesses operating hgv) fell by four per cent in 2011, compared to 2010 (see Logistics Dashboard Indicator; LDI 2, page 12), as a result of business consolidation and poor economic growth (figure 1.4).

The number of hgv also fell slightly in 2011, compared to 2010 (see LDI 3, page 12 and figure 1.5) while the number of trailers tested in 2011 fell by one per cent (see LDI 5, page 12) and hgv laid up (SORN) rose by two per cent.

**FIGURE 1.4 • Number of goods vehicle operator licences in Great Britain 2001–2011**

Number of transport businesses continues to decline in line with the economic downturn

<table>
<thead>
<tr>
<th>Year</th>
<th>Licences</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>104,390</td>
</tr>
<tr>
<td>2003</td>
<td>102,946</td>
</tr>
<tr>
<td>2005</td>
<td>99,889</td>
</tr>
<tr>
<td>2007</td>
<td>98,316</td>
</tr>
<tr>
<td>2009</td>
<td>91,200</td>
</tr>
<tr>
<td>2011</td>
<td>84,072</td>
</tr>
</tbody>
</table>

Note: figures are for tax years, eg 2011/12, 84,072

**FIGURE 1.5 • Number of heavy goods vehicles in use 2000–2011**

Lower business volumes lead to a fall in hgv numbers

Source: Traffic Commissioners’ Annual Reports
Growth agenda

(see LDI 10, page 12). However, the number of registered vans in use increased by one per cent in the same period (see LDI 4, page 12).

Business volumes

The UK’s freight transport sector faced a particularly challenging business environment in 2012. Businesses had to contend with high operating costs and weak levels of business activity as the economy saw only meagre growth in the prevailing economic conditions.

In the fourth quarter of 2012, FTA conducted its annual Logistics Industry Survey with responses from 160 members (for more details see ‘Evidence Base’, page 76). Respondents reported that business confidence within the domestic road freight sector fell below expectation in 2012. However, sentiment for 2013 is optimistic with 39 per cent of respondents expecting more activity during the year (figure 1.6).

When taken together, overall levels of business sentiment indicate that domestic demand is expected to improve in 2013, with all sectors anticipating improvement except construction (figure 1.7). According to Reuters, despite construction accounting for less than seven per cent of GDP, weak output in this sector was the main drag on economic growth last year. The weak underlying demand caused the Construction Purchasing Managers’ Index (PMI)8 to show the fastest rate of contraction since June 2012, dropping to 48.7 in December from 49.3 in November (a reading below 50 indicates the sector is slowing)9. Looking ahead, the market is not expected to grow until 2014/15. After growing by eight per cent in 2010 and by 2.8 per cent in 2011, the Construction Products Association forecasts that output will have declined by 6.3 per cent in 2012 and by 1.4 per cent 2013. Of particular concern is the low level of new orders.

These forecasts are dependent on the Government increasing capital expenditure in housing and in infrastructure10.

Questions regarding the international road freight market were applicable to around half of all respondents. On balance, respondents indicated that the deepening Euro Zone debt led to a decline in market conditions in 2012.

---

8 http://uk.reuters.com/article/2013/03/04/uk-poll-uk-construction-pmi-idUKLNE92300Q20130304
9 The Markit/CIPS PMI is an index developed from monthly business surveys, used to monitor the economic condition of industries and businesses. Sectors covered include construction, manufacturing and service businesses. A PMI of more than 50 represents an expansion in a sector compared to the previous month. A reading under 50 represents a contraction, while a reading at 50 indicates no change.
10 www.thomasconsult.co.uk/images/TC_Construction2013.pdf

---

FTA Quarterly Transport Activity Survey

---

Note: top sectors are defined by the number of respondents11

Source: FTA Logistics Industry Survey 2012/2013

11 Data for public authorities is flat, indicating no change.
which performed below expectation. However, the market is expected to recover in 2013, with 35 per cent expecting more activity despite the Euro Zone crisis (figure 1.8). Accompanied hgv activity to mainland Europe fell slightly, by 0.1 per cent in 2012 (see LDI 35, page 13), meaning that there was no real change in activity and it is 15 per cent down on the pre-recession peak of 2007. Unaccompanied trailer movements fell in 2012, by six per cent (see LDI 34, page 13) and are 20 per cent down on pre-recession levels.

The UK has a large trade surplus in services, which is typical for a service-orientated economy, but due to a huge trade deficit in goods, the overall trade balance is a negative figure.

Optimism among businesses involved in international export movements beyond the Euro Zone is also strong. Although there is significant variation in the extent of growth between trade lanes, the overall picture is one of exporters benefitting from Sterling’s relative weakness against the US Dollar (despite gaining strength in the second half of 2012), which makes UK manufactured goods cheaper. Export volumes to countries outside the EU rose by 6.8 per cent in 2012 (see LDI 40, page 13), compared to a reduction of four per cent to countries in the Euro Zone (see LDI 39, page 13). However, Sterling did gain relative strength against the Euro in 2012. In December, one pound Sterling bought €1.23 (see LDI 46, page 13) which may be considered strong compared to the €1.10 of December 2008, or the near-parity of January 2009. But it is still far removed from the €1.50 of six years ago.

With a global economic recovery looking shaky, major central banks would prefer to see their currencies weaken this year if it helps their exporters to become more competitive internationally. However, the Euro Zone crisis is making it increasingly difficult to estimate what fair value is between the Euro and other currencies, and it also has the effect of distorting the Sterling-Dollar rate.

Overall respondents predict a cautious optimism for economic growth in 2013 (figure 1.9).

Evidence from other surveys also manifests a cautious optimism for 2013. A survey by GreenRoad, ‘Fleet Leader 2013 Outlook’, suggests that just over half (56 per cent) of UK fleet leaders are cautiously optimistic about 2013. Only slightly more than one in 10 (12 per cent) are very optimistic, and around a fifth (22 per cent) are neutral about the coming 12 months12, 13.

The latest CBI survey also presents a cautiously optimistic outlook for 2013, expecting exports to grow by three per

13 Fleet included company cars, haulage and logistics, delivery vans and passenger transport

FTA Quarterly Transport Activity Survey
Growth agenda

It may be that these positive predictions are subject to one of the most basic findings in behavioural economics, known as the ‘optimism bias’. This phenomenon occurs when people judge their chances of experiencing a good outcome, in this case business conditions, and overestimate the likelihood of positive events, whilst underestimating the likelihood of negative events. This type of behaviour is often a symptom of difficult economic conditions. The Logistics Industry Survey shows that in many instances actual outcomes for 2012 fell below predicted expectations.

There are signs that capacity is starting to be better managed in both air and sea freight but over-supply remains an issue in both modes. Overall, air freight continues to underperform compared to container sea freight as a result of higher fuel prices and greater customer sensitivity.
to price versus speed. As freight rates have fallen, shipping lines have started to lay up more vessels, a trend that is likely to continue until freight rates stabilise.

For those respondents to the FTA Logistics Industry Survey 2012/2013 involved in international shipping, the trade lanes with strongest growth were the Indian subcontinent, Far East, Middle East and Eastern Europe (figure 1.10). These regions were less affected by the global recession and have lower labour costs, making it more attractive to import from them. Exports to the subset of emerging markets, known as ‘frontier markets’ (including Far East, Middle East and Eastern Europe) also grew, fuelled by investors seeking high, long-term returns and low correlations with other markets, in an attempt to reduce risk and diversify.

Air freight volumes also grew in most global regions in 2012, with the exception of the Far East, including Japan, and North America (figure 1.11). In contrast to shipping, trade to South America grew. This is a consequence of the types of goods transported to these areas, with heavier, bulkier goods transported by sea and lighter higher value items moved by air.

However, Dominic Edridge, Analyst at UBS Ltd told FTA’s British Shippers’ Council in November 2012 that, “The freight sector is subject to risk including, but not limited to, global air and sea freight volume volatility, significant increases or decreases in freight rates, global and localised GDP/IP growth, union interventions, regulatory intervention and significant event risk.”
Levels of competitiveness with the rest of the EU and globally were also assessed in the FTA Logistics Industry Survey 2012/2013. Respondents reported that levels of competitiveness in 2012 had dropped below 2009 levels, when the survey began (figure 1.12). Independent research conducted by NERA Economic Consulting for FTA supports this perception. In 2010, four of the countries surveyed achieved an operating cost index higher than the UK, with many of the remaining countries falling only slightly below. However, by 2012, the UK’s relative competitive position had weakened to the extent that only the Netherlands’ index was higher (table 1.1)\(^{15}\).

The strength of freight flows to international markets outside the EU is underscored by rail freight activity, since an increase in intermodal services is strongly linked to deep sea container shipping outside the EU. Of those respondents to the FTA Logistics Industry Survey 2012/2013 who use rail to transport freight, 62 per cent expect to increase their use of conventional services and 72 per cent expect to increase intermodal services in 2013. Investors in rail freight are continuing to expand this mode. Bulk rail freight volumes recovered slightly in 2012 but have continued to face tough market conditions, primarily as a result of weak overall levels of construction activity (a key customer for rail freight). Intermodal container services remained strong, seeing further growth in 2012 (figure 1.13). Domestic intermodal rail freight activity in 2012 was 3.23 per cent higher than in 2011 (see LDI 30, page 13).

**Fuel prices**

Fuel prices remain close to all-time highs (figure 1.14). A rise in world oil prices from $108 per barrel (bbl) at the beginning of 2012 to $111 bbl at the end of 2012, offset by a steady rise in Sterling’s value against the US Dollar in the second half of 2012, has dampened the price of diesel and other fuel products (table 1.2). Sterling averaged $1.5614 in December 2011 rising by 3.4 per cent to an average of $1.6148 in December 2012. However, the first quarter of 2013 shows a steady weakening of Sterling against the Dollar reaching a low of $1.4904 on 12 March 2013. At an average of 110.6 pence per litre (ppl) for the month, bulk diesel prices in December 2012 were 1.3 per cent lower than a year previously (see LDI 49, page 13), and bulk gas oil prices were 2.2 per cent lower (see LDI 50, page 13).

---

**Table 1.1 • NERA estimates of truck operating costs across Europe**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total cost index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 2009</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>100</td>
</tr>
<tr>
<td>Belgium</td>
<td>99</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>85</td>
</tr>
<tr>
<td>France</td>
<td>99</td>
</tr>
<tr>
<td>Germany</td>
<td>102</td>
</tr>
<tr>
<td>Hungary</td>
<td>79</td>
</tr>
<tr>
<td>Ireland</td>
<td>110</td>
</tr>
<tr>
<td>Italy</td>
<td>111</td>
</tr>
<tr>
<td>Lithuania</td>
<td>–</td>
</tr>
<tr>
<td>Netherlands</td>
<td>110</td>
</tr>
<tr>
<td>Poland</td>
<td>–</td>
</tr>
<tr>
<td>Romania</td>
<td>69</td>
</tr>
<tr>
<td>Spain</td>
<td>–</td>
</tr>
</tbody>
</table>

Note 1: ‘Total Cost Index’ shows how the estimated cost of operating a 40 tonne, 2+3 artic truck in the European countries sampled compares with that for the UK. Results are indexed with the cost for the UK equal to 100.

Note 2: Total costs for each country are split into the following categories: Vehicle Excise Duty (VED); vignette; insurance; depreciation; financing costs; fuel costs; tyre costs; maintenance; drivers’ wage; and overheads.

Note 3: Lithuania was not included in the December 2009 survey.

Note 4: For Spain and Poland in 2009 and Poland in 2012, NERA was unable to source reliable data for all cost elements.

**Sources:** Freight Truck Operating Costs in Europe: A Survey for Freight Transport Association, December 2009, NERA Economic Consulting

Freight Truck Operating Costs in Europe: A Survey for Freight Transport Association, September 2012, NERA Economic Consulting

---

\(^{15}\) Freight Truck Operating Costs in Europe: A Survey for Freight Transport Association, September 2012

**Figure 1.12 • Level of competitiveness with EU and globally**

Decline in perceived competitiveness of UK compared to other countries

---

0 = Not at all competitive
4 = Extremely competitive

Source: FTA Logistics Industry Survey 2012/2013
the case of road freight, fuel now represents around 40 per cent of total hgv operating costs for a 44 tonne articulated truck, up from 34 per cent just three years ago. In 2012, the fuel costs of operating a fleet of 10 x 44 tonne articulated trucks in the UK was £525,580.

However, all modes of transport rely on conventional hydrocarbon oils, either directly through marine bunkers in the case of shipping, kerosene for aircraft or gas oil for freight locomotives, or indirectly where locomotives use electricity as their power source (table 1.2). Alternatives such as biogas and biodiesel come at a significant price premium – around 20 pence per litre in the case of biodiesel – and are not available in sufficient quantities to offer an alternative to mainstream fuels. The cessation of the reduced duty rate on cooking oil used for biodiesel – increasing duty payable by 20 pence per litre from 1 April 2012 – resulted in biodiesel consumption falling by 63 per cent, from 291 million litres in Q3 2011 to 108 million litres in Q3 201216.

**Labour costs**

In 2012, basic pay for transport staff rose by three per cent (see LDI 47, page 13) in line with an inflation rate of 3.1 per cent (see LDI 43, page 13).

Over the past two years, businesses sought to save costs by making redundancies, freezing pay, reducing overtime and employing temporary staff. However, the majority of respondents to the FTA Logistics Industry Survey 2012/2013 expect to increase salaries for transport related staff, reduce redundancy levels and employ more staff in 2013 (figures 1.15 and 1.16). This is also reflected in the number of hgv drivers claiming unemployment related benefits, the claimant count, for December 2012, which reduced by 16 per cent since 2011 (see LDI 9, page 12). While it is expected that there will be a significant reduction in overtime in 2013, there will be more staff training, though this may be as a result of the legal requirements of the Driver Certificate of Professional Competence (figure 1.16). Hiring expectations also show an upwards move, which is good news for private sector recruitment.

Demand for contract distribution remains stagnant for 2013, with only one in five respondents to the FTA Logistics Industry Survey 2012/2013 expecting to increase

---

**Table 1.2 • Changes in principal transport fuel costs in 2012**

<table>
<thead>
<tr>
<th>Product</th>
<th>Application</th>
<th>December 2011 price</th>
<th>December 2012 price</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diesel</td>
<td>hgv, vans</td>
<td>112.1ppl</td>
<td>110.6ppl</td>
<td>-1.3</td>
</tr>
<tr>
<td>Gas oil</td>
<td>rail freight</td>
<td>64.9ppl</td>
<td>63.5ppl</td>
<td>-2.2</td>
</tr>
<tr>
<td>Marine bunker fuel*</td>
<td>deep sea shipping</td>
<td>1509 (index)</td>
<td>1439 (index)</td>
<td>-4.6</td>
</tr>
<tr>
<td>Jet kerosene</td>
<td>air freight</td>
<td>$987/tonne</td>
<td>$1008/tonne</td>
<td>+2.1</td>
</tr>
</tbody>
</table>

* *Bunkerworld index*

16 HM Revenue and Customs Hydrocarbon Oils Bulletin
Growth agenda

**Figure 1.14 • Bulk diesel prices and price expectations for 2013**

No let-up anticipated in diesel prices which remain close to all-time highs

**Figure 1.15 • Percentage of respondents changing staff pay**

Majority of respondents increased pay in 2012

contract distribution (17 per cent contract hire and 19 per cent hauliers – figure 1.17).

Investment intentions

The recession has had an impact on investment intentions, with stagnant business volumes and higher input costs, leading to a scaling back of investment plans. The lack of corporate spending is one of the reasons often cited for the slow pace of the UK’s economic recovery. According to the latest national statistics, the level of business investment in the third quarter of 2012 was around 12 per cent below its pre-recession peak (Q4 2007).\(^{17}\)

FTA’s Manager’s Guide to Distribution Costs reported that during 2012 operating costs rose by 0.7 per cent (see LDI 48, page 13) and typical haulage rates also rose by just 0.7 per cent. This parity of costs and rates is indicative of a stagnating economy. The long-term picture represents the real pressure on hauliers, whereby hgv operating costs have risen by 33 per cent since 2005 whilst haulage rates only rose by 16 per cent over the same period. This erosion of operating margins leaves hauliers little choice but to scale back capital investment plans to rebuild profit margins, which are around 1 per cent (see LDI 1, page 12 and figure 1.18).

---

\(^{17}\) CBI Quarterly UK Economic Outlook, December 2012
**Figure 1.16 • HR priorities for transport related staff 2012–2013**

Companies expect to reduce redundancy levels and employ more staff in 2013

- Make redundancies
- Employ more staff
- Cut back on agency drivers
- Uses more agency drivers
- Cut back on temporary staff
- Used more temporary staff
- Stand staff down for a period
- Reduce overtime
- Increase overtime
- Cut back on training
- Increase training

Source: FTA Logistics Industry Surveys 2012/2013

**Figure 1.17 • Demand for third party services**

Stagnation in demand for third party services as employers focus on core staffing

FTA Quarterly Transport Activity Survey
Respondents to the FTA Logistics Industry Survey 2012/2013 reported a slight uplift in fleet investment in 2012. Twenty per cent intend to increase their hgv fleet in 2013, while the majority, or two-thirds, indicate no change. However, last year 30 per cent stated that they expected to increase their hgv fleet, whereas 22 per cent actually did. Members did not decrease the size of their trailer fleets as expected last year; 14 per cent intended to reduce the number of trailers but only four per cent actually did so (figures 1.19 and 1.20). Both vehicle categories remain well below pre-recession levels of 2007 (see LDI 5 and 6, page 12).

The findings from the FTA Logistics Industry Survey 2012/2013 concur with other business surveys, which indicate that there is little sign of an investment-led recovery, as businesses are expecting only small increases in investment in the next 12 months (figures 1.21 and 1.22). This is in spite of changes to emissions standards that will affect replacement of new vehicles in advance of mandatory introduction of Euro VI standards at the end of 2013. Looking ahead, CBI forecasts that business investment growth will remain relatively subdued, at around five per cent in 2013 and six per cent in 2014.18

---

18 CBI Quarterly UK Economic Outlook, December 2012
Creating the economic climate for logistics growth

Efficient, effective and profitable logistics is not just a desirable outcome for those engaged in it, but an essential pre-requisite for a successful UK economy. Reducing burdens and restrictions, both as a result of direct taxation and as a consequence of other burdens imposed at local level, is vital to ensure a vibrant and competitive logistics sector.

The UK’s freight transport sector faced a particularly challenging business environment in 2012, with companies having to contend with high operating costs and weak levels of business activity as the economy saw only meagre growth, after barely emerging from the longest recession in peacetime history.

In addition to high fuel prices, other operating costs have increased\(^1\). In response to FTA’s October 2012 Quarterly Transport Activity Survey (QTAS)\(^2\), respondents reported an increase of 11 per cent in costs for tyres compared to a year ago; this is in spite of the price of rubber used in

---

\(^1\) FTA Manager’s Guide to Distribution Costs January 2013 Update
\(^2\) FTA Quarterly Transport Activity Survey October 2012

---

**FIGURE 1.20 • Fleet investment intentions**

Operators expect to purchase more hgv’s in 2013 than in 2012 as they stockpile Euro V ahead of Euro VI vehicles

**FIGURE 1.21 • Main factors influencing capital investment decisions in 2013**

No change on 2012 as weak business volumes and lending conditions dominate fleet investment plans
tyre manufacture falling steadily over the past year. Costs for vehicle parts and workshop charge-out rates also increased, by 4.5 per cent and 2.5 per cent respectively.

Rail freight continues to be a marginal business for non-bulk freight flows such as containers, and its ability to compete with road transport is particularly vulnerable to changes in its cost base. Many locomotives run on low-taxed gas oil, making operating costs more exposed to oil price fluctuations and increases in fuel duty.

According to FTA’s Manager’s Guide to Distribution Costs, tight operating margins, coupled with unchanging haulage rates, are illustrative of the squeeze on cash flows that inhibits new investment and require business cases to be free of foreseeable risk, such as increases in fuel duties. Government can help stimulate growth by ensuring that the key cost inputs for logistics, such as fuel, vehicle parts and tyres, are contained and the competitiveness of the logistics industry is supported. FTA has urged Government to:

- reduce the cost pressure on domestic freight activity and stimulate economic growth through consumer demand by reducing road fuel duty by three pence per litre, with commensurate reductions in the duty rate for gas oil
- stimulate investment in low-carbon fuelled vehicles by fixing fuel duty rates for natural gas and biomethane relative to diesel rates for at least 10 years
- ensure that the introduction of the HGV Road User Levy will be ‘tax neutral’ in practice by confirming the rates of the levy that will apply; that Vehicle Excise Duty (VED) rates will not be subject to increase simply to allow that neutrality to be achieved; and that holders of Reduced Pollution Certificates (RPCs) will be compensated by replacement grants

Cutting fuel duty

Logistics welcomed the Chancellor’s decision in the 2012 Autumn Statement to cancel the three pence per litre (ppl) fuel duty increase that was due to take effect in January 2013; FTA estimates this would have cost a typical 10 vehicle road freight operator an additional £14,000 and would have impacted the economy through losses in jobs and growth. However, FTA was disappointed that Government did not go further by removing the uncertainty over future increases and promising no further rises for the remainder of this Parliament and, instead, move to reduce fuel duty in order to stimulate the economy.

FTA is a key funder and supporter of the campaign by FairFuelUK for fuel duties to be reduced. As part of that
campaign, two studies were commissioned during 2012 –
the first by CEBR22 (Centre for Economics and Business
Research) and the second by NIESR23 (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. Both pieces of work demonstrate 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.
The modelling shows the benefits to be optimised at a
reduction of 3ppl and that, taken together; these increases
in disposable income for consumers and an improvement
in free cash for businesses would be spent or invested
elsewhere in the economy, leading to the stimulus in
activity and partial recovery of foregone revenue through
other taxation.

Insights • Why is fuel duty so important?

Politicians ask me regularly why fuel duty continues to be such a hot issue for logistics operators
and why campaigns such as FairFuelUK are consistently able to capture the public mood.
The answer is simple – fuel duty stokes inflation, squeezes consumer spending and stifles
companies trying to grow Britain’s way out of recession.

Fuel accounts for nearly 40 per cent of the cost of running a 44 tonne truck and its cost has
risen by 98 per cent between 2002 and 2013. In a marketplace with ever-shrinking borders
between countries, fuel duty is a barrier to fair competition across Europe; the UK diesel duty
rate is 22 pence per litre higher than the average duty rate across the EU. This has, at a stroke,
blunted the effectiveness of the HGV Road User Levy, designed to help level the playing field
within the UK domestic market.

Not only is high fuel duty bad for logistics operators; it is bad for the wider economy. Independent
economists NIESR and CEBR both published research in 2012 demonstrating that a fuel duty
cut of around 3 pence per litre, could bring significant GDP benefits and generate over 75,000
jobs, which in turn would raise tax revenue that would offset the initial loss to the Treasury.

The challenge of 2013 will be to persuade the Chancellor of the merits of this case and present
cuts in fuel duty as a force for good in the economy.

“...The price we pay for fuel can make a big difference
to our cost base and our profitability. Greater
certainty over the way in which it will be taxed in
future would vastly improve our business planning
and help ensure we can continue to deliver a
competitively-priced service to our customers...”

John Williams
Group Managing Director, Maritime Transport Ltd

Budget 2013

In its pre-Budget submission to the Chancellor, FTA said
that he should take action to ease cost pressure on
domestic freight activity and stimulate economic growth.
We proposed that to achieve this he should not only cancel
the planned increase in fuel duty for September but go
further and reduce fuel duty by 3ppl, with commensurate
reductions in the duty rate for gas oil. The NIESR and CEBR

© Jeff Gilbert
Quentin Willson leading a FairFuelUK delegation to Government

22 Report by CEBR: The impact on the UK economy of a reduction in fuel duty
23 The Impact of Fuel Duty on the Macro-Economy NIESR
reports supported the case for such action by highlighting the economic benefits it would bring.

In Budget 2013, the Chancellor accepted calls from FTA and FairFuelUK to cancel the fuel duty increase planned for 1 September but again missed an opportunity to cut fuel duty and put in place a long-term strategy to prevent future rises and uncertainty.

The decision to fix duty rates for natural gas and biomethane relative to diesel rates for a further year was welcomed but FTA had hoped the Chancellor would make a longer term commitment to the differential. The payback period for gas-powered trucks is at least 10 years and the fragility of the business case for these vehicles is such that uncertainty over even small increases in gas duty rates renders these investments uneconomic.

Reducing the burden

The case is consistently made on behalf of logistics that penalties, other burdens, and the administrative cost of dealing with them, adversely affects its competitiveness. From parking fines, to low emission zones, lorry bans and delivery curfews, a patchwork of restrictions cost businesses money and militate against efficient use of assets. Some of these burdens are based on public perception rather than evidence, coupled with heavy-handed enforcement. Such approaches constrain growth and place a higher financial burden on smaller companies who are least able to adapt.

Government made important strides forward in understanding and removing barriers to growth with the Logistics Growth Review in 2011. However, there are still areas where, at national or more local level, Government recognition of the threat to efficiency and the need for active intervention is required.

Penalty charge notices

Companies delivering goods at the kerbside in London frequently attract penalty charge notices (PCNs), albeit FTA contends, quite innocently. Although these are often successfully contested, which in itself costs time and money, many are not and industry still pays many millions of pounds in PCNs each year. In 2012, FTA research showed that there was a 50 per cent rise in the number of PCNs issued to member companies delivering in London (between January 2009 and June 2012). This data came from 27 companies who reported that from July 2011 to June 2012 they had received fines to the sum of £2.9m; with 60 per cent of all these PCNs coming from just four issuing authorities.

Government should ensure that local authorities are held to account for their approach to the enforcement of parking penalties and their roadside provision for deliveries, where they have the potential to adversely impact the cost competitiveness and efficiency of urban operations.
Growth agenda

Conclusion

The economic downturn in the UK has been far more prolonged and deeper than Government, economists or businesses expected. Businesses have had to use a wide variety of tools to ensure their survival through this period and while conditions remain difficult, many feel optimistic that conditions will improve in 2013. Logistics will have a key role to play in supporting the UK economy as it returns to growth and Government must provide the right conditions for this to happen. In order to do this, there must be a steely determination to keep business input costs low; to minimise the regulatory and administrative burdens businesses must bear; and restore some confidence to businesses and consumers that conditions are improving.

Low emission zones

The legal obligation that the UK is under to improve air quality is understood. However, FTA believes that businesses have been singled out for action through their use of goods vehicles whilst other major sources of particulates, particularly cars, are missing from the London Low Emission Zone (LEZ) and many other similar schemes under discussion. The implementation of the London Low Emission Zone has disproportionately hit smaller businesses who are less likely to have the means to upgrade or purchase newer vehicles. Goods vehicle operators and vehicle manufacturers have also been leading the way with investment in cleaner technologies, which has reduced levels of key pollutants more than 20-fold over recent years. This progress has not been recognised in the way LEZ plans are crafted.

There is also real concern at the likelihood of a range of LEZs being instituted in towns and cities across the UK, with goods vehicles being targeted and industry left with little option but to foot the bill for upgrading and investing in new vehicles and redeploying fleet resources in response to legal compulsion, rather than operational efficiency. The spectre of many differing schemes, with varying standards and administration, is also of concern because of the administrative cost burden it would place on businesses.

Lorry bans

Examples of restrictions on goods vehicle movement include the London Lorry Control Scheme, which logistics operators believe is over-restrictive and out-of-date. The scheme has the effect of requiring vehicles to undertake extensive detours in order to avoid a restricted network of roads in central London, adding additional cost to operations, through less efficient use of vehicle and driver resource and the administrative burden placed on operators. This ban has been in place since the mid-1980s and the decision to implement it pre-dates the completion of the M25. There are more recent examples of steps by policy makers to place restrictions on the movement of goods, most notably in 2012 when Bath and North East Somerset Council attempted, in the face of strong opposition from FTA, to implement what amounted to a lorry ban on part of the strategic road network. This was rejected by Government but only after neighbouring authorities objected.

Delivery curfews

At central Government level, there has been increasing recognition of the case for encouraging as many out-of-hours and off-peak deliveries as possible, to allow operators to make deliveries outside the most congested times of day, save fuel and reduce carbon emissions. However, more needs to be done at local level to ensure that opportunities to make deliveries at night and during the ‘shoulders’ of the day are maximised (ie either side of the morning peak and evening peak). In order to reduce the burden of delivery restrictions on business, curfews and other controls need to be relaxed to bring efficiency and air quality improvements.
Staying strong
In the aftermath of the financial crisis, companies acknowledged the need to make their operations stronger and more flexible, to cope with volatile trading conditions in an interconnected world; one in which previously isolated risks have become more widespread and frequent. World class connectivity and adaptability are essential to ensure that businesses can make the most of opportunities in local and more distant markets.

The Government wants to rebalance the economy, from services to manufacturing which will, in the main, be high value added production, such as motor components, electronics and pharmaceuticals. In a globalised economy these companies will only be able to compete if they have access to efficient supply chains, high connectivity and a range of transport modes and services. The way in which goods reach consumers is also changing to reflect the opportunities and challenges of electronic communication and the many routes it offers customers as they select, purchase and receive or collect goods.

The need to get better connected

Businesses see the quality and reliability of transport networks as more important to their investment intentions than any other type of infrastructure, and UK logistics is currently hugely dependent on publicly funded transport networks. However, the existing transport infrastructure is under considerable strain from the travel demands of individuals and the exacting requirements of many supply chains. The economic downturn has had a significant impact on goods vehicle traffic levels. The effect of the recession is evident in the reduction of commercial traffic since 2007. Hgv traffic fell by three per cent in 2012 compared to 2011, while van traffic increased by one per cent in the same period. Hgv traffic is now 12.64 per cent below its 2007 pre-recession level while van traffic has dropped around 1 per cent compared to 2007 levels (figure 2.1).

However, despite this decline in traffic, the perception of business is that the road network is unreliable, and that the service levels it achieves are deteriorating (figure 2.2). Meanwhile, the rail network has retained its edge on network reliability when compared to our roads (figure 2.3) although the threat to these services comes from the competing priority of passenger services on a mixed network.

"With economic recovery some way off, political upheaval in every continent and the internet driving major change in consumer markets, speed of reaction is vital. A perfect storm of increasing costs and a volatile business environment makes agility a pre-requisite for sustainable growth."

Ian Veitch
Managing Director, Yusen Logistics (UK) Ltd
Staying strong

**Figure 2.1 • Road traffic (billion vehicle miles) 2000–2011**

Hgv traffic continues to decline

**Figure 2.2 • Reliability of the road network**

Perceived rate of deterioration in reliability most pronounced on the urban road network

**Figure 2.3 • Road and rail network reliability**

Rail retains network reliability attractiveness over road
Data from the Department for Transport (DfT) on road reliability in England provide some statistical evidence for these perceptions. In 2012, 78.6 per cent of journeys made on the strategic road network (Highways Agency motorway and ‘A’ roads) were ‘on time’. This is 6.1 percentage points lower than the equivalent figure for December 2011. Significant amounts of rainfall in 2012 have led to slower speeds, and therefore slower journeys, contributing to this fall in reliability (figure 2.4). Congestion data on ‘A’ roads also only show a decline where bad weather may be a factor. Following a period of increases, since December 2010, there has been a downward trend in annual average weekday morning peak speeds over the last year. Average speeds generally decreased between the year ending March 2012 and the nine months to December 2012.

1 DfT Statistical Release: Reliability of journeys on Highways Agency’s motorway and ‘A’ road network, England: January 2013
2 The reliability of journeys on the Highways Agency’s roads is measured by the percentage of ‘journeys’ that are ‘on time’, where a ‘journey’ represents travel between adjacent junctions on the network and an ‘on time journey’ is defined as one which is completed within a set reference time, based on historic data on that particular section of road

The Eddington Transport Study, published in 2006, demonstrated that the performance of the UK’s transport networks was central to sustained productivity and competitiveness. The study looked at the period beyond 2015 and concluded that although the UK was already well-connected, there was a key challenge to improve the performance of the existing network.

In total, Eddington made five headline recommendations for Government to act on, of which three are central to the debate on connectivity.

- Make the most of the existing transport infrastructure, by tackling congestion and capacity issues
- Identify the strategic economic priorities – today these are congested and growing cities, key inter-urban and international gateways
- Introduce a sophisticated mix of pricing, better use and sustained transport infrastructure investment.

4 Speech by Sir Rod Eddington to the Commonwealth Club in London on 1 December 2006

---

**Figure 2.4** Percentage of journeys on Highways Agency motorways and ‘A’ roads deemed on time: April 2010 to December 2012

Fall in reliability attributed to wet weather

---

Notes:
- ‘Journeys’ are defined as travel between adjacent junctions on the network
- An ‘on time journey’ is defined as one completed within a set reference time, drawn from historic data on that section of road
Analysis conducted by MDS Transmodal Ltd for FTA in 2010, using their GB Freight Model, demonstrated how projected future growth in road and rail freight volumes would impact on strategic transport links. While this analysis is now some two years old, and the timeframe for a return to growth that was anticipated at the time has proved to be overly optimistic, the projections serve to demonstrate the vulnerability of the road and rail infrastructure to the effects of growth. A full analysis of these MDS Transmodal growth forecasts for road freight and rail freight between 2009 and 2020 can be found on the FTA website.

The forecast assumed an annual road freight growth rate during the period of 0.79 per cent a year; it showed that the major routes which will be put under increasing stress in a growth scenario are those already experiencing amongst the highest levels of hgv traffic and where congestion is more frequent and acute. For road freight these routes are:

- London to Kent Ports Corridor (M20)
- South Coast Ports to the Midlands (A34, M40)
- London Orbital Corridor (M25)
- London to the West Midlands, North West and Scotland Corridor (M1, M6)
- Trans-Pennine (M62, M180)
- Haven Ports to Midlands (A14)

The growth in domestic rail traffic between 2009 and 2020 was also modelled by MDS Transmodal. It forecast that in the next 10 years freight demand will increase still further, estimating growth at a rate of 6 per cent per annum. The principal rail routes affected by growing traffic are:

- London to Kent Ports Corridor
- South Coast Ports to the Midlands
- London Orbital Corridor (cross London routes)
- London to the West Midlands, North West and Scotland Corridor (West Coast Main Line)
- London to the East Midlands, Yorkshire, North East and Scotland Corridor (East Coast Main Line)
- London to Thames Gateway Ports Corridor

The issue that faces us then is that although the recession has led to some easing of pressure on the road network in particular; our transport infrastructure is still not in a fit state to cope with an upturn in traffic and trade.

Last year, the World Economic Forum ranked the UK 24th for the overall quality of its infrastructure, behind 13 European countries and other advanced economies. European competitors such as France came fifth, and Germany came ninth. When surveyed, the opinion of British businesses endorsed this finding almost two-thirds (61 per cent) of companies rated the UK's transport infrastructure as below average by international standards, with just 14 per cent deeming it to be above average.

---


6 Better connected, better business, CBI/KPMG infrastructure survey, 2012
However, the problem is not just a UK one. In PwC’s 16th Annual Global CEO Survey, 44 per cent of transport and logistics sector respondents said that they were worried that existing infrastructure would not be adequate to support growth.

The case for improvements to the transport infrastructure is widely supported by business and governments in many countries, but the scale of investment required and the difficulties faced by governments in paying for it are major barriers to its provision.

**Paying for improved connectivity**

In 2012, the debate over connectivity became more sharply focused through Government's pursuit of a policy of encouraging private investment in improvements and provision that some believe the public sector can no longer afford. On the one hand it faced up to difficult choices, for example, designating the route for High Speed 2, but it is also perceived by some as having evaded tough decisions, as in the case of airport capacity.

Government was not alone in contemplating the question of how improved infrastructure can be paid for. In **Bold Thinking: a model to fund our future roads**, CBI said “there is a disconnect between the desire of Government and business to create a world-class roads network and the public funding available to deliver it. With the public purse strings firmly tied in the foreseeable future, we need new sources of investment.” They proposed a fundamental change to the model for the UK road network.

Following the General Election in 2010, the Highways Agency’s capital spending budget was slashed by 35 per cent, as part of widespread funding cuts that were made to address the deficit. Arup has since estimated that there is a £10 billion shortfall in funding for highways projects. Since the cuts were made to the roads programme, Government has made a commitment to fund a number of projects, for example in the Autumn Statement last November it announced that it was to invest an additional £1.5 billion in road infrastructure, such as upgrading key sections of the A1 and improvement works at junctions on the M25 and M40 (of which £1 billion would be in the current spending period). But there is concern over the affordability of all the schemes that are needed to make the Strategic Road Network fit for enabling growth.

As a result, the desire to find alternative sources of funding has become a necessity. In March 2012, the Prime Minister described his vision for closing the gap between the infrastructure needed for growth and the ability of the country to pay for it by turning to innovative, new funding mechanisms to attract large-scale private investment to the UK road network. The A14, a key route for freight linking east coast ports with inland terminals, is to be the first road improvement to be built in recent years that will involve tolling. Subject to agreement with relevant local authorities on a funding package and decisions at the next spending review, construction work could begin by 2018.

The UK’s only other example of a major piece of tolled road, the M6 Toll, has been cited as an example of the pitfalls of the concept; this road is under-utilised by freight.

“Greater private sector investment and involvement in the provision of infrastructure is inevitable. However, the challenge of securing sustainable revenue streams that are politically and publicly acceptable still remains, and continues to dampen the risk appetite of the private sector. Unless there is a nationally driven effort to establish a level playing field designed to share risk more equitably between private and public sectors, it is difficult to see how the current inertia will be overcome.”

Tony Ciaburro
Director of Environment, Development and Transport, Northamptonshire County Council
FTA members are open to ideas about how new road infrastructure should be charged for in the future. However, there are a series of conditions that would need to be met to secure support. FTA has summarised these expectations in the Commercial Vehicle Operators’ Road Tolling Charter.

1. **Visibility of charging elements**
   What is the basis of the charge; how is it calculated and what are the costs that it seeks to recover? There must be no discriminatory pricing against commercial vehicles.

2. **Compensatory reduction in fuel duty**
   Road users already pay over £40 billion in taxes and commercial vehicle operators about £25 billion in fuel duty alone. Any new tolls or charges must be offset by an equivalent reduction in fuel duty and other taxes. There can be no Double Taxation!

3. **Availability of alternative non-tolled route**
   The Government cannot grant a monopoly to a road operator on routes where no suitable alternative exists to the tolled route (for example the M6 alternative to the M6 Toll).

4. **Minimum service levels**
   Any contract to manage and charge for a new road must be accompanied by minimum standards of service, including route availability in severe weather, breakdown recovery and assistance times, minimum transit times and parking and rest facilities. Operators will expect value for money and compensation when service falls short of promised standards.

5. **Lower rates for less polluting and less road-wearing vehicles**
   Vehicles meeting the latest low emission standards should be offered discounts to incentivise their use and recognise the contribution they make to improved environmental standards. As with VED, charges should be lower for vehicles with fewer axles or lower weights that cause less impact to the road surface.

6. **Harmonise charging/tolling nationally/interchangeability**
   There should be a common national basis for the charge and the payment technology should allow the interchangeability of charging technologies and avoid the current requirement to have different tag for different bridges and tunnels.

7. **Toll revenue to be invested in the roads to which they apply**
   Tolls and charges should be first invested in the route to which they apply so as to guarantee a high standard of road condition and provision of services.

8. **Declaration of new building programme**
   The Government should publish a long-term plan for investment in the roads network and identify proposed new routes on which tolling would be expected to be applied.
vehicles, in particular, because it is perceived to be too expensive for them to use, resulting in goods vehicles continuing to use the congested M6. Discussing tolled infrastructure in December 2012, Karen Dee, Director of Policy for the Freight Transport Association, told MPs on the Transport Select Committee: “The important thing from our perspective is the pricing structure, the incentives and the contractual arrangements that you have with the concessionaire...we are not opposed to using private finance or indeed some form of tolling, but the pricing structure needs to be realistic for our members and designed in a way that does not artificially deter heavy goods vehicles.”

Recognising the impetus behind the case for tolling and its potential downsides, FTA developed a set of key criteria that would need to be met by any more widespread policy of constructing tolled roads (figure 2.5).

Improving network performance is not just about undertaking major projects; journey time reliability and operating costs are also affected by the condition of the road network itself. Poorly maintained roads can lead to extra expenditure for operators as a result of damage to vehicles and extra wear and tear on components, as well as through unreliability and delays when roads whose condition has severely deteriorated require major repairs; this places greater strain on an already overburdened network.

Seventy-five per cent of councils across England and Wales have reported that the number of potholes filled over the last year rose to over two million, an increase of 29 per cent on the previous year. The Asphalt Industry Alliance (AIA) has called for action from central Government to introduce longer term funding mechanisms, allowing councils to move from one-year costly cycles of highly reactive work to planned, preventative maintenance programmes.

“The recovery is a long drawn out process of adjustment, alongside deficit reduction, but there’s still scope for policy to provide further support. We’ve called for the Government to boost capital spending by digging a bit deeper on current expenditure, and to get investment spending flowing in the short-term, for example on much-needed repair and maintenance of the roads system.”

John Cridland
Director General, Confederation of British Industry

8 Annual Local Authority Road Maintenance (ALARM) Survey 2013, Asphalt Industry Alliance

Insights • Managing our roads – time for change?

With one or two exceptions, the UK road network remains predominantly publicly owned and managed and relies almost entirely on the public purse for its investment. As a result, there are many who would argue that our roads have received insufficient funds to keep them operating in an efficient and effective manner and that investment decisions have too often been at the mercy of the electoral cycle.

It is clear that the Government understands the economic importance of roads, particularly for freight, hence its decision to launch the Cook review of the Highways Agency and its repeated statements about the desire to bring forward key infrastructure projects. Changes to the management of the strategic road network could certainly deliver much needed benefits. However, without additional funds, we are unlikely to see the kind of step-change in performance that industry believes is necessary.

Given the current pressures on the public finances, Government will need to look elsewhere to plug this funding gap — indeed, the National Infrastructure Plan, published in 2012, confirmed that new ownership and financing models for the roads are being examined.

Unfortunately, attractive as private sector financing may be, it raises the thorny issue of road pricing — because without a revenue stream, it’s hard to see how a return on investment can be achieved. Politicians are understandably nervous about the prospect of charging road users for something which they believe they have already paid for through fuel and vehicle taxes. But that should not be used as an excuse to do nothing. It should not be beyond the wit of Government (and civil servants) to find an innovative solution which delivers both improved service and value for road users’ money. It may not be an easy task — but the prize is surely worth the effort.
With an eye on stimulating the economy through investment, to get cash flowing in the market and delivering visible improvements to the roads network, CBI and others, have called not only for investment in major projects but also for smaller works such as repair and maintenance. Investment in the strategic road network and also in the roads that link it to other transport modes, local centres, terminals and distribution hubs.

**Role of rail services**

Frequently, rail and water services are talked about primarily in terms of what they have to offer environmentally, but they also make a good case of their own on commercial grounds. The fixed costs of alternative modes are higher than road freight, but the marginal costs are lower and they can transport heavier loads. This means that where sufficient volume is gathered together, rail and water can be cheaper per unit.

They also potentially offer more price stability – fuel is the most volatile element in logistics costs but makes up a far lower proportion of the cost of alternative mode services compared to road freight. A spread of modes also provides the greatest resilience for a company’s supply chain, reducing exposure to risk. The past year has been tough for all businesses but nonetheless the logistics industry has continued to offer improved services for the UK market in both short-sea shipping and rail.

Track access charges are rail’s method of paying for access to the track infrastructure; they are paid for by the train operator and form part of the intricate set of elements that make up the bill for using rail. These access charges, which in the UK are controlled by the Office of Rail Regulation (ORR), are an element of the cost that is difficult for logistics to control. In 2012 they were the subject of a comprehensive review by ORR.

Rail services have struggled in the past to promote themselves, in part because of the unfamiliarity of the arrangements compared to using road. It is disappointing therefore that ORR has looked to increase future access charges for ‘captive’ traffic, such as coal for electricity generation and iron ore. This will have an impact on those industries but is also of concern because of the signal it sends to other potential users of the mode, particularly intermodal customers, that in time their business too may be deemed to be so committed to rail, it can ‘bear’ higher charges for access. FTA has objected to the course chosen by ORR on the basis of the damage it is anticipated it will cause to prospects of growth in the mode.
Rail freight investment

Rail freight is receiving public sector investment to help optimise Britain’s mixed use rail network for freight. Recently, this has partly been through the Strategic Freight Network (SFN) scheme and then incorporated into the High Level Output Specification (HLOS) for England and Wales for Control Period 5 (CP5), 2014–2019, which was announced on 16 July 2012 by the Secretary of State for Transport. The main point was continuation of the Strategic Rail Freight Network Fund at £200m. The HLOS also includes investment in an ‘Electric Spine’ corridor of electrification, linking Yorkshire and West Midlands to south coast ports, that will benefit freight as well as passenger traffic. This will be accompanied by loading gauge enhancement, to allow taller 9’6" containers to be carried. The Scottish HLOS for CP5 was announced in June 2012 with a Strategic Rail Freight Investment Fund of £30m.

However, just because Government and industry are agreed on the need for infrastructure to support greater use of rail it does not automatically result in the delivery of necessary facilities. The difficulties faced by those promoting the Radlett rail freight terminal exemplify the ambivalence inherent in the public attitude to rail. The south east of England contains a number of major ports and although there is agreement among policy makers about the need for a Strategic Rail Freight Interchange somewhere in the region, the problem has been the reaction of local communities and politicians to substantive proposals in their locality.

In December, the Secretary of State for Communities and Local Government announced that he was minded to approve the planning application for the Radlett facility. This decision provoked furore among local councillors who had rejected the plans, and arguments over the terminal seem likely to continue long into 2013.

Such difficulties matter, because the lack of such facilities impedes growth in competitive rail freight services for UK industry, as well as frustrating the achievement of Government’s key policies of mode shift and carbon reduction targets. Government needs to continue to support well-constructed cases for improvements to rail freight facilities that support its wider environmental and transport policies and economic growth.
Connecting ports

Ports are exceptionally important to the UK economy; they handle 95 per cent of the imports and exports to these islands and our manufacturing, retailing and indeed service industries rely upon them. Unlike many of our European and international competitors, UK ports are entirely privately run and funded. This is widely perceived to have produced an effective, market-led industry but investment has been affected. Mainland European ports receive substantial funding for their internal development, as well as typically 100 per cent funding for inland road and rail infrastructure. UK ports have to fund their own developments, as well as improvements to link to public owned transport infrastructure, often some distance from the port.

Southampton and Felixstowe have made the substantial investment necessary and are equipped to handle the new Triple-E container ships that will be used from summer 2013. London Gateway, which is opening before the end of 2013, is also being built and equipped to handle these massive vessels.

Maintaining the confidence of port investors to continue developing infrastructure so that port facilities for vessel and cargo handling are suitable for dealing with larger ships remains an issue. Government can help by ensuring that infrastructure for the movement of deep sea cargoes inland, such as the A14, is improved and that the planning system takes account of the wider national economic interest, as well as local concerns.

Lengthy, expensive and often unsuccessful planning applications risk deterring would-be investors. Government designated the National Policy Statement for Ports as a National Policy Statement, under the provisions of the Planning Act 2008, in February 2012. Mike Penning, then Transport Minister said “The planning system is a key to the future timely development of the country’s port infrastructure. The designation of this policy statement marks a significant step forward, clarifying what is required to enable the successful major port developments that will be essential for trade and economic growth in the long-term.”

A further concern for businesses using sea freight in 2012 was how they would manage the consequences of the EU Low Sulphur Fuel Regulation. The regulation means that in 2015 the sulphur content of maritime fuels used in short sea shipping services in the North Sea and English Channel must reduce from 1 per cent to 0.1 per cent. The shipping industry says that the changes it will have to make will lead to substantially increased costs and reductions in service. In the autumn of 2012, FTA surveyed users of short sea services (logistics companies, hauliers and goods owners) and found that more than 30 per cent of sea-based movements would be more likely to move by road if the costs of short sea shipping were increased by 10 per cent. Additionally, two-thirds said they would have to reduce their reliance on shipping in favour of road if the frequency of services was reduced.

Increasing airport capacity

Heathrow is the most significant airport for freight in the UK and handles more freight each year than all other UK airports combined; two thirds of UK air freight goes in and out of Heathrow (1.48 million tonnes out of a total 2.26 million tonnes handled by UK airports in 20119). It competes as a mixed use hub with the major mainland European alternatives – Paris, Frankfurt, Amsterdam and Madrid. The two key freight hub transhipment airports in the UK are East Midlands and Stansted. These airports have a considerable strategic importance to regional economies as well as the rest of the UK, as do Manchester and Gatwick.

Air freight fits into logistics’ strategies as a complement to deep-sea shipping services for companies with a global supply chain. It is used for perishable, urgent or high value goods. Air freight also has an importance disproportionate to the volumes it carries as it serves industries which are core to the UK’s economic future as a service economy. These include the major export industries such as electronics, telecoms, financial and business services. Air freight also serves industries where urgency is a key factor – pharmaceuticals and biotech industries as well as food products are heavy users of air freight. UK manufacturing relies on air freight to import and export key components to keep factories working.

9 Transport Statistics Great Britain, July 2012
"Express air freight night flights are essential to the UK economy as they enable guaranteed next day international delivery of vital UK exports. We must retain these crucial flights and have scope to increase their numbers if an improving UK economy requires it. Without them the UK will be at a significant competitive disadvantage."

Sharon Davies
Senior Director of Corporate Affairs, DHL UK & Ireland

In 2012, FTA explained to the House of Commons’ Transport Committee why the upcoming consultation from the Department for Transport on night flights was so important, “Night flight capability for imports and exports is crucial to the competitiveness of UK businesses. These flights allow express delivery companies to offer late customer collections and guaranteed business-to-business, time-definite delivery around the world the next day. The only way to achieve this is by moving the parcels and packages by air at night.” An Oxford Economics report in 2011 on the Economic Impact of Express Services found that over 80 per cent of UK businesses surveyed stated that their businesses would be badly affected if international next-day delivery services were no longer available.

However, the hotly debated air transport issue in 2012 was the question of expansion of airport capacity in the south east of England and maintenance of the UK's hub status for international air services. In September, the Government announced that it had asked Sir Howard Davies to chair an independent commission, tasked with identifying and recommending to Government options for maintaining this country’s status as an international hub for aviation. This had the effect of deferring any decision on increasing airport capacity in the UK until after the next General Election, with the Davies Commission set to report on the options in summer 2015. An interim report is to be published at the end of 2013.

FTA believes that adding a third runway at Heathrow is the only cost effective option for addressing the UK’s hub capacity problem, while the economic case for building a new airport as a replacement or alternative to Heathrow does not yet seem to have been made. On that basis, it is FTA’s view that Heathrow is the UK’s only viable option for hub status in the UK. Its location, close to the UK’s economic centre, London, and its connection to global passenger flight networks means that it is the only UK airport that can fulfill this role. We also believe that UK regional airports are not able to replicate this as they are too far from London to service that market and their own economic hinterland would not provide enough traffic to sustain a global hub.

The delay and uncertainty that the Government’s decision to establish an independent commission has caused is unwelcome. Heathrow is already full. It operates at levels so close to capacity that this could potentially undermine the quality and resilience of the service. Furthermore, the lack of availability of slots is reducing the range of destinations served. According to BAA11, since 1990 Heathrow has lost nearly 20 per cent of its destinations due to runway capacity constraining the availability of slots. Heathrow’s list of destinations has declined from over 220 to around 180; by contrast Paris Charles de Gaulle airport’s list has increased from around 180 to over 240, a picture mirrored by Frankfurt International and Amsterdam Schipol – all of which have more runway capacity than Heathrow.

Adapting to changes in consumer demand

The internet has revolutionised the way in which people shop, as evidenced by the failure of a number of well-known and established high street brands since the downturn, a trend that continued into 2012. These victims of the downturn were, typically, companies who perceived their customers as people who physically visited their stores. In reality, consumers now have multiple channels through which they can shop. They can compare, select, purchase and receive products, often without going anywhere near a showroom, using websites, mobile apps, catalogues and telesales or use ‘click and collect’ services to obtain the products they have ordered from a convenient point nearby. The estimated value of the UK online retail market in 2012 was £78 billion and there was a 300 per cent growth of mobile-commerce over the year12.

In December 2012, it was predicted and widely reported that ‘Cyber Monday’ (3 December) would see internet stores having a record 115 million visits to their sites, an increase of 36 per cent over 2011. The claims achieved widespread publicity and, from a logistics perspective, underline some of the hazards of online retail: the concentration of many orders, in a short space of time and all required by a fixed point which, if missed, will result in substantial negative publicity.

According to the Office of National Statistics (ONS), despite total retail sales being relatively flat in December

---

10 FTA submission to the House of Commons Transport Committee Aviation Strategy Inquiry
11 BAA Briefing Document, June 2009
12 www.imrg.org/IMRGWebSite/user/pages/homepage.aspx
2012, compared with December 2011, more shopping was carried out online in December 2012. Sales made via the internet helped to boost overall figures and provided a much greater proportion of sales in December than was expected by retailers. The average weekly spend online (internet sales values non-seasonally adjusted) in December is estimated at £830.3 million, an increase of 15.5 per cent compared with December 2011.

Other research by Royal Mail found that just over half of SME online retailers in the UK saw an increase in sales in 2012, and two-thirds are confident that sales will increase in 2013. This is despite the fact that 70 per cent believe competition is more intense than two years ago. This boom in online shopping highlights the interdependent relationship between internet retailers and logistics providers, where any upturn in shopping activity will increase not only deliveries but the inevitable return of items, especially following the festive season. Online retailers also stated that in addition to improvements such as mobile apps and customer satisfaction, they would be focusing on improved delivery and returns processes. This raises challenges for the logistics industry with the estimated annual cost of failed UK online deliveries at £851m.

“Consumers can now shop whenever they want so they expect delivery options to match their buying habits and fit with their increasingly busy lifestyles. Failure to meet their expectations can damage the reputation of the retailer and their relationship with the customer.”

Carole Woodhead
CEO, Hermes

This means that logistics has to adapt to accommodate the micro delivery of small customer orders instead of large batches, for both business and consumer deliveries. For the express parcel and pallet networks this also means achieving a balance between everyday levels of goods and significantly larger quantities at times of peak demand. Getting this right is the challenge. E-commerce, in its many forms, pre-supposes that there are no upper limits on the number of orders to be fulfilled. Consumers expect accuracy and responsiveness and, often, next day delivery. These criteria are difficult to achieve within the low margin logistics industry and solutions are likely to include more reliance on flexible contracts and self-employed contractors at times of peak demand.

---

13 www.royalmailgroup.com/uk-online-retailers-predict-higher-sales-2013-competition-increases
14 www.imrg.org/IMRGWebSite/user/pages/homepage.aspx
The PwC Global Supply Chain Survey\(^{15}\), published in January 2013, found that key supply chain priorities now and going forward were:

- managing profitability of the total supply chain
- reducing total supply chain cost and managing its performance to deliver company strategy
- meeting increasing customer requirements, by increasingly tailoring their supply chain to their needs
- designing-in flexibility and agility to supply chains, to enable rapid response to changing demands, including volume changes, preparing the supply chain for up/downwards volume flexibility
- retaining core, differentiating supply chain capabilities in-house was also at the heart of the most successful supply chain designs

It is perhaps no coincidence that these are all factors that businesses need to address to thrive in a multi-channel retailing environment (figure 2.6).

---

**FIGURE 2.6 • Significant supply chain trends in 2013**

Reducing supply chain costs and meeting customer requirements are key supply chain priorities today and in future.

<table>
<thead>
<tr>
<th>Significant(^{1}) supply chain trends in 2013 (per cent)</th>
<th>In 2013–2015(^{2}) (per cent)</th>
<th>Per cent increase by 2015 vs 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing profitability of total supply chain</td>
<td>79</td>
<td>8</td>
</tr>
<tr>
<td>Reducing total supply chain cost</td>
<td>80</td>
<td>5</td>
</tr>
<tr>
<td>Meeting increasing customer requirements</td>
<td>69</td>
<td>10</td>
</tr>
<tr>
<td>Preparing supply chain for up/downwards volume flexibility</td>
<td>64</td>
<td>9</td>
</tr>
<tr>
<td>Responding to competitive pressures</td>
<td>61</td>
<td>11</td>
</tr>
<tr>
<td>Acquiring and developing supply chain talent and skills</td>
<td>58</td>
<td>11</td>
</tr>
<tr>
<td>Ensuring supply and supplier performance</td>
<td>60</td>
<td>9</td>
</tr>
<tr>
<td>Implementing techniques to automate and increase transparency</td>
<td>52</td>
<td>14</td>
</tr>
<tr>
<td>Supporting demand growth in emerging markets</td>
<td>52</td>
<td>10</td>
</tr>
<tr>
<td>Managing supply chain security and risk</td>
<td>46</td>
<td>14</td>
</tr>
<tr>
<td>Making the supply chain more sustainable</td>
<td>42</td>
<td>14</td>
</tr>
<tr>
<td>Responding to changing regulatory requirements</td>
<td>36</td>
<td>4</td>
</tr>
</tbody>
</table>

\(^{1}\) Percentage participants who judge trend as critical or significant in 2013

\(^{2}\) Percentage participants who say that trend is significant, critical or moderate in 2013 and who think that importance will increase by 2015, or who have indicated critical or significant for 2013 and indicate that it will stay the same for the next two years

Source: PwC Global Supply Chain Survey 2013: Next Generation Supply Chains: Efficient, Fast and Tailored
Conclusion

Efficient and effective infrastructure networks are essential to the functioning of the UK economy. The ongoing difficult economic conditions have, to some extent, masked the impact of congestion and unreliability. But businesses are becoming increasingly concerned about the ability of our networks to cope with the changing demands that will be placed upon them once there is a return to growth. Government statements on the need to invest in infrastructure provide some welcome reassurance. But if businesses are to have the confidence necessary to invest, develop and innovate to support their customers, Government will need to demonstrate that it has a clear strategy, backed up with solid financial support (whatever its source), to ensure that the UK’s infrastructure will be able to meet business needs.
Taking care
The casual assumption of many that ‘goods just arrive on the shelves’ is belied by the complexity and sophistication of today’s supply chains. Yet those involved in logistics understand that its most splendid successes often happen when it does not get noticed – because that means it is doing its job properly. But there is also appreciation that logistics needs to take care in what it does, by focusing on continuously improving the safety, efficiency and environmental impact of its operations.

As in previous years, the FTA Logistics Industry Survey 2012/2013 asked respondents about their perception of public understanding of logistics. It found that there was a slight increase in the perception of Government understanding of logistics but that views on public understanding remained low (figure 3.1).

But what was occupying the minds of the most senior people in logistics? The order of board priorities in 2012, revealed by the Logistics Industry Survey, was unchanged from 2011, with site safety, staff security and reducing accidents dominating the top three positions (figure 3.2).

Even in business, there is not necessarily a widespread understanding of the power of getting logistics right. In PwC’s Global Supply Chain Survey 2013, only 45 per cent of participants acknowledged that their supply chain was a strategic asset to them. However, those who really valued an effective supply chain were in the technology and the telecoms industries. Traditionally at the cutting edge of best practice, these industries are characterised by a highly globalised supply chain that is designed and fully integrated into their businesses. UK logistics is a strong performer and is widely recognised for its supply chain leadership through world leading institutes. It should be well placed to use its logistics know-how to harness growth potential and the London Olympics provided a world stage on which to demonstrate this expertise.

Success on an Olympic scale

After seven years of anticipation, nervousness, excitement and planning, the London 2012 Olympic and Paralympic Games have now finally come and gone. The world’s largest and second largest peacetime logistical events were unquestionably a huge success in the sporting arena, with Team GB and Paralympics GB finishing third in their respective medals tables. But with the opening ceremony alone attracting an estimated global audience of four billion people, the Olympics was about more than just the sport.

1 PwC: Global Supply Chain Survey 2013: Next Generation Supply Chains: Efficient, Fast and Tailored
Taking care

it was about showing the world that London can put on a party, that it is an attractive place to do business, and to encourage new overseas visitors in the years to come.

On a normal day, 265,000 freight vehicles visit London. Their role is to deliver the products the city needs, such as: food for shops and restaurants; beer for pubs; laundry for hotels; and taking away London’s waste. The movement of these goods and services enables London to make its £323 billion, or 21.5 per cent, contribution to the UK’s GDP. During the Olympics, this level of activity was overlaid with, on the busiest day, over one million people attending venues as well as hundreds of thousands of members of the Olympic family (athletes, support teams, event staff, sponsors and press). With the world’s media in town, the risk for UK logistics was a disastrous loss of reputation as a result of a failure to get the job done.

What was everyone so worried about?

We now know that transport was another big success story from the Games. Transport for London (TfL) had a huge challenge: it had to reduce background demand on the roads, tube and buses by about 30 per cent in order to accommodate all the Olympic visitors. With some parts of the network already over-capacity, this was not going to be easy and the message to Londoners needed to be clear.

The Atlanta Games in 1996 are remembered as a transport nightmare – images of spectators queuing up to nine hours to exit the Olympic Stadium to get on a two-car tram were flashed around the world on TV screens. Since then, the International Olympic Committee (IOC) has placed very high demands on host cities as to how they manage their transport networks. The Olympic Route Network (ORN), Paralympic Route Network (PRN) and Games Lanes were not optional for London – they were part of the Host City Contract. The IOC delegation visited London several times between the capital winning the bid to host the Games and the start of the Olympics to check on progress and took a very keen interest in transport preparations.

Two of the biggest risks for London’s global reputation were transport and security. The latter was reassuringly visible and tight, with the Army’s handling of spectator security viewed positively. So, how did transport perform? Admittedly, there were teething issues in respect of the introduction of the ORN and Games Lanes. Variable message signs were used to advise motorists whether...
Taking care

“The London 2012 Olympic and Paralympic Games were a great success, due in large part to the excellent planning and collaborative team-working between the freight industry and partners including Transport for London, the Traffic Commissioners, Games organisers and London’s boroughs. As a result, no supermarkets had empty shelves, no pubs ran out of beer and no hospital was short of vital supplies.

We will continue to work closely with FTA and the freight industry to build a legacy from the London 2012 Games. Working together, we’ve shown how we can manage deliveries and logistics in new and innovative ways that will help us keep London moving not just for one summer, but in the years to come, and bring benefits to the freight industry too.”

Sir Peter Hendy CBE
Transport Commissioner for London

Games Lanes were in operation, but some drivers were confused as to whether or not they could enter Games Lanes and even where the signs clearly said they could, many motorists opted to keep out of them. A couple of the London boroughs also introduced some unexpected road closures and clearways but, on the whole, London’s transport system, and in particular the logistics industry, coped excellently.

How it was done
Planning for the Games got off to a slow start, with FTA members bemoaning a lack of information with which to begin planning. However, once responsibility for transport during the Olympics passed to TfL at the start of 2011, things quickly improved. In May 2011, FTA held an Olympics Conference which left TfL with a very clear message from the industry about what it needed – information. Members needed information about the restrictions – what roads would be affected on what days – and where there would be conflict with existing restrictions, such as night time curfews, parking restrictions and the London Lorry Control Scheme. TfL reported back at FTA’s second Olympics Conference in December 2011, where they not only provided information about many of the planned restrictions, but also offered the industry solutions in particular details of the scope for relaxations.

It quickly became apparent during the first week of the Games that TfL’s pleas to users of London’s transport network to plan their travel had been heeded and transport was generally working well. Those involved in logistics had undertaken extensive liaison with customers, TfL and boroughs to develop and refine their plans. TfL urged businesses to apply the four ‘Rs’: reduce, re-time, re-route and revise mode. Not all were suited to everyone, but many companies did a bit of something, whether it was stockpiling non-perishables, moving deliveries to the night or the shoulders of the day, rerouting to avoid crossing the ORN, or using joggers and cycle couriers to get into tricky areas.

Sir Peter Hendy CBE
Transport Commissioner for London

The proportion of lorry traffic in daytime hours (07:00–18:00) was:

- 39% during the Olympics
- 35% during the Paralympics

Compared to 31% in summer 2011

The biggest increases were between 22:00 and 06:00
One of the strongest legacy benefits, not just for logistics, but for London and the UK as a whole, was the opportunity to demonstrate how greater use of properly designed out-of-hours deliveries can benefit everyone. There was widespread use of night-time deliveries and data from TfL’s cameras shows clear evidence of re-timing for freight traffic entering/leaving central London during the Games (figure 3.3). Operators were encouraged to use the Code of Practice which TfL drew up, based on the Quiet Deliveries Demonstration Scheme – the work that FTA had recently done with the Department for Transport and the Noise Abatement Society. In some cases, deliveries and collections were only shifted temporarily to the night-time period because of daytime restrictions or predicted congestion. Some companies reported reverting to daytime deliveries at the request of customers. But many others are planning to continue with these arrangements permanently. Companies were able to show that even operations such as waste collection can be achieved quietly and without disturbing residents.

The benefits of night-time deliveries are proven.

- Reduced journey times
- Better vehicle utilisation
- Reduced fuel usage, carbon emissions and fewer other harmful emissions to the air
- Less congestion, through fewer vehicles being on the roads at the busiest times of day

More lorries can be operated at times of day when there are fewer cyclists and therefore the risk of accidents is reduced.

The benefits can be achieved immediately and the TfL Code of Practice demonstrates that a wide variety of deliveries can be made quietly.

However, planning and delivering logistics operations for the Games was not cheap. Companies had to anticipate reduced and uncertain journey times by hiring in more vehicles and deploying more staff. Preparations for the summer drained planning resources, with many transport managers and their teams focusing solely on Games logistics, and delaying other initiatives. Those directly servicing official Games venues had to put additional security measures in place. Across the industry, the cost of this preparation will have run into millions of pounds – so the question is did those businesses reap the returns?

Long-term benefits

The Olympics was the opportunity for logistics to show customers, politicians and the general public what it can do. As a result, logistics should stop being seen as the problem and instead show that it is part of the solution. Probably the most notable benefit is the high political profile that freight now has in London. Logistics also had some excellent coverage in the national media ahead of the Games. Logistics firms have had to work closely with their customers, and in many cases seek their support for changes to their delivery and servicing activity. The result is that many businesses now have a better understanding of

Insights • Logistics and the Olympics

The London 2012 Olympics and Paralympics gave the logistics industry a unique platform to de-mystify the supply chain and to showcase its abilities.

Ahead of the Games there were quite legitimate concerns about the impact that additional access restrictions, coupled with increased security, would have on London’s businesses and residents. However, due to meticulous planning by industry, supported by comprehensive and effectively communicated information by Transport for London’s Road Freight Management team, there were very few failed deliveries.

By relaxing out-of-hours delivery restrictions, the proportion of peak-hours deliveries reduced and there was greater utilisation of the ‘shoulders’ of the day. The challenge now is how to translate the lessons learnt from the Games into everyday life. Not all out-of-hours deliveries have continued post-Games, partly this is due to a perceived increased cost in servicing premises out-of-hours. Therefore, there is a need to monetarise the costs and benefits in changing delivery patterns in greater detail, so it is clearer as to which parts of the supply chain they fall upon.

Industry is now beginning to benefit from new and improved relationships with Transport for London and the boroughs. And within TfL, freight now has a higher profile than ever before.
Taking care

taking care

their supply chain and some are keen to harness changes to their delivery patterns permanently. Some companies have also said that they have improved internal communications and processes because of the Olympics. They have had to work better across teams and it is hoped that this will continue post-Games.

Team GB performed exceptionally, both at the Olympics and Paralympics, and the consensus seems to be that the logistics sector performed exceptionally too, managing to keep London’s bars, restaurants and offices open and stocked.

Sharing the road safely

A phenomenon that has emerged as a result of 2012’s summer of sport is the boom in cycling; this is welcome in terms of the environment and our health but is it likely to increase the possible problems and dangers of commercial vehicles and cyclists sharing the same road space?

Board directors view a reduction in the number of accidents involving their vehicles as a high priority (figure 3.2) and experts from across the logistics sphere are doing a great deal to find ways to continuously improve their safety record and address specific concerns about the interaction of goods vehicles with the most vulnerable road users.

In 2011, 7,126 hgv’s were involved in 6,709 road accidents resulting in 9,350 casualties, compared to 14,813 hgv’s involved in 13,631 road accidents resulting in 19,159 casualties in 2001 (figure 3.4). Of these accidents in 2011, 272 hgv’s were involved in 235 fatal road accidents resulting in 257 fatalities in 2011, compared to 588 hgv’s involved in 528 fatal road accidents resulting in 575 fatalities in 2001.

This means that the number of hgv’s, the number of accidents involving hgv’s and the resulting casualties from those accidents has more than halved in a decade. A result of which the industry should be proud.

Furthermore, accident rates for hgv’s compare favourably with cars (figures 3.5 and 3.6). In 2011, there were 447 accidents of all severities per billion vehicle miles per hgv, compared with 851 accidents per billion vehicle miles for a car. This means that a road user is more likely to be involved in an accident with a car than an hgv.

However, the interface between heavy lorries, cyclists and pedestrians has been of growing concern.

In London, the Mayor has seen the upsurge in interest in cycling as the catalyst for a number of measures around cyclist and pedestrian safety. Although the rate of cycling injury in terms of numbers killed and seriously injured (KSI) continues to fall, the total number of incidents is likely to continue to rise, as cycling grows in popularity. This will be an issue both in towns and cities and in the countryside, where increasing numbers of leisure cyclists are being injured.

Last year, The Times co-ordinated its hugely successful ‘Cities Fit for Cycling’ campaign, this highlighted the issues around cyclist and hgv safety. Considerable political interest was generated, with the Greater London Authority conducting an inquiry into cycling safety; the Mayor commissioning a
review of cycle safety in relation to the construction sector; and the Labour party holding a cycling safety symposium in Westminster. There were also two separate academic studies into the relationship between cycle safety and different road users. In the autumn, FTA hosted an event bringing together stakeholders from across all classes of road user for the joint FTA/The Times ‘Sharing the Road Safely’ events at each of the three main party political conferences. This work is vital to ensure that evidence drives policymaking; and that maximum benefit is derived from any cost to individuals, businesses and Government.

While hgv's are by no means the only vehicles involved in collisions with cyclists, it is clear that where they are involved, the consequences are usually more serious. This stands to reason given the size of an hgv and therefore the greater effect that an impact would have compared to a collision with a car or motorcycle. However, those engaged in logistics have been making the case that any safety improvements should be achieved through measures that minimise the burden on their operations. They highlight the many technical improvements made to vehicles, especially in the field of mirrors and braking; there are also initiatives that companies are implementing to improve the safety of their operations in respect of vulnerable road users, while ensuring that drivers’ ability to negotiate the road network safely is not impeded by 'information overload'.

Education is a vital component of road safety. An efficient, well-trained core of drivers on our nation’s roads will know better where to look for cyclists and how to respond in the event that one is found in an awkward place. Businesses are investing thousands of pounds in this kind of training and for London, TfL also makes it available through FORS ( Freight Operator Recognition Scheme). It is important that other road users take training just as seriously. The onus to improve safety awareness cannot be on freight operators alone; FTA believes that all road users should play their part in making the country’s roads safer. While the Driving Standards Agency has seemed reluctant to amend the Highway Code, many colleges, workplaces and schools are carrying out excellent Bikeability training that will save lives. It is clear that it is only through partnership...
between different stakeholders and policymakers that we can all be confident of getting the balance right.

Some large operators of goods vehicles also run safety schemes for schoolchildren; one example of such an initiative is Trucks and Child Safety (TACS), a national safety training programme run by the DHL UK Foundation and employees of DHL. It aims to help keep children safe around larger vehicles on the road. Vehicle demonstrators take a large vehicle into a school or community group and talk to the children about keeping safe around lorries. Some 36,000 children (between the ages of 7 and 11) received free training in the 12 months from August 2010 to August 2011.

### Compliance and industry image

Road transport operations in the UK as a whole are the most tightly regulated in Europe and the industry is rightly proud of its operator licensing system. After many years of campaigning by FTA in Northern Ireland, the operator licensing system finally applied to the vast majority of goods vehicle operators in 2012, when legislation to include those carrying their own goods (known as ‘own account’ operators) came into effect.

The challenge now is to ensure that the 7,500 operators that were estimated to be newly in scope of operator licensing apply for their licences and are brought within the system. This is important for road safety because the initial annual test failure rate in Northern Ireland is 31.6 per cent², compared to the GB level of 24.7 per cent³. There is also concern in Northern Ireland at a lack of hgv drivers coming into the industry, with a considerable shortfall anticipated by 2014; improving the image of logistics, and specifically road freight, by addressing its safety record is seen as an important means of encouraging people to enter the industry.

---

**Insights • Logistics and sustainability**

Mark Thompson
Director, Sustainability & Climate Change, PwC

The Logistics Carbon Reduction Scheme and the sustainability achievements of the London Olympics activity are evidence of the sector coming to grips with the challenges and opportunities around low carbon. The CBI recently identified the green economy as contributing eight per cent of UK GDP and one of the sectors to exhibit growth. How will the transport and logistics sector respond?

Some of its leaders already appreciate that sustainability means more than producing a CSR report. It is about looking at the challenges around increasingly stringent vehicle emission requirements, low emission zones, final mile deliveries, biofuels, multi-channel retailing, routes used by vehicles, and the like, and identifying opportunities to differentiate and to collaborate with commissioners and users.

The solutions will be driven by advances in technology, by regulation and by the extent to which societal preferences begin to influence logistics purchasing decisions.

The question for the sector as a whole, as for individual businesses within it, is to what extent they will choose to develop some strategic advantage in this area, or rather wait for regulation and commissioner behaviour to determine their response.

---

² Northern Ireland Driver and Vehicle Agency statistics
³ VOSA Effectiveness Report, 2011–12
Reducing logistics emissions

Taking care is also about logistics playing its part in reducing carbon and other harmful emissions to the environment. The latest official figures, from 2010, show that 21 per cent of UK greenhouse gas emissions are from transport. Of all transport emissions, hgvs account for 20 per cent while private cars contribute the greater proportion to the total (57 per cent). Logistics is under continued pressure to improve efficiency and reduce carbon emissions and to demonstrate that it is doing its bit to reduce its carbon footprint.

The Climate Change Act sets two ambitious greenhouse gas reduction targets for the UK. The country must reduce greenhouse gas emissions by 34 per cent by 2020, based on 1990 levels, and by 80 per cent by 2050. There are no sector specific targets but the logistics sector will be expected to make a contribution to reductions, and hgvs represent about 20 per cent of total domestic transport greenhouse gas emissions.

Aligning air quality and climate change objectives

There can be a tension between improving air quality and reducing greenhouse gas emissions. For example, the UK, like many other countries, has been unable to achieve EU limits for nitrogen dioxide. However, the tightening of Euro standards to improve air quality (and in particular NO2 levels) in cities could make engines less fuel efficient and thus produce more carbon. By contrast, in 2010, the Department for Environment, Food and Rural Affairs acknowledged that a focus on reducing climate changing emissions could also help reduce air pollution. For example, measures to relieve congestion and financial support for low carbon vehicles in urban areas could help alleviate both issues. It is therefore important that Government takes full advantage of shared benefits between air quality improvement and carbon reduction.

In May 2012 FTA wrote to Caroline Spelman, then Secretary of State for the Environment, highlighting the role of Government in taking a systematic approach to reducing atmospheric pollutants; FTA identified the benefits of a proportionate contribution to further improvements in air quality, where such action is justified, reconciled and integrated with parallel Government actions on reduction of carbon emissions. Where commercial vehicles are identified as a significant contributor to local air quality problems measures should focus on working with business, so delivering cost reductions or greater efficiency, in addition to air quality improvement. Government was urged to consider restrictions on goods vehicle access, or requirements to fit pollution abatement technology, only as a last resort. A series of proposed actions was set out for Government to adopt in considering the reduction of air quality emissions from hgvs (figure 3.7).

Increasing use of alternative fuels

There is a wide range of decarbonisation measures to make moving goods by road more carbon efficient, but it is clear that in order to reduce reliance on conventional fossil fuels such as diesel, the UK must look to alternative fuels that offer an overall carbon saving. Potential fuels are natural gas, in the form of liquefied natural gas (LNG) or compressed natural gas (CNG), dual fuel vehicles and, ultimately, biomethane.

To move from small scale operational trials to the use of natural gas as a mainstream fuel requires significant upfront investment in refuelling infrastructure and additional capital costs linked to the vehicle itself. In order for the road freight transport sector to embrace gas as a viable alternative to conventional diesel, a Government policy supporting national public infrastructure and a longer rolling fuel duty differential commitment for gas over diesel needs to be in place.

Vehicle operators, working with FTA, have made the case for the creation of a national gas refuelling infrastructure. This group has identified 20 potential sites across the country, together with an estimate for annual patronage by hgvs (figure 3.8). There is an opportunity for Government to establish a critical network of gas refuelling hubs, the critical path in determining the speed and uptake of low carbon vehicles in the road freight logistics sector.

A gas strategy for hgvs is to be developed under the aegis of the Department for Transport’s Low Emission HGV Task Force. FTA’s Gas Manifesto for achieving breakthrough in the take-up of natural gas-powered hgvs, has been presented as the basis for this strategy.

Government can also promote use of alternative fuels through fiscal measures. The extension of the commitment to maintaining the differential duty rates on natural gas and

![Image](image-url)

“Biomethane has huge potential as a low carbon, sustainable fuel, but its growth is hampered by uncertainties over future fuel duty. If the difference between gas and diesel fuel duty were fixed for a rolling seven-year period, then one of the main barriers to investment in this technology would be removed.”

Justin Laney
General Manager – Fleet, John Lewis Partnership
**Funding Air Quality Management Area projects**

HGVs should not be automatically assumed to be solely or mainly responsible for air quality problems. Government funding linked to air quality should focus on assessing what the problem is, rather than concentrating on developing solutions.

**Promoting low carbon hgv technologies**

Cutting carbon dioxide emissions from road vehicles cuts pollutants affecting air quality, but concentrating on air quality improvements alone does not cut carbon emissions. Defra’s current air quality initiatives should explicitly recognise the contribution of the Department for Transport’s (DIT’s) Low Carbon HGV Task Force and operational trials for alternatively fuelled hgv. Engine emission standards beyond Euro VI should focus on improving fuel consumption, rather than reducing levels of air quality pollutants which are already very low.

**Encouraging commercial vehicle use outside of periods of peak traffic demand**

Cross Government support is needed for changes to planning guidance and noise abatement orders to encourage quieter deliveries to be made at less congested times.

**Incentivising low emission diesel hgv**

Euro VI incentives need to be enhanced to ensure that the higher costs associated with the vehicles do not discourage fleet replacement. In particular, RPC discounts should be available to the original owner until the vehicle enters the second-hand market. The higher capital cost should be offset through 100 per cent capital allowances.

**Encouraging investment in alternatively fuelled vehicles**

Government needs to support industry’s vision for a network of gas refuelling hub locations in the UK sited on major traffic arteries and close to major distribution hubs. The current commitment to a three-year rolling time horizon on maintaining the duty differential for CNG and LNG is insufficient and the duration of the differential needs to be extended. Without such a commitment, industry will be put off by the unpredictability of whole life costs for gas vehicles.

**Removing older, more polluting hgv**

Government should introduce a scrappage scheme to progressively remove the oldest, pre-Euro III, hgv from the vehicle parc.

**Ensuring low emission zones do not add unnecessary cost to business**

FTA believes low emission zones are of limited value in improving air quality. Any proposals for new low emission zones should be rigorously justified and consulted on widely with local businesses and vehicle operators who serve the affected area. Any restrictions must be defined using Euro standards as the basis for differentiating vehicles. Government should set national standards for road signage, exemptions and payment processes.
In March 2012, FTA undertook a detailed survey with results of 17 participants in its Logistics Carbon Reduction Scheme (LCRS) to establish the optimum locations for gas refuelling infrastructure and the anticipated number of hgv's which would potentially use the site over a three and five-year time horizon.

**Source:** A national gas refuelling network for hgv's, FTA, 2012

**Figure 3.8 • Top 20 locations for a national gas refuelling network**

1. Milton Keynes
2. Birmingham
3. Hatfield
4. DIRFT, Daventry
5. Central London
6. Wellingborough
7. Avonmouth
8. M6/M62 Warrington
9. Swindon
10. M62/M18/M1 near Doncaster
11. Leicester
12. M1/M62 Wakefield
13. Nottingham
14. Coventry
15. M6/M62 Crewe
16. M1/M25 Stevenage
17. Dagenham
18. Knowsley/St Helen's/Haleswood
19. Lichfield
20. Huntingdon A1
biogas used as road fuel for a further year, at levels that offer a competitively priced alternative to conventional fuel in Budget 2013 is welcome. However, the length of it is far too short to be able to provide confidence for operators making vehicle investment decisions in gas-powered commercial vehicles. The payback period for these assets is at least 10 years and the fragility of the business case for these vehicles is such that uncertainty over even small increases in gas duty rates renders these investments uneconomic. The Chancellor missed an opportunity in the Budget to provide this confidence by extending the existing policy of fixing duty rates for natural gas relative to diesel rates for the next 10 years.

Logistics carbon reduction progress
The Department for Transport’s Freight Carbon Review started in late 2012 and aims to assess the progress the freight industry is making as a whole towards fuel and emissions reduction, in light of the UK’s carbon targets. The review was promised in 2010, when Government decided not to make eco-driver training a mandatory element of the Driver Certificate of Professional Competence. Government seeks evidence that action is being taken across the freight industry, which will contribute to a reduction in carbon emissions. The Logistics Carbon Reduction Scheme (LCRS) formed an important part of the review and evidence was submitted to DfT on behalf of all scheme participants.

LCRS remains the only voluntary carbon emissions reduction scheme in the logistics sector, providing a consistent and reliable means of recording and reporting emissions. Scheme members are collectively committed to reducing their carbon emissions by eight per cent by 2015 (compared to 2010) and are on track to do so. In spite of many operators reducing their fleet size, LCRS continues to grow. At the start of 2012, LCRS had 59 members, operating 56,109 commercial vehicles and by the end of the year scheme membership had grown to 77 members operating 59,915 lorries and vans.

Each year, FTA produces an annual report for LCRS. At the start of 2012, the baseline data for LCRS had already been established (data for 2010 was published in the Second Annual Report) and at the end of the year figures were collated for 2011 – these will be published in the Third Annual LCRS Report in spring 2013.

Members of LCRS were surveyed in 2012 to find out how they were implementing carbon reduction techniques. The top 10 operational and vehicle design carbon saving interventions in 2011 are shown in figure 3.95.

Carbon saving initiatives
In addition to the investment businesses are making in changing the design and operation of vehicles, companies and FTA are discussing many other ways of reducing carbon and other harmful emissions by moving goods more efficiently and using less fuel.

Changes to speed limits to reduce carbon emissions
Plans to increase the speed limit for some hgv’s in a bid to boost economic growth were announced by Government at the end of 2012. The current speed limit on single carriageways for hgv’s over 7.5 tonnes is 40mph. Under proposals from the Department for Transport (DfT), this limit could be increased to 45mph or 50mph. Logistics says this move will help growth by improving journey times, cutting congestion and reducing costs to business and the cost of goods people buy. It could also reduce the number of collisions caused by other road users overtaking slower moving lorries. Operators of goods vehicles contend that cost savings would be achieved by allowing vehicles to

---

operate closer to the optimum running speed is because there would be some fuel saving benefit and that these fuel savings would produce environmental benefits through reduced emissions.

### Longer semi-trailer trials

According to the original research by DfT, longer semi-trailers have the potential for a reduction in carbon dioxide of 100,000 tonnes and a potential annual benefit to industry of around £300 million. As part of the 2011 Logistics Growth Review, Government announced a 10-year trial of longer semi-trailers, which started in January 2012. The intention was to start a trial with a workable fleet of higher capacity vehicles to allow safety issues to be explored while demonstrating the greater loading efficiency, and therefore carbon savings to be obtained, from using them. One year later (January 2013), Vehicle Special Orders (VSOs) had been issued for over 400 such vehicles.

Longer semi-trailer permits have been issued on a ‘use it or lose it’ basis and operators who have been granted allocations have until December 2013 to obtain VSOs and put trailers into service, otherwise allocations will return to DfT for redistribution. FTA will engage with DfT on this redistribution process to make sure that the allocation of permits adequately ensures that the trial is viable and meets the requirements of Government and operators.

### Reducing maritime carbon emissions

Shipping is a relatively carbon efficient mode of transport, representing 2.7 per cent of global greenhouse gas emissions but the International Maritime Organization (IMO) says that if they are left unchecked, emissions from shipping could increase by 150 to 200 per cent by 2050. This is why shippers have taken an active role in the policy debate on the issue; to ensure that the shipping industry takes responsibility for its impact on climate change and that this is done in a way that ensures logistics, in all its forms, remains competitive.

The Global Shippers’ Forum (GSF), of which FTA is an active member and for which it provides a Secretary General, has prepared a report into maritime emissions. The report reviews the various market-based mechanisms (MBM) proposed by shipowner organisations and governments. GSF is in the process of establishing a set of general principles which it considers to be essential for shipper’s to find the various MBMs acceptable. FTA is also collaborating on a project in conjunction with Heriot Watt University on decarbonising the supply chain from a shippers’ perspective. The ultimate report will provide a series of management and best practice tools giving advice to shippers on steps they can take to reduce their maritime supply chain carbon footprint.

7 IMO Second GHG Study, 2007
8 Maritime Emissions Briefing Note: Edition 2, October 2012, Global Shippers’ Forum

### Conclusion

Logistics’ commitment to improving the efficiency, sustainability and safety of its operations is unwavering, even in the face of ever increasing challenges. While there remains a certain lack of appreciation – at least among the general public – of the improvements that have been delivered, the Olympics has ‘opened the eyes’ of other audiences to the key role the industry plays. Logistics will continue to strive for improvement, but Government, regulators and others who rely on, or interact with industry, must recognise that sustainability, efficiency and safety are shared responsibilities. Everyone must play their part to secure those benefits.
Chapter 4

Nurturing talent
Nurturing talent

The downturn has led to a relatively static employment market but this is no time for employers to be complacent. Logistics has often struggled to recruit and retain talent. Securing and developing people with key skills and following through on legal and professional responsibilities towards employees are more important than ever.

The recession has been especially hard on UK businesses moving goods, as demand has fallen dramatically, so has the amount of freight in the supply chain. This has had consequences for the deployment of staff. Yet UK logistics employers show optimism in their plans for the coming year.

The FTA Logistics Survey Industry 2012/2013 asked companies what changes they thought would take place in relation to employment and training in 2013. The results, outlining the expectations of respondents for 2013 (compared to 2012), are shown in table 4.1.

<table>
<thead>
<tr>
<th>TABLE 4.1</th>
<th>HR priorities for transport related staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make fewer redundancies</td>
<td>☑</td>
</tr>
<tr>
<td>Employ more staff</td>
<td>☑</td>
</tr>
<tr>
<td>Cut back on agency drivers</td>
<td>☑</td>
</tr>
<tr>
<td>Cut back on temporary staff</td>
<td>☑</td>
</tr>
<tr>
<td>Stand down fewer staff for short periods</td>
<td>☑</td>
</tr>
<tr>
<td>Reduce overtime</td>
<td>☑</td>
</tr>
<tr>
<td>Increase training</td>
<td>☑</td>
</tr>
</tbody>
</table>

The number of respondents saying that they expect to increase training in 2013 rose to 37 per cent, compared to 28 per cent who reported that they increased training in 2012. But we know that skills, and difficulties attracting the right people for a range of roles, are perennial problems for logistics. In spite of this, respondents to the survey were also much more positive about the outlook for employment and training than in 2011 (see page 27). But what issues do they need to address to best position their businesses for future growth and how do they compare to their UK and global peers?

Responding to the downturn

Since 2008, employers have dealt with specific challenges posed by the recession and economic uncertainty. In the 2011 Workplace Employment Relations Study (WERS), 78 per cent of employees in transport and communication said that their workplace had been affected by the recession, placing them fifth behind employees in financial services (86 per cent), construction (83 per cent), public administration (82 per cent) and education (81 per cent). Companies implemented a number of measures as a result of the downturn (figure 4.1).

As a result of the recession, WERS found that public administration and construction were industries with the...
Nurturing talent

“Focusing on internal talent is key to driving an organisation forward. It is vital to have a learning and development programme in place which identifies key people and provides them with the tools they need to grow within the organisation.”

James Wilson
Head of HR, FTA

highest percentage of employees reporting wage cuts or freezes (68 per cent and 50 per cent respectively) but increases in workload were most common among employees in public administration (48 per cent), followed by transport and communication (36 per cent). However, this effect would appear to be less marked in the case of hgv drivers, whose hours are regulated by EU and UK laws on drivers’ hours and working time. The Annual Survey of Hours and Earnings showed that in 2011 the median number of total paid hours worked per week (ie including overtime) by hgv drivers was 48, a figure which has remained relatively unchanged since 2005.

The same survey showed that workplaces affected a great deal by the recession were more likely to have reduced training expenditure (23 per cent) than those saying the recession had little or no effect (9 per cent). WERS ranked transport and communications a low eighth out of 12 sectors for provision of training.

The goal posts have also moved for employers as a consequence of the state of the economy. After the initial turmoil of the financial crisis, the ongoing conditions of stagnant, hesitant growth have resulted in the need to continue to develop employees in a more static employment market with lower levels of staff turnover. This has underlined the need to have good quality training.

Talent management can simply be defined as having the right people with the right skills in the right place at the right time to meet the company’s objectives. In reality, of course, doing this simple thing well is actually very difficult.

The first task is to attract the skills and talent you need. As the market for talent is always competitive you have to make yourself more attractive to new joiners than your competitors. For this you need to develop an employer brand – what you stand for as a company and the deal – what’s in it for the individual. The deal should be your ‘offer’ to your people covering obvious things like pay and benefits but also broader issues such as training and development, flexibility and how people are managed.

It is also important to retain key talent as it is expensive to replace and train and is often in short supply. For this you need to understand the things that are important to each individual, remembering that people are very different and have diverse needs and aspirations. A one-size-fits-all solution is unlikely to be successful.

In the current environment of high levels of employment and a resilient labour market, companies should not be complacent about low levels of attrition. History tells us that when confidence returns and individuals feel more confident attrition levels will rise. At that point the war for talent will be on again.

It is important that you prepare now for the talent challenges ahead.
programmes in place and to use opportunities for on-the-job skills development as a means of improving staff satisfaction, as well as a method of directly improving the bottom line.

**The logistics skills challenge**

PwC research\(^2\) has found that more than three-quarters of transportation and logistics CEOs across the world are changing their strategies for managing talent, and for 19 per cent the shift will be major. More than half said they would increase investment in workforce development over the next three years. There was also evidence that diversity was moving up the corporate agenda. Compared to all global CEOs, those in transportation and logistics were more likely to say that they were using programmes that encouraged diversity as part of their succession planning.

For UK CEOs across all sectors, the availability of key skills remained a concern for two-thirds of top executives, higher than anywhere else in Western Europe. A similar proportion were planning to increase investment in building a skilled workforce over the next three years, while an even higher proportion – 83 per cent – saw a need to change their talent management strategies in the next year. When asked what the Government’s priorities for business should be, four out of five UK CEOs pointed to creating and fostering a skilled workforce – the highest response rate in any country surveyed, and well above the global average of 57 per cent\(^3\).

As with other advanced economies, the UK way of life is highly dependent upon effective logistics. The logistics sector itself directly employs 1.45 million people, on top of which can be added those in a wide range of roles within other sectors whose jobs involve logistics. However, the UK Commission for Employment and Skills (UKCES) says that “while the sector performs well within the UK economy, when comparing its Total Factor Productivity to international competitor nations, it is revealed that the sector is not as productive as that in France or Germany\(^4\).”

\(^2\) 16th Annual Global CEO Survey, PwC, 2013
\(^3\) 16th Annual Global CEO Survey, PwC, 2013
\(^4\) Transport and Storage Sector Skills Assessment 2012, UK Commission for Employment and Skills

---

**Insights • Talent in logistics**

David Shouesmith
Director, PwC

A combination of factors, such as a recession-led squeeze on margins, intense competition and the vulnerability of global supply chains caused by shock events, has increased awareness amongst leading companies of the value and risk carried in their supply chains. Leading companies recognise that their supply chain is integral to delivering their wider business strategy and make the effort to design and operate it to suit the unique nature of their business. This means looking critically at outsourcing and ensuring that key capabilities are not unwittingly sent offshore.

Skills such as integrated business planning and strategic supplier management and procurement sit firmly amongst those capabilities, and companies who really understand their supply chains look carefully at vertically integrating (through acquisition) where they sense a critical vulnerability.

These, and other, considerations underscore the need for companies to invest in growing and managing talent that can take this strategic view of their supply chain; this is a different capability set from the more transactional, tactical and cost-focused supply chain managers more traditionally generated by industry.
Causes for concern

The principal issue identified by UKCES is that the sector is relatively low-skilled; in part this may be because it comprises a large number of small enterprises, generally operating at low margins and investment in training is relatively small. “The qualification profile reveals that the sector is one of the most poorly qualified of all, with 37 per cent of the sector workforce not qualified to level 2, and only 18 per cent having a level 4 or higher qualification (compared to 23 per cent and 37 per cent across the whole economy). Furthermore, three in five managers do not have a level 4 or higher qualification.”

Andy Lawrence
Managing Director, Maxim Logistics

The total number of jobs in the UK logistics sector is projected to grow by 95,000 between 2010 and 2020, with a replacement demand of 553,000. This means that 647,000 job openings are expected in the period, across all roles. Logistics employers will increasingly face stiff competition from within, as well as from other sectors, for key skills.

The difficulties that logistics typically faces in attracting quality staff are compounded by its ageing workforce, both in terms of managing the requirements of older employees and the need to replace these employees when they retire (a decision that largely lies with the employee and not the employer since April 2011). With many businesses facing skills shortages and tight labour markets, it makes sense to encourage older workers to stay within the business and, under the Equality Act, directly or indirectly discriminating against an employee’s age is unlawful. Figure 4.2 shows the key issues that employers need to consider in managing an older workforce.

In transport and storage, some 49 per cent of employees are over 45 years of age and only 6 per cent are under 25.

“While Government and funding focus has largely changed from those already in the logistics industry to those yet to be employed, much of the training requirement and skills acquisition remains the same as before. The industry needs staff who are trained to understand the imperative of compliance and also managers who can manage and mentor the new recruits to the industry, when ever more is expected from the customer base, while continuing to deliver value.”

Andy Lawrence
Managing Director, Maxim Logistics

FIGURE 4.2 - Key issues for organisations managing older employees (CIPD/CMI)

Refreshing the skills of older employees is considered most important.

Source: Managing an ageing workforce: How employers are adapting to an older labour market, 2010, Chartered Institute of Personnel and Development and Chartered Management Institute

5 Transport and Storage: Sector Skills Assessment 2012, UK Commission for Employment and Skills
The skills set required of these employees is also changing rapidly and the themes highlighted in earlier chapters of this report provide an insight into the scale of the challenge. In order to compete with other global businesses, more and more efficient logistics is required to respond to changing consumer demands. The workforce needs to be able to provide competitive products and service. As businesses strive to become more adaptable, employers are also likely to look towards new technologies to help them gain competitive advantage; they will need employees who can handle new ways of working.

The spread of multi-channel retailing, as it reinforces the physical distance between the consumer and the retailer, means that the delivery operation becomes a key interface. Goods vehicle drivers are therefore becoming one of the principal faces of the supplier to the customer; they therefore need to understand and be able to deliver in terms of customer service. They may also need to be trained to perform other tasks, for example installing white goods.

Logistics continually has to adapt to new ways of working as a result of the need to reduce carbon emissions through the use of new technologies to reduce fuel consumption or switching to alternative fuels; behavioural changes, such as eco-driving; use of telematics to improve vehicle utilisation; and changing to lower carbon transport modes. These are all measures that will see logistics contribute towards the greener economy but which could require employees to demonstrate new skills.

However, a lot of training and development in logistics is driven by compliance requirements, arising from UK and EU legislation. The key issue that should be directing investment in training is the Driver Certificate of Professional Competence (DCPC); the EU legislation requires large goods and passenger vehicle drivers to complete 35 hours of periodic training every five years. While uptake of DCPC training continues to increase quickly through 2013, there is concern that some drivers may not complete sufficient periodic training to meet the legal requirement and may thus miss the deadline of September 2014 to achieve the necessary amount of training. However, it does now appear likely that the industry in general will be in compliance with the rules come the 2014 deadline.

These features of the UK logistics sector are not unique. Across the world, logistics businesses are concerned at their ability to attract and maintain an appropriately skilled workforce whilst sustaining growth. A Delphi study conducted by PwC found that employers, particularly...
those in more developed economies, were facing similar challenges7.

- An ageing global population with labour shortages due to retirements
- Addressing the problem of the poor image of logistics
- A dearth of suitable training programmes, especially those ‘in-company’
- The requirement to improve and update recruitment methods
- How to increase the diversity of the workforce
- The call to improve wages, benefits and working conditions
- The need to enhance the ‘employer brand’ especially through corporate responsibility activities

Finding solutions

PwC’s Delphi study suggested that logistics businesses should, in particular, look to improve their employer branding and build ‘recruiting alliances’ with peers (in the case of SMEs). It also advocated the increased use of social networking as a recruitment tool, echoing suggestions made by UKCES8 that vacancies in logistics, especially those in smaller firms, are often filled by ‘word of mouth’.

Chapter three considers many of the issues surrounding corporate social responsibility that logistics is addressing, all of which should help improve the image of the sector and promote a positive employer brand. However, the past year has seen a surge in the number and range of initiatives designed to enhance the appeal of a career in logistics and increase the satisfaction levels of those already employed.

Development pathways and a logistics community

Establishing clearer career pathways in logistics, both within businesses themselves and in terms of developing qualifications with the right balance in terms of recognition of experience and academic achievement, is also likely to be important. This is happening through industry-wide initiatives, in part driven by Sector Skills Councils, and through actions driven by employers and training providers.

As part of the 2011 Logistics Growth Review, the Sector Skills Council, Skills for Logistics (SfL), was awarded £4 million to improve training approaches to increase the competitiveness and productivity of the logistics sector. In its Plan for Growth Implementation Update9, Government reports that SfL is running four projects to continue to develop local employer communities and tools that will enable greater engagement between employers and the local talent pools; these projects are nearly halfway through their two-year life span.

Local Logistics Community Networks

SfL is establishing Local Logistics Community Networks to connect logistics employers within the network with their local communities (people and institutions within their catchment area), particularly schools, training providers, colleges and universities. Its aim is to build new talent pools of people who are both aware of logistics and the career it offers. The networks will be forward-looking and will focus on local issues in order to produce a sustainable pool of talent.

The Logistics Guild

Employers requiring logistics skills are also seeking to work together to share best practice, promote the roles they have to offer and mutually recognise the standards that need to be achieved by employees.

The Logistics Guild is a support network of shared resource, run for and by its members and launched in 2012. Its aim is to improve the self-esteem of those working in logistics and promote a positive image of logistics to potential employees. The guild has been set up with the intention of supporting those who work in any aspect of the handling, movement or storage of goods or materials, whether working for logistics providers, wholesalers, ports or in the logistics operations of companies involved in making and selling goods. As it develops, those in the guild will share ideas, support, guidance, development and jobs. Slotting into SfL’s professional development stairway, a progression ladder setting out the route individuals need to travel to reach specific roles, the guild will also offer members access to a credit union and potentially bulk purchasing discounts. The guild is free to join and no qualifications are required to become a member.

---

7 PwC Transportation and Logistics 2030, Volume 5: Winning the Talent Race
8 Transport and Storage Sector Skills Assessment 2012, UK Commission for Employment and Skills
9 Plan for Growth Implementation update, March 2013, HM Treasury and Department for Business, Innovation and Skills
On 8 November 2012, SfL and The Logistics Guild formally launched the Military Work Placement Scheme, a pilot scheme offering 1,000 people leaving the military fully funded, two-week work placements with quality civilian logistics organisations. In March 2013 Government reported that 310 placements had so far been made under the scheme.

Fta Skills Working Group
The FTA Skills Working Group, including over 30 members from large and medium sized companies, has been working to develop new or missing qualifications requested by operators, as well as working to develop supply chain specific qualification content. The group has also been working with Government to ensure that funding recognises industry’s needs in terms of training and skills. Through Job Centre Plus, logistics specific work clubs are being investigated, based in operators’ premises and, in the last year, preparatory work took place with the Department for Work and Pensions on its logistics campaign for 2013.

National Apprenticeship Scheme
While there are many sizes and types of employers in logistics, the need to improve perceptions of the industry among high calibre candidates and to train staff to meet its changing needs make skills a top priority for transformation. One of the ways in which companies are seeking to do this is by creating clearer development pathways through the Government funded apprenticeship programme: the National Apprenticeship Service recognises logistics as a priority sector and logistics organisations, including FTA, have been working with Sector Skills Councils to develop skills frameworks, new qualifications, improved apprenticeships and clear career progression routes.

FTA Logistics Apprenticeship
To provide quality apprenticeships, FTA has partnered with a beacon status provider to offer the logistics apprenticeship frameworks to its members. Over and above the standard apprenticeship there will be quality assurance through FTA, additional opportunities for learning, and a free service to find any member their ‘ideal’ apprentice through testing and interview. At present there are approaching 100 FTA apprentices undertaking a number of apprenticeship frameworks in logistics. The aim is to expand this workforce, maintain pressure to reinstate funding for new frameworks and for older learners, and to raise awareness of the talent pool available to members. FTA aims to dispel the
Nurturing talent

fears and concerns members may have and open up the opportunities for a skilled workforce.

The FTA Logistics Apprenticeship is promoted as a recruitment tool to identify new talent and provide a framework of learning to support a new member of staff through the first year of their employment.

The apprenticeship programme is designed to take approximately 12–18 months to complete, although it is flexible and can be tailored to each individual. Critically, it recognises that many roles in logistics require practical experience over academic qualifications.

Current FTA Logistics Apprenticeships
- Commercial moving
- Driving goods vehicles
- Driving passenger vehicles
- Mail services and package distribution
- International trade and logistics
- Logistics operations management
- Traffic office
- Warehouse and storage

New qualifications frameworks
In order to underpin the career paths of logistics employees, new qualification frameworks are under development. In response to its members’ needs FTA is in the process of developing a fleet management qualification.

FTA Fleet Management Qualification
FTA is led by members’ needs in the development of new or revised qualification frameworks. At present, the key activity has been the development of a fleet management framework, which will help underpin the career path for a transport supervisor through to a director of operations, including fleet management in all its various guises. Due to be released in 2014, the qualification is being developed with supply chain specialisms in mind and incorporates the elements required in a Transport Manager Certificate of Professional Competence.

The fleet management qualification, or FMQ as it is currently known, will take the form of a core qualification in transport and logistics, supplemented by modular elements in key supply chain disciplines. This format will allow a mix of on-the-job, classroom and online, or apprenticeship style, training and qualification. This means that the process can be carried out in small or large sections, having approved prior learning elements.

Further education
Those concerned with logistics skills requirements have been developing a view of the careers available in logistics and the qualifications that need to underpin them. Logistics tends to recruit fewer employees straight from university than most other sectors but recently the number of courses in further education has expanded. The availability of quality courses at this level is important to address the skills gap identified by UKCES at middle and senior management level in some logistics businesses.12

There are over 142 higher education courses in the UK at all higher levels in logistics and related subjects. Forty-eight UK universities offer 127 different courses in logistics and related subjects, eight Further Education (FE) colleges and two ‘other’ institutions offer 15 courses. Table 4.2 does not take into account research degrees in logistics offered by many universities and research centres.

The content of higher education level courses range from specific training like the foundation course in Heavy Plant Machinery Management and Logistics at Myerscough College to general degrees in Logistics Management such as that offered by Aston University. Hull University has 24 courses with supply chain content, while Swansea Metropolitan provides an MSc course in Food Logistics. The variety of courses offered in further education in the UK include: Logistics and Supply Chain Management; Aeronautical Engineering Logistics; Global Supply Chain and Logistics Management; Shipping and Logistics;

12 Transport and Storage Sector Skills Assessment 2012, UK Commission for Employment and Skills

<table>
<thead>
<tr>
<th>Institution type</th>
<th>Foundation</th>
<th>Undergraduate degree</th>
<th>Graduate diploma</th>
<th>Postgraduate diploma/cert</th>
<th>Masters degree</th>
<th>PhD</th>
</tr>
</thead>
<tbody>
<tr>
<td>University</td>
<td>6</td>
<td>58</td>
<td>1</td>
<td>46</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>FE college</td>
<td>8</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>
Motorsports Management and Logistics; Air Transport; Logistics Management; and International Transport, Trade and Logistics. In addition, several universities now offer short-courses for professionals in logistics management.

Planning ahead
At a time when many in business are driven by economic circumstances to focus on immediate commercial threats and opportunities, it is still useful to gain insights into forward thinking on the whole question of talent. In this report we have discussed how industry is facing new challenges and how it will need to adapt to change. These will all have consequences, as we have seen, for the way in which businesses manage their people in the future. In the report of its Delphi study 13, PwC identifies a wide-ranging series of measures that employers may need to consider in terms of their human resource management in future years. Figure 4.3 illustrates 21 suggested activities within a 2015, 2020, 2025 and 2030 timescale.

Demographics

- Downshifting – not all employees are looking for career progression and some may be seeking a better work-life balance. Offering flexible working may help in recruitment and retention
- Adaptive workplace – could more equipment and applications in transport and logistics be made or programmed to adapt to individual users’ preferences and needs?
- Powered exoskeleton – a possibility that by 2030 technology in use in military applications could be used to enable older and less physically able workers to lift heavy weights

---

13 PwC Transportation and Logistics 2030, Volume 5: Winning the Talent Race

---

**FIGURE 4.3 • Opportunity grid**

---

Source: Transportation & Logistics 2030, Volume 5, PwC
Recruiting

- Corporate scholarships – could businesses offer financial support for exceptional students on vocational training programmes?
- Recruiting and development alliances – companies could work together on recruiting initiatives and work to improve the appeal of the roles they need to fill
- Network recruiting – helping recruiters to establish direct relationships with job hunters through face to face meetings or social media
- Remote working – using cloud computing to enable roles such as logistics and warehousing to be controlled off-site

Compensation and incentives

- Corporate wellness – programmes to enable employees to keep healthy, motivated and confident
- Feel good manager – designating managers to take a lead in improving employees’ motivation and energy levels
- Inspiration travel – allowing employees to experience new environments and workplaces

Career paths

- Cross-age career collaboration – pairing up junior and senior project managers to help younger employees advance faster and provide more experienced employees the opportunity to mentor them
- ‘Edutainment’ – ways of making necessary training for employees more engaging and interactive

- Virtual academy – run as a co-operative or governmental project and offering a broad range of educational services online
- Emotional intelligence – possibly training staff, for example, on leadership programmes to better understand their emotional intelligence

Employer branding

- ‘The parcel’s face’ – a suggestion that more information be provided to customers about the individual delivering the goods
- Digital promotion – using digital channels to advertise for jobs but also better target potential employees (especially useful for SMEs)
- Cultural fit – companies to focus greater effort on systematically evaluating applicants that will fit best with their employer brand
- Working better through play – taking the example of major software companies that seek to make work activities more enjoyable and play-based

Diversity management

- Parental ‘leaves’ for fathers – a suggestion that parental leave programmes may help increase productivity and improve employee morale
- Retirement transition – companies could offer employees moving towards retirement the option for a smooth transition, for example switching from night and weekend shifts to day shifts for drivers
- Female-friendly workplace – a suggestion that employers proactively seek a more diverse workforce and put in place mentoring programmes, and that this will also help their appeal to consumers

Conclusion

Logistics is a sophisticated and complex industry offering an increasingly diverse range of career opportunities. Employers have faced some tough decisions in recent years, particularly in terms of balancing staffing levels and practices during times of reduced demand, with the need to retain and develop a highly skilled, quality workforce in readiness for a return to growth. The industry-led initiatives already under development will help provide a coherent structure to what is likely to be a constantly evolving and challenging set of circumstances.
Evidence base
The Logistics Report 2013 draws its evidence from the following sources:

- The latest annual FTA Logistics Industry Survey 2012/13
- A selection of data and survey results from PwC including the 16th Global CEO Survey 2013
- The summaries of a series of roundtable discussions led by PwC
- The FTA Quarterly Transport Activity Surveys (QTAS)
- FTA Manager’s Guide to Distribution Costs
- Official statistical publications

FTA Logistics Industry Survey 2012/13

The Logistics Industry Survey 2012/13 – FTA’s annual poll of members’ experiences of the freight market and trading environment – provides insights into current and future levels of business sentiment in relation to logistics activity. The survey was conducted in November and December 2012 and there were 160 respondents in the sample, spanning over 10 sectors in the UK. Questions in the industry survey centred on economic and political issues that affected the logistics sector in 2012 and expectations for 2013. Overall results indicate that the business environment for the logistics sector reflected the lack of growth in the UK economy in 2012. Expectations for 2013 are generally cautiously optimistic.

PwC 16th Annual Global CEO Survey

PwC’s 16th Annual Global CEO Survey polled 1,330 CEOs in 68 countries and 109 transportation and logistics CEOs in 43 countries. There were also 43 face-to-face interviews including two from the transportation and logistics industry.

PwC Economic Outlook (March 2013)

This is the March 2013 issue of PwC’s regular UK Economic Outlook report and is a detailed assessment of UK economic trends and prospects, set within a global context.

PwC Global Economy Watch (March 2013)

This is the March 2013 issue of PwC’s Global Economy Watch report and is a detailed assessment of global economic trends and prospects.

PwC Transportation and Logistics 2030, Volume 5: Winning the Talent Race

This is the fifth volume of Transportation and Logistics 2030 produced using the Delphi technique, with access to a global panel of experts.

PwC – Roundtable discussions

Coolin Desai, Transport and Logistics Industry Leader at PwC chaired a roundtable discussion with participants including FTA, Asda, DAF Trucks, Greater Than, Northamptonshire County Council, Palmer and Harvey, PwC, Tandem Transport Services, Tate & Lyle Food, Travis Perkins and Yusen Logistics. The event was focused around a set of topics which are known to be under active consideration by the Department for Transport as well as the European institutions, or have been long-standing challenges for the industry.

In this report we summarise the discussion in the PwC ‘Logistics Roundtable’ insights.

FTA Quarterly Transport Activity Survey (QTAS)

FTA’s Quarterly Transport Activity Survey (QTAS) is a quarterly survey of business sentiment within the logistics sector based typically on a sample size of around 120 FTA members. The survey results help to produce an indicator of current and future business conditions in the logistics sector and external factors influencing efficiency.

FTA Manager’s Guide to Distribution Costs (MGDC)

This is an annual publication, with three quarterly updates used by the logistics industry to benchmark costs in four key areas – wages, vehicle operating costs, warehouse costs and haulage trends.

---

1 Business sentiment measures the ‘mood’ of respondents as positive or negative and is measured using a percentage ‘balance’ of responses – calculated by subtracting all negative responses to a question from all positive responses.