



# TRANSPORT & LOGISTICS OUTLOOK



## THE LIFEBLOOD OF THE ECONOMY

With over 3,700 licenced haulage firms operating throughout the country, employing over 50,000 staff between them, the Irish road haulage sector plays an important, but often overlooked, role within the Irish economy.

Facilitating the vitally important movement and distribution of goods throughout the country and playing a key role in Ireland's export drive, the sector also contributes in excess of €1bn a year to the Exchequer in the form of PAYE, PRSI and road taxes.

The most recent Road Freight Transport Survey published by the Central Statistics Office (July 2016) shows that Irish-registered firms carried just over 118 million tonnes of goods during 2015. Of this, 66.97 million tonnes, or 56.7%, was attributable to licenced hauliers who, on daily basis, transport goods ranging from building products and heavy machinery right through to agricultural and forestry outputs and food and drink products.

While the sector has enjoyed steady growth in recent years, following a difficult few years during the recent economic downturn, it now faces a number of stiff challenges, the most contentious of which is Brexit.

"The big challenge for our sector at the moment is Brexit," says **Verona Murphy**,

President of the Irish Road Haulage Association (IRHA), the trade organisation that represents licenced road haulage firms throughout the country.

"Even though there's still uncertainty over Brexit and it's still some way off, it's already impacting on our members because of the fluctuations in sterling. So, Brexit has already started for the Irish haulage sector and our members and we now need to ensure that, as an industry, are as

competitive as we can be in the run up to Brexit and its aftermath," she says.

"We conservatively estimate that the first year of Brexit will probably cost the sector in excess of €180m. That's a lot of money for a sector that is already having to contend with rising costs on a number



**Verona Murphy**, President of the Irish Road Haulage Association (IRHA),

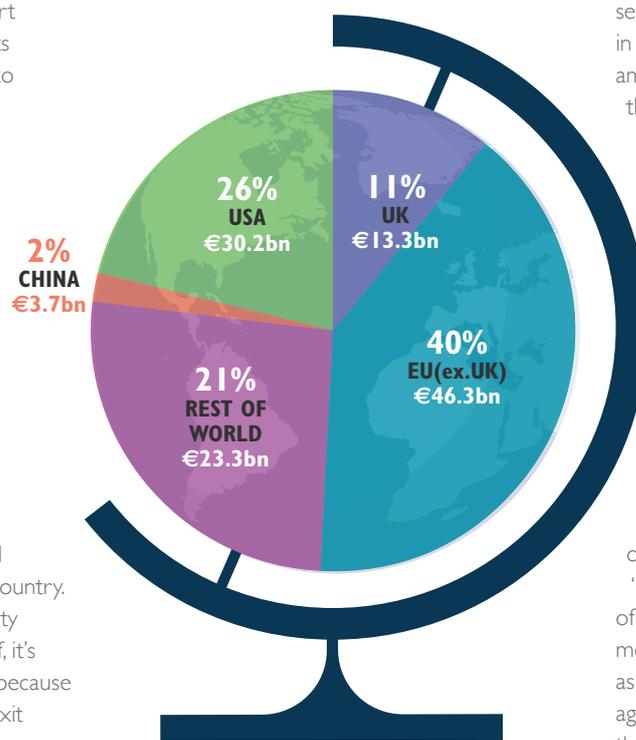
of fronts and historically very slim margins. So, it can't really come out of the sector, because it simply isn't there," she adds.

"But we are also happy with the Government's stance and its response to the enormous challenges the sector faces. The Government is under no illusion about what is involved, the challenges we face as a sector and the very important role it plays in keeping the economy ticking over. So, I am optimistic that the Government will do the right thing and that it is preparing for Brexit in the right manner," Verona says.

"There is a huge opportunity for the Government to make this very important sector a lot more competitive prior to the Brexit and we have been very active behind the scenes lobbying and engaging with the Government. I think it can do this by introducing a number of measures that will help us become more competitive. And one of these measures could be designating the licenced haulage sector a special category as it is in some other European countries," says Verona.

"The reality is that the sector is the lifeblood of the economy and is responsible for the movement of goods throughout the country as well as in and out. Obviously farming and agriculture are very important but it's a truck that takes the milk to the dairy or the cattle to the mart and without transportation, the economy will grind to a halt," she adds. >>

### VALUE & SHARE OF IRISH EXPORTS BY MARKET 2016



Source: CSO



**Donal Dempsey**  
Managing Director  
of Dempsey & Associates

Verona's views are shared by **Donal Dempsey**, Managing Director of Dempsey & Associates, a specialist transportation consultancy firm which advises the sector.

"Now that the UK has triggered Brexit and called a general election, it is certain that this will have a negative impact on transport costs and this will be exacerbated if a hard border is imposed. Advances in technology and an understanding that Ireland is most impacted by Brexit will have to be considered when devising workable solutions for transport to and from the UK and the substantial volume of freight transiting through the UK land bridge," he says.

There are other issues which the IRHA and its members would like to see addressed.

"After Brexit, rising insurance costs are the most worrying for our members," says Verona.

"For example, one of our members recently saw the cost of his annual insurance rise by 80%. On a commercial policy, that meant €45,000. There is no preparing for this because the increases can go from

*"Over the last ten years indigenous Irish transport firms have become more professional, increased compliance levels, increased in size and expanded their service offerings."*

anything from 50% to 300% in some cases. This is a huge concern for our members as they can't develop their business plan for the next year until they know what kind of an increase they are facing. And then they only have 30 days to accept it if they can afford it. The unfortunate reality is that some won't be able to afford it and they may be forced to downsize or leave the business altogether," she warns.

"I've seen this all before, 20 years ago, when haulage companies just went out of business and it will happen again if the Government doesn't take action. What will happen then is the indigenous sector will be gone and it will open the door to foreign owned operators, most of which are operating on half the cost base we are and they will take the work but there will be nothing in it for the Exchequer in terms of tax," she adds.

She also points out that there are other issues that could help the sector:

"The recent 23% increase in the tolls on

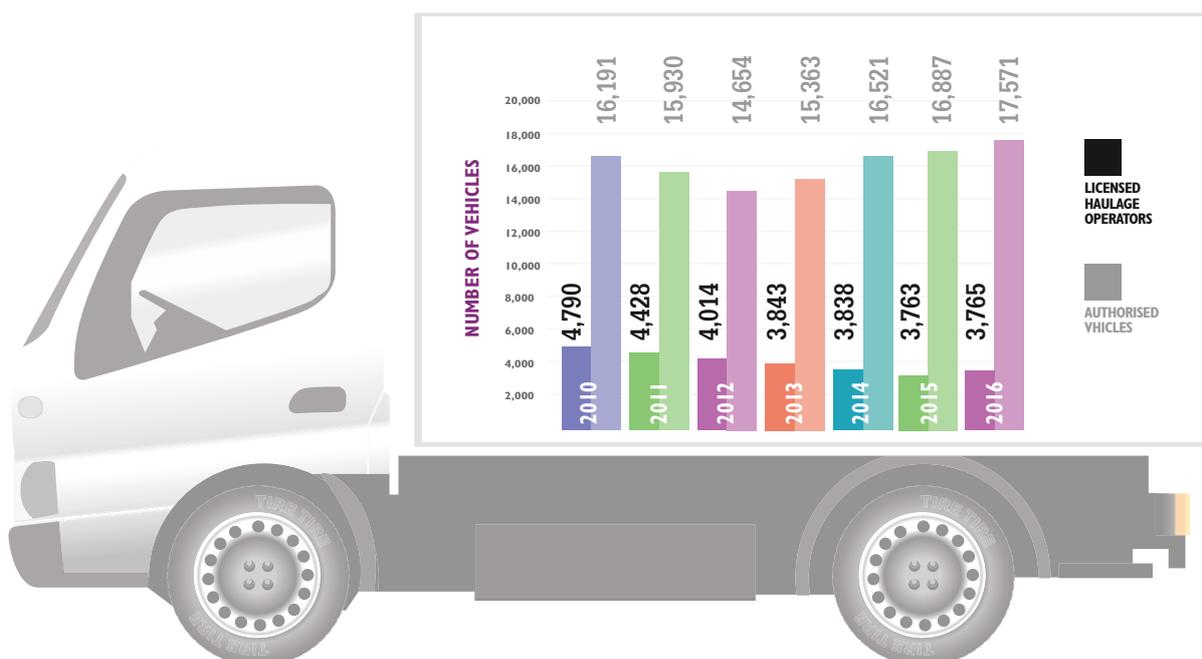
the M50, which is used on a daily or weekly basis by many licenced hauliers, is being felt across the sector," says Verona Murphy. "For some members, this is an increase of €100 per week and over €5,000 per year. We estimate that this is costing the sector an additional €4m a year. It's an extra cost that our members can't pass on to the customer as they too are also trying to be as competitive as possible by not passing their own extra costs on to the consumer. Something needs to be done to reduce these costs because everything is eating away at the bottom line. As it is profit margins are quite low," she says.

According to Donal Dempsey, licenced hauliers need to explore where they can add value to their core service offering.

"Over the last ten years indigenous Irish transport firms have become more professional, increased compliance levels, increased in size and expanded their service offerings. Transport costs are rising due to increased driver cost, insurance costs and diesel and to remain competitive and profitable Irish transport firms now look at the added value element of their business and where real margin is earned," he says.

"The successful transport firms in the next decade will be those that embrace change, look at opportunities that appear and control and manage their business to be niche experts in their chosen sector," he concludes. ■

## LICENCED HAULAGE OPERATORS & AUTHORISED VEHICLES



Source: DTTAS (Department of Transport, Tourism and Sport.)

# SUPPORTING THE HAULAGE SECTOR

AIB has been supporting the Irish haulage sector for over 50 years.



**Robert Quill,**  
Transport & Logistics  
Strategist, AIB.

As a leading provider of finance to the Irish haulage sector, AIB's strong position in the marketplace has given the bank a unique insight into the many challenges, and indeed opportunities, the sector faces.

As a pillar bank, AIB is keen to see the sector develop and its own internal data shows that, on average, credit turnover for haulage operators has increased by 8.5% between 2011 and 2015. But the sector is however not without its challenges with rising insurance costs and Brexit on the horizon, according to **Robert Quill**, Transport & Logistics Strategist, AIB.

"Despite the uncertainty caused by Brexit, 2016 saw significant investment in new vehicles with both heavy and light commercial vehicle registrations increasing by 34% and 18% respectively and AIB was delighted to support many of our customers with investments in new vehicles," says Robert.

He points out that the strong economic performance in recent years has benefited the sector with the value of Irish exports increasing by 4% in 2016 and Irish GDP also growing by 5.2%. This growth is not

currently showing signs of slowing, he adds.

"Brexit, nonetheless remains a significant concern for the sector. We would encourage operators to review their supply chains to identify any challenges which may arise from Brexit. In conjunction with their professional advisors, they may then be able to identify solutions and put a clear plan in place to mitigate the effects of Brexit," he says.

"The UK accounted for 11% of Irish exports and 22% of our imports for 2016 making them our 2nd largest trading partner after the US. It is clear given our proximity that trade will continue at significant levels with the UK but it is unclear at present on what customs or taxes may be imposed on goods being transported."

He points out that the initial impact felt from the Brexit election result was the sharp fall in Sterling against the Euro, which if unhedged would have resulted in an immediate fall in sales margin.

There are of course a number of options for operators to manage currency risk through Brexit, which can be as easy as matching sterling income against sterling expenses. AIB also has a range of treasury products available which could support our customers in managing this volatility and risk to their business. Our treasury team has a wealth of experience and can work with individuals to discuss possible options" says Robert.



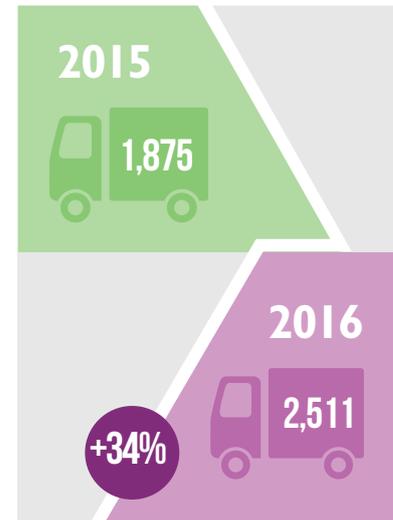
**Alan O'Regan**  
Head of Asset  
Finance -  
Area South,  
AIB

"On the issue of increased insurance costs which is a source of concern within the industry, it is vital that there is increased competition in the market or alternatively greater access to the European insurance market for Irish hauliers. It is also clear that personal injury settlements are too high in Ireland compared to the rest of Europe, this must be addressed," says **Alan O'Regan**, AIB Asset Finance.

Alan also notes that there is a positive trend towards increased compliance and accreditation around safety for haulage operators.

"A number of operators are already attaining various forms of accreditation for safety practices and systems being put in place. This needs to be reflected in reduced insurance premiums," he adds.

## HGV NEW REGISTRATIONS



Source: SIMI

"In the short term, to address issues caused by rising insurance costs, AIB has a number of solutions to ease the cashflow pressure."

With diesel prices increasing by 17% over the past 12 months, it has put further pressure on cashflows and the Irish Road Haulage Association (IRHA) has been lobbying for a lower VAT rebate threshold while some hauliers have been exploring alternative fuel sources.

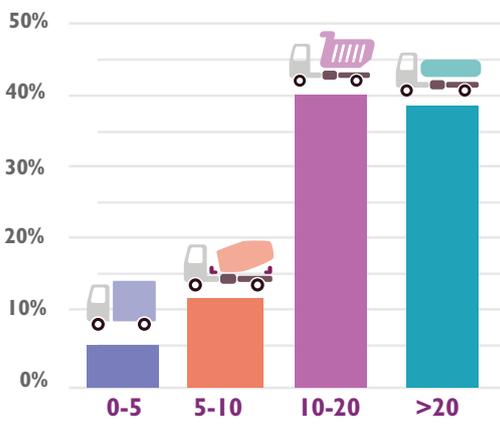
"There can be significant fuel cost savings from LPG and CNG fuel conversions and we are now beginning to see investment in infrastructure to support gas vehicles. In fact, AIB has been proud to support a number of fleet conversions and are keen to look at further proposals," says Robert.

"It is vitally important that the Irish Road Haulage Association and other trade associations continue their hard work lobbying for the sector at both a Government and European level during Brexit negotiations and beyond," he says.

"At AIB we recognise the transport sector is a cyclical sector that's why we continue to back experienced operators who have successfully traded through economic cycles. 79% of our transport customers are in business for over 10 years. The provision of good quality financial information including up to date audited accounts, a robust business plan, cashflow projections as well as management accounts, is key to getting any bank to support a lending proposition.

"AIB sees the transport sector as a vital part of the Irish economy and is here to support it into the future through working capital, asset finance and treasury facilities," he concludes. ■

## YEARS IN BUSINESS



Source: AIB Customer Analytics.  
Based on AIB customers in the Transport & Logistics Sector.

# CASE STUDIES

Two haulage firms and customers of AIB share their views on the challenges facing the sector.



Marking 20 years in business this year, **Green Tiger Group** offers a range of vehicle logistics services from its head office in Newcastle, Co. Dublin. The company was founded by directors **Jerry Kiersey** and **David Delaney**, who have worked together for more than four decades.

The company's fleet consists of more than 30 purpose built car transporters featuring air suspension and the latest in tie down equipment to ensure the safe and secure carriage of vehicles. These trucks service two compounds in Ireland and one in the UK.

Given the amount of business Green Tiger does with the UK, it is little surprise that Jerry

refers to Brexit and forthcoming changes to EU rules governing the transportation industry as crucial issues for anyone running a transport company in Ireland.

"Some of the questions being asked include 'Will there or won't there be a hard border?', 'Will the Northern Ireland-based transport companies migrate to the Republic?' and 'What will happen to cabotage (the right to operate sea, air, or other transport services within a particular territory)?'", he says.

"The EU is also proposing changes to tachograph legislation," he adds. "As it is only revised once every two decades or so it is essential that the legislation reflects the needs of an island country."

Jerry acknowledges that all plans to expand are being dominated by Brexit and that as a result, Green Tiger Group is looking to other areas of the industry to renew and expand the business. "The recurring theme of the years since 2008 has been continuous major economic change and uncertainty, so training is a major force in maintaining our position in the industry."

"We employ 50 people across our Irish and UK operations," he continues. "Operations

director and shareholder David Delaney has worked with me since the 1970s and many of our team have been with us since then. We have always had a tradition of families coming into the business and we place high priority on training for all our employees."

*"The recurring theme of the years since 2008 has been continuous major economic change and uncertainty, so training is a major force in maintaining our position in the industry."*

Green Tiger Group has banked with AIB since its establishment in 1997, although Jerry's connection with the bank goes back to AIF in the early 1970s. "In my previous business (which was acquired by DFDS in 1995), my AIB bank manager was one of the six people whom I considered to have been major influences on our success. Without his support life would have been considerably more difficult." ■

**Dungarvan Transport** is a second-generation family business based in Dungarvan with depots in Castleisland, Dublin and Waterford. Established in 1979 by Diarmuid and Noreen Horgan, it is now owned and managed by their sons Tomas and Gerard. The company operates over 40 trucks and more than 90 trailers. Employing in excess of 50 people.

According to **Tomas Horgan**, one of the major challenges faced by transport companies in Ireland at the moment is high insurance costs driven by a claims culture and court awards that are completely out of sync with UK and other European jurisdictions.

"In addition, in certain sectors we face unfair competition from non-compliant hauliers who can work at reduced rates because they are not adhering to the required standards," he says. "This places compliant hauliers at a major disadvantage."

The company's business focuses on three specific areas - pharmaceutical, forestry and dairy farm products. "These areas have grown enormously over the past few years and we

*"When I began to grow the business from one truck in 1995 I found AIB to be very supportive during both good and bad times."*

are optimistic that there is potential for further growth," Tomas explains. "However, as the majority of the finished products are exported there will be challenges for our customers with regard to Brexit and any changes to a more protectionist policy by the US or other countries will impact our customers."

While Dungarvan Transport's fleet is very specific to the pharmaceutical, forestry and dairy farm products sectors, it evaluates new opportunities as they arise, says Tomas, adding that the company has made a considerable investment in specialised equipment and operates a modern, efficient fleet.

Key to this has been support from AIB, which dates back to the formation of the company 38 years ago.



"My father started banking with AIB in 1979," says Tomas. "When I began to grow the business from one truck in 1995 I found AIB to be very supportive during both good and bad times. The majority of our financing needs are met by AIB and we have used them for various other products - the business support team is very helpful and always responds quickly and competently to requests," he concludes. ■

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