



TRANSPORT & LOGISTICS OUTLOOK



THE FRONTLINE OF THE IRISH ECONOMY

As an island nation on the periphery of Europe, Ireland's transportation and logistics network has always played a vitally important role in economic and social fabric of the country.

A key hallmark of Ireland's economic success in recent years is the uninterrupted movement of goods and services into and out of the country and its dependence on efficient and flexible international and domestic transport networks.

As a small open economy, Ireland's dependence on international trade is borne out by the fact that in 2021, it exported goods worth €165.2bn, according to the CSO. Imports, meanwhile, amounted to €102.6bn in 2021.

Apart from the important role it plays in the wider economy, the gross value added (GVA) of the freight distribution and logistics sector is in the region of €6.5bn while it is also responsible for over 103,000 jobs around the country, according to the Department of Transport and the CSO.

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At the end of 2020 there were 377,890 commercial goods vehicles in Ireland, according to the CSO. Of these, 39,922 were heavy goods vehicles (HGVs), 20,219 of which were for 'hire or reward.'

These 20,219 HGVs were owned and operated by 3,791 licensed road-haulage companies, ranging from small operators with just one or two HGVs, right up to larger haulage firms.

In addition, 64% of all road haulage firms (2,435) are licensed to carry out business internationally and between them they had in the order of 14,224 HGVs on the road. The remaining 36% of these road haulage firms (1,356) operated nationally and between them they operate 5,955 HGVs.

According to the Department of Transport, the majority of Ireland's licensed haulage firms, however, tend to be small operators, often family-owned businesses with a fleet of less than five HGVs. The average number of HGVs owned by international operators, meanwhile, is six.

Recognising the importance of the road haulage sector to the Irish economy, the Department of Transport is currently developing a ten-year strategy for the sector as part of its Programme

IRISH TRANSPORT & LOGISTICS SECTOR

GVA of Transport
& Logistics Sector



Employees



Licensed
Haulage Firm



Commercial
Goods Vehicles

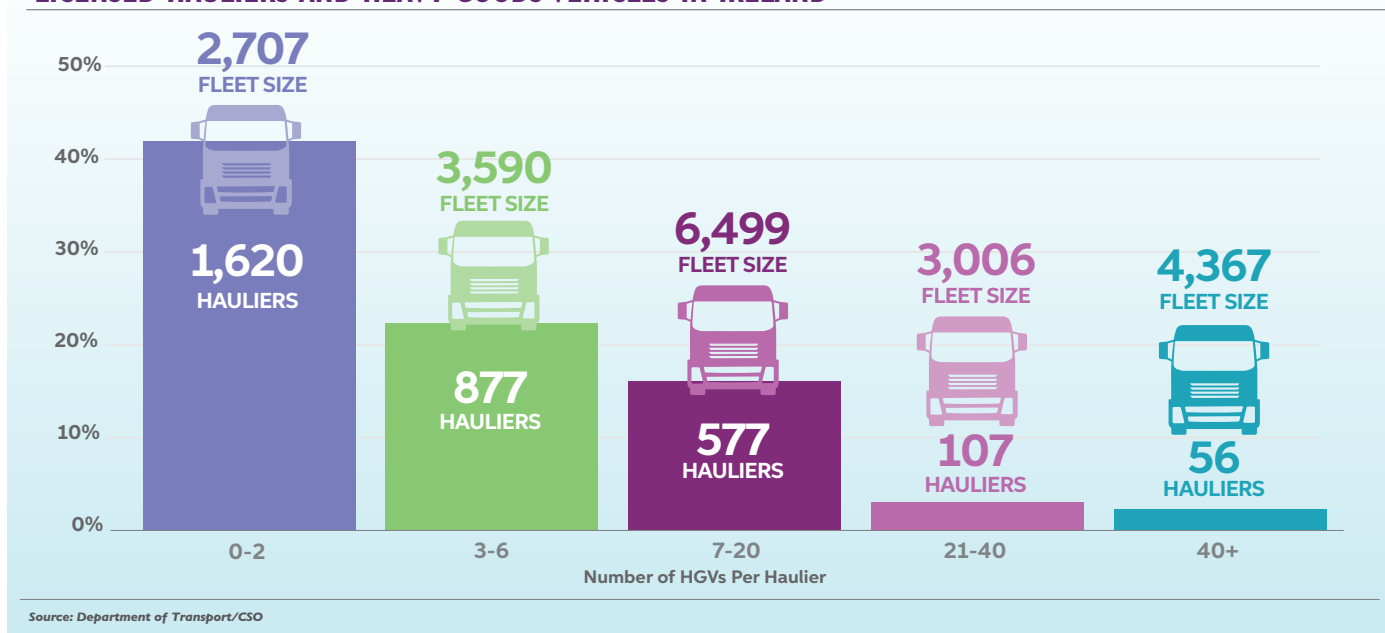


HGVs



Source: CSO, Department of Transport

LICENSED HAULIERS AND HEAVY GOODS VEHICLES IN IRELAND



for Government. The aim of the strategy is to focus on generating efficiencies and improving standards with the sector while helping it move to a low-carbon future.

10 Year Strategy

The formation of a new ten-year strategy comes at an important juncture for the haulage industry. Over the past two years, both Brexit and the global COVID-19 pandemic have presented companies – importers and exporters alike – with numerous challenges and indeed opportunities. They have also highlighted some of the complexities of regional and international supply chains.



Eugene Drennan
President of the
Irish Road Haulage
Association

“Brexit has clearly led to lots of additional paperwork and unnecessary bureaucracy and additional costs for our members. The UK is still a very important market for us but it has become increasingly difficult for member companies to make money there,” says **Eugene Drennan, President of the Irish Road Haulage Association**, which represents haulage operators in Ireland. “And, unfortunately, there’s more changes to come later this year,” he adds.

While welcoming the Government’s efforts to formulate a longer-term strategy for the industry as well as the appointment of a specific minister, Hildegard Naughton, Minister of State with responsibility for International and

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Road Transport, he suggests that it could benefit from more joined-up thinking.

The Government’s ten-year strategy for the haulage sector, which will be published later this year, also comes at a time when the global supply chain shortages are disrupting international trade flows while rising shipping and fuel costs, including carbon taxes, have been eating into already thin margins. On top of this, the industry is currently dealing with an EU-wide shortage of drivers.

e-Commerce Trends

On another level, sweeping changes in consumer behaviour and shopping habits coupled with the acceleration of e-commerce trends during the global pandemic have led to structural changes in the retail supply chain which are benefitting not just the larger haulage companies but also the so-called last-mile parcel delivery companies as well as third-party logistics companies or “3PLs” as they are often referred to.

But as more retailers continue to develop their online presence and manufacturers explore newer direct-to-consumer business models, these trends will continue to have a major impact on the wider transportation and logistics market in Ireland.

Decarbonisation

Possibly one of the biggest challenges the industry faces is how to decarbonise at a time when its reliance on diesel looks set to continue for a few more years.

With HGVs accounting for 18% of Ireland’s carbon emissions, the Government has reaffirmed Ireland’s commitments to reducing the nation’s carbon emissions by 50% by 2030. According to the Department of Transport, however, 45% of the national HGV fleet is now aged ten years or older- and less energy efficient- and this will present a number of challenges for the industry says Eugene Drennan.

“As an island off another island we don’t really have a choice but to use diesel in heavy goods vehicles whether we like it or not. The alternatives are still not there. Electric vehicles are still not suitable for the type of work the industry does while hydrogen still has some way to go before it becomes a fuel source. However, we can move to use clean diesel and cleaner machines but that will require an investment and if we were to go down this route, the industry would require some form of incentives to make this investment because it can be substantial depending on the number of trucks you have on the road. But once that investment is made, we will also need to be sure that the Government doesn’t change its mind about clean diesel in two or three years’ time,” says Eugene. ■

SUPPORTING IRELAND'S TRANSPORTATION & LOGISTICS SECTOR

AIB has been to the fore in supporting Ireland's growing transportation and logistics sector down through the years, according to Alan Waters, Sector Specialist, AIB.



Alan Waters

Transport and
Logistics Sector
Strategist, AIB.

The importance of the transport and logistics sector has never been more apparent than during the ongoing pandemic. Sectors such as haulage and warehousing are essential sectors within any economy but even more so within Ireland. As an export driven economy, we rely on the transport and logistics sector to keep the economy moving by ensuring the efficient supply of goods to businesses and consumers around the island while helping Irish exporters get their goods to overseas markets.

Apart from the pandemic, however, there are various challenges evident for operators within the sector. The ever-increasing reliance on e-commerce and the digital transformation of many businesses that is required as a result have changed the sector forever. Similarly, Brexit and the implications it continues to have on trade between Ireland and the UK may have taken a back seat in the public conscience recently, but they are very real and ongoing challenges.

While the aforementioned challenges have required a high level of perseverance and innovation on behalf of Irish operators, the pandemic, in a sense, has proved a favourable development for the logistics industry, with increased demand as a result of increased online retail spend and the necessity for essential supply chains to remain robust.

Warehouse Demand

Demand for warehousing however has increased exponentially as a result of the pandemic, particularly from pharmaceutical companies. It is not unusual to find contracts being signed where both sales and rent per sq. ft. are achieving above asking price in many cases. This increased demand for space has only exacerbated the existing shortage of high-quality, modern logistics premises which was apparent pre-pandemic due to the lack of investment in capacity over the past 10-15 years.

According to a review of AIB card spending which was carried out by the bank to support this report, there was a 17% increase in the volume of online retail transactions for the full year 2020 when compared to 2019 and a 20% increase in transaction value totals. In 2021, a further increase of 14% in the volume of online retail transactions was recorded over 2020 with a 13% increase in value. These increases, we believe, can be in large part attributed to the pandemic and the various lockdowns which led to a large shift from bricks and mortar shopping to ecommerce transactions.

The increased level of online retailing will by its nature lead to an increased demand for

warehousing and logistics space and this is further pressuring an already stretched supply. This supports the need to continually develop increased logistics capacity close to high density population areas in the present and in the future.

Shortage of HGV Drivers

In addition to the capacity issue, a key concern within the sector has been a shortage of HGV drivers in Ireland, something which has been simmering away for a few years. The Irish Road Haulage Association (IRHA) has highlighted the serious concern of the licensed road haulage sector regarding the acute shortage of HGV drivers at present and steps are underway to address some of the shortage.

Worldwide, however, a very small number of young drivers have been entering the haulage industry to replace those retiring. The average age of a truck driver globally is 50 years old. Also of note is the very small proportion of women involved in road haulage and just 2% of truck drivers worldwide are female. Now, some countries have introduced schemes to address this situation including apprenticeship schemes and retraining programmes.

Brexit Challenges

While Brexit has presented many challenges for both importers and exporters, it has also offered some opportunities as new supply chain and delivery routes to market have been opened-up. Many companies have adapted their business models and utilised many of the new direct routes to Europe available from Cork, Dublin and Rosslare ports. According to the Irish Marine Development Office (IMDO), the number of sailings weekly direct to Europe from Ireland, for example, has more than trebled from 12

to 44 in 2021. Similarly, the number of Irish companies utilising the UK landbridge has fallen sharply.

The new direct routes take roughly double the travel time as utilising the landbridge would, but so far businesses seem to be choosing the longer lead in times and increased certainty around the direct routes rather than the shorter but less certain UK landbridge which could lead to delays of several hours/days as a result of red tape. As a result of Brexit we are seeing consolidation and fleet expansion as key developments within the sector and we are actively supporting our customers with this.

AIB has been supporting the transport and logistics sector for many years and as the industry continues to grow and adapt to changing circumstances, we will continue to support it with a range of products and services that will assist the sector in business expansion, asset finance and working capital.

The bank has witnessed first-hand the positive impact of investment by customers in new technologies and what it has brought to their business in terms of growth opportunities and improved efficiencies. Along with an in-depth knowledge of the sector, AIB has a team of dedicated Business Advisors and Asset Finance Representatives across the country, in addition to our centralised Sector Specialist and Corporate Banking teams, who are keen to develop relationships with existing and prospective new customers in the transport and logistics sector. ■ Alan Waters can be contacted on 087 623 1454 or by emailing alan.j.waters@aib.ie. For more information about AIB's Transport & Logistics' solutions visit <https://aib.ie/business/sector-expertise/transport-and-logistics>

ALL IRELAND ROLL ON/ROLL OFF (RoRo) BY UNITS

	Q1 2020	Q1 2021	GROWTH
	RoRo Units	RoRo Units	(%)
CORK	729	955	31%
DUBLIN	255,708	204,340	-20%
ROSSLARE	26,559	41,263	55%
ROI	282,996	246,558	-13%
NI	205,923	221,060	7%
All-Island	488,919	467,618	-4%

Source: Irish Maritime Development Office (IMDO)

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Two clients of AIB share their views about the transport and logistics sector.

CASE STUDY:

MICHAEL DIXON, DIXON TRANSPORT

With over 220 staff in Ireland, 75 in the UK, 170 trucks and 300 fridge trailers on the road, Dixon Transport is one Ireland's top transportation companies as well as the largest European haulier in the country.

Set up in 1998 by Michael Dixon, the company's headquarters are in St Margaret's, beside Dublin Airport, where 50 of its staff are based. In addition, the company has a UK depot in Coventry, England where it has 75 staff and 50 trucks.

With clients in the food, pharmaceutical and high-tech sectors as well as a hub-to-hub e-commerce parcels business, the company has enjoyed solid growth in recent years.

"Temperature controlled transport is our main focus and it accounts for around 85% of the business," says managing director Michael Dixon.

Over the past two years, however, the company has had to contend with its most significant challenges to date: Brexit and COVID-19.

"COVID was challenging and as an essential service, the safety of our drivers and our staff has

Michael Dixon



always been very important and I think we've managed it very well," Michael says.

"Unlike COVID, we were expecting Brexit and it created a lot more paperwork and time-related issues for us. We needed an extra 50 trailers in our fleet just to smooth over these time delays and to do the same amount of work. But Brexit isn't done yet and there's another wave of it in 2022," he adds.

"Brexit has also impacted the parcels business from the UK into Ireland. While it is still very strong the volumes are not what they were before Brexit and increasingly more and more of the parcels we carry are coming in from Europe rather than the UK. So, the UK has definitely lost out to the parcels business," says Michael.

Notwithstanding the challenges posed by Brexit, the UK landbridge is the company's preferred route into Europe. "Our focus is to use the UK landbridge and transit through the UK to Europe. It's still the quickest and most cost-effective. But we will also do all the hard work in terms of dealing with customs and doing all the paperwork for the client," he says.

The company is also very focused on reducing its carbon footprint, says Michael and it is taking delivery of its first electric truck this year while all 12 company cars are also electric. Meanwhile, off the road, its headquarters generates its own electricity through 400KW solar panels on one of its roofs while it also captures over 100,000 litres of rainwater in underground tanks which is then used to wash the vehicles. Elsewhere in the UK it currently has 12 CNG gas trucks with another four arriving this year.

"We have invested heavily in reducing our carbon footprint and I don't know of any company in our industry that has done as much as we have. We are very focused on doing the right thing and have been for the last number of years," he says. ■

CASE STUDY:

STEPHEN FERRITER, DAF TRUCK SERVICES CORK



With a 15.4% of the new Irish HGV market in Ireland, according to figures compiled

by the Society of the Irish Motor Industry (SIMI), DAF trucks are a familiar sight on Irish roads. While the OHM Group has the license to import them into Ireland from the Netherlands, one of the largest distributors in the country is the Cork-based DAF Truck Services.

Headed up by Stephen Ferriter and operating as part of a wider group including Mallow Road Motors, the group employs over 80 staff. While its passenger vehicle dealership is represented by leading motoring brands like Peugeot, Citroën and KIA, the commercial end of its business is represented by DAF and Mercedes.

"It's been a tricky few years for all brands, including DAF and Mercedes and I think the market in 2022 is going to be trickier and will be dictated by supply rather than demand," says Stephen.

"The reality is there is an industry-wide supply issue at the moment. Lead times have gone from 12 weeks to 12 months and it's an industry-wide problem. It also means that clients have to plan a lot more in advance and we've been having these types of conversations with them much earlier than we would have a few years ago," he says.

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"The problem is a shortage of components and, in particular, things like semiconductors and I honestly can't see the market returning to any degree of normality until 2023," he adds.

The shortage is also having a knock-one effect on the second-hand market, Stephen says with a shortage of vehicles which, in turn, is also driving prices up, he says.

"It's having a huge impact and there's less trade-ins as a result which is making pricing very difficult for whatever is there," he says.

With climate change dominating much of the corporate agenda in the motoring world, Stephen believes the industry still has some way to go when it comes to choosing how HGVs will be powered.

"Manufacturers that we represent like DAF and Mercedes both see hydrogen as the future but I think we are still 5-10 years, maybe longer, before it will be practical to roll out hydrogen-powered HGVs," he says.

"If you look at what's going on with electric, one of the main issues is range and they are not suitable for longer routes into the UK or Europe. Ireland is still way behind the curve when it comes to electric cars, never mind electric commercial vehicles. But we are starting to see some companies use electric vans and they are starting to gain traction in the marketplace but there's some way to go before they are widely embraced and I think a lot of investment will need to be made in the infrastructure to support electric vans and trucks. At the moment, it's just not there," Stephen adds. ■

The above commentary from Stephen Ferriter and Michael Dixon are the view / opinion of the customer not the Bank

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