Snapshot by:

LOGISTICS UK

RHA

The cost of doing business:

Foundational Sector Snapshot

Logistics

Key messages

- Logistics contributes **£175bn in GVA to the UK economy** and employs **2.6 million people**, underpinning supply chains across manufacturing, retail, food, construction, and infrastructure[1].
- Cost pressures are particularly acute around **fuel and labour**. Employment costs increased by **30.6% between 2019 and 2023,** while wholesale diesel prices are currently **24% higher**[2].
- **Government can strengthen supply chain resilience and support decarbonisation** by reducing fuel and transition costs, improving planning for logistics infrastructure, and modernising outdated regulation that adds avoidable administrative cost.

Table 1: Key business tax contribution figures for the logistics industry[3]

	2024/25	2025/26	Difference
Business tax contribution	£19.77bn	£21.83bn	+10.4%
Tax contribution as a share of GVA	21.2%	22.3%	+1.1 ppt
Employers' NICs	£5.18bn	£6.79bn	+31.2%

Strategic importance

Logistics is a critical enabler of economic activity across the UK. The sector connects production to markets and demand to delivery, ensuring that goods, materials and components move efficiently across domestic and international supply chains. Without resilient logistics networks, other sectors cannot scale, remain competitive or adapt effectively to disruption.

The sector supports the functioning of almost every part of the economy. Manufacturers depend on logistics for the timely movement of raw materials and finished goods; retailers rely on warehousing, distribution and last-mile delivery; and food supply chains depend on temperature-controlled and time-critical transport. Logistics also underpins construction and infrastructure delivery by ensuring materials reach sites reliably and efficiently.

Logistics will also be central to the UK's future growth and decarbonisation ambitions. Offshore wind, hydrogen, nuclear, AI and grid infrastructure all depend on specialist freight, ports, road and rail networks. Efficient logistics links enable businesses outside major economic centres to access national and global markets, supporting regional productivity, inward investment and wider economic resilience. As the movement of goods becomes increasingly important to the delivery of major infrastructure, energy and technology projects, a competitive and efficient logistics sector will remain fundamental to the UK's long-term economic growth.

Growing cost pressures

Cost pressures in logistics are being felt most acutely through fuel, labour and taxation. Diesel is the sector's most significant energy input, and higher fuel prices are directly increasing the cost of road freight operations. While average diesel prices increased relatively modestly between 2019 and 2025, rising from 102.7 pence per litre (excluding VAT) to 107.9 pence per litre, this headline figure masks significant volatility over the period. Fuel prices peaked at almost 140 pence per litre in 2022 following Russia's invasion of Ukraine, remained elevated in subsequent years, and have come under renewed pressure in 2026 as a result of the Middle East conflict[4]. This volatility creates significant challenges for operators, making it harder to manage costs, plan investment and maintain already narrow margins.

Labour costs have also risen sharply. Driver employment costs account for around 30.5% of total operating costs for road hauliers and, for many operators, changes to employer National Insurance Contributions (NICs) are estimated to absorb more than half of average profit margins, which stand at just 1.6% in the road haulage industry[5]. These pressures have been compounded by sustained wage growth and labour shortages, with RHA analysis indicating that the labour costs associated with operating a 44-tonne articulated HGV have increased by 58% since 2019[6]. The impact is already affecting business behaviour, with 41.2% of logistics firms reporting they are less likely to recruit additional staff and 21.8% less likely to offer additional temporary hours following changes associated with the Employment Rights Act 2025[7].

Taxation is adding further pressure to operating costs. Whilst the government's decision to maintain the temporary fuel duty reduction until January 2027 has avoided an immediate increase in costs, it represents a postponement rather than a permanent resolution. RHA analysis suggests that a 5 pence per litre increase in fuel duty would add £2,054 per year to the operating costs of a typical 44-tonne articulated HGV[8].

These costs would not be confined to logistics businesses alone. The RHA's 2025 Cost of Distribution Study estimates that a 5 pence per litre increase in fuel duty would increase consumer prices by around 0.3% and raise household living costs by approximately £2bn per year, illustrating the extent to which logistics cost pressures feed through supply chains and into the wider economy[9]. Alongside fuel duty, both Vehicle Excise Duty and the HGV Levy increased in line with inflation by 3.6% in 2025, adding further cost pressures for operators.

Improving the operating environment

As a foundational sector that underpins supply chains across the economy, logistics businesses rely on a supportive operating environment to invest, recruit and improve productivity. However, the sector faces several structural challenges that are increasing costs, constraining growth and limiting its ability to support the wider economy.

1. Planning and infrastructure delivery

Planning and land-use policy remain significant barriers to investment in logistics infrastructure. Despite logistics being recognised within the National Planning Policy Framework, there is often limited understanding of the sector's strategic importance at the local level. This ‘freight blindness’ can lead to lengthy planning processes, inconsistent local authority decisions and delays to warehouses, distribution centres, driver facilities and future-proofed freight infrastructure. These delays can increase project costs, reduce productivity and push logistics assets further away from areas of greatest demand.

2. Skills and workforce availability

Persistent shortages of drivers, warehouse operatives, HGV technicians and mechanics continue to create challenges across the sector. While labour shortages remain acute, rising employment costs and regulatory pressures are making recruitment and workforce expansion more difficult. Businesses report that these pressures are increasingly forcing them to prioritise productivity improvements over workforce growth, creating challenges for a sector that depends on access to skilled labour to maintain efficient supply chains.

3. Delivering productivity improvements and decarbonisation

The future growth of the logistics sector is expected to come through digitalisation, automation and more efficient fleet management. However, businesses are attempting to invest in productivity improvements and fleet decarbonisation at a time of elevated fuel costs, rising borrowing costs and continued uncertainty around the commercial viability of zero-emission vehicles. The result is a growing gap between the sector's decarbonisation ambitions and the commercial realities facing operators, particularly for businesses operating on tight margins.

Tackling the regulatory burden

Logistics businesses operate within a complex regulatory environment spanning vehicle licensing, border controls, customs procedures, trade, workforce requirements, environmental compliance and transport safety. While many of these regulations serve important operational and safety objectives, businesses report that the cumulative burden of compliance is increasingly affecting efficiency, productivity and competitiveness.

Outdated regulations are a particular concern. Logistics operators are seeking to deliver services safely, sustainably and efficiently, yet several regulatory requirements no longer reflect modern business practices or technological developments. In many cases, businesses face administrative processes that are time consuming, paper-based or disproportionate to the risks being managed. These requirements can increase operating costs, delay investment decisions and reduce the sector's ability to respond quickly to changing customer demand.

The burden is often amplified where multiple government departments, regulators and border agencies are involved in the same process. Businesses report that differing requirements, duplicated compliance obligations and inconsistent implementation can create additional complexity and cost, particularly for operators moving goods across UK and international supply chains. As a foundational sector that underpins activity across manufacturing, retail, food production and construction, inefficiencies in logistics regulation can have wider consequences for productivity and economic growth.

Logistics businesses engage with a wide range of regulations and enforcement bodies across government, including:

Department for Transport (DfT)	
Regulation	**Regulator**
Operator Licensing (O-Licence) Regulations – newspaper advertising requirements for operating centres	Traffic Commissioners / Office of the Traffic Commissioner
Vehicle Weight and Dimension Regulations (including zero-emission HGV allowances)	DVSA / DfT
Driver Certificate of Professional Competence (CPC) and vocational driver licensing requirements	DVSA
HGV testing and vehicle standards requirements	DVSA
Border Target Operating Model (BTOM) transport requirements	DfT / Border agencies
Construction Logistics and Community Safety (CLOCS)	DfT
Public Service Vehicles Accessibility Regulations (PSVAR); PSV Accessible Information Regulations (PSVAIR)	DfT
Drivers Hours Regulations	DfT

Department for Business, Innovation, Science and Trade (BIST)	
Regulation	**Regulator**
Windsor Framework requirements ('Not for EU' labelling and GB-NI movements)	UK Government / EU authorities
UK-EU trade and customs requirements affecting freight operators	HMRC / Border Force
Customs and border compliance requirements	HMRC
Late Payments of Commercial Debts Act (1998); Regulations (2013)	DBT
Employment Rights Act	DBT

Department for Environment, Food and Rural Affairs (DEFRA)	
Regulation	**Regulator**
Sanitary and Phytosanitary (SPS) controls on agri-food movements	APHA
Border Target Operating Model (BTOM) SPS requirements	APHA / Port Health Authorities
Environmental levies and environmental transport compliance requirements	Environment Agency

Department for Energy Security and Net Zero (DESNZ)	
Regulation	**Regulator**
Zero-emission freight vehicle transition requirements	DESNZ / DfT
Energy infrastructure and charging network requirements affecting freight operators	Ofgem / NESO

Home Office	
Regulation	**Regulator**
Border security and customs enforcement requirements	Border Force
Immigration requirements affecting logistics workforce mobility	Home Office

HM Treasury	
Regulation	**Regulator**
Fuel Duty regime	HM Treasury / HMRC
Environmental levies affecting transport operators	HM Treasury / HMRC

Cabinet Office	
Regulation	**Regulator**
Reform of the Windsor Framework	Cabinet Office

Local Government	
Regulation	**Regulator**
Direct Vision Standard (DVS)	Transport for London
London Lorry Control Scheme (LLCS)	Transport for London
Ultra Low Emission Zone (ULEZ) / Sustainable Travel Zone (STZ)	Transport for London Cambridge City Council Bath City Council

Fleet Operator Recognition Scheme (FORS)	Transport for London

Within this wider regulatory landscape, Logistics UK and the RHA have identified three regulatory burdens that are having a particularly significant impact on operating costs, investment decisions and the competitiveness of UK supply chains.

1. Modernise O-licence advertising requirements

Challenge: Operators applying for a new O-licence, or seeking to vary an existing operating centre, are required to publish a notice in a printed local newspaper. This requirement typically costs between £300 and £700 per application, with higher charges in areas where only one qualifying newspaper remains. The requirement no longer fulfils its original purpose, as declining local newspaper readership means these notices have limited visibility, while businesses remain exposed to delays and additional costs if technical publication requirements are not met.

Logistics UK / RHA recommendation: The government should modernise the O-licensing process by allowing digital advertising of operating centres and removing the mandatory requirement for printed newspaper advertisements as part of a wider review of Operator Licensing regulations.

Expected impact: Removing this requirement would deliver immediate cost savings for operators, particularly SMEs, while reducing administrative burden and application delays. It would also improve business agility, allowing operators to respond more quickly to changing customer demand and fleet requirements, while aligning the licensing system with modern digital-first public services.

2. Reform vehicle weight and dimension rules for zero-emission HGVs

Challenge: Current vehicle weight regulations are creating a significant barrier to freight decarbonisation. While the UK allows a limited weight concession for zero-emission HGVs, the existing allowance does not fully offset the additional weight of electric powertrains. For weight-constrained operators, this can reduce payload capacity and require additional vehicles to move the same volume of goods, increasing operating costs, workforce requirements and congestion. These limitations are particularly acute for specialist operators carrying fixed equipment or operating close to maximum weight limits.

Logistics UK / RHA recommendation: The government should ensure the regulatory framework keeps pace with the operational realities of zero-emission freight. Specifically, the government should:

- Increase the existing zero-emission HGV weight allowance to a minimum of four tonnes.
- Permit a 12.5-tonne drive axle limit to improve axle load distribution

- Explore the introduction of a five-axle allowance to improve vehicle efficiency and reduce total cost of ownership

- Undertake a comprehensive review of the Bridge Formula to ensure it remains relevant to modern vehicle design and infrastructure resilience.

Expected impact: Reforming vehicle weight rules would improve the commercial viability of zero-emission HGVs by enabling operators to carry payloads comparable to diesel vehicles. This would reduce the need for additional vehicles, lower operating costs and support investment in fleet decarbonisation.

3. Reduce post-Brexit border friction

Challenge: The Border Target Operating Model (BTOM) and wider post-Brexit customs regime have introduced additional paperwork, checks and compliance requirements for businesses moving goods between the UK and the EU. The pausing of the Single Trade Window (STW) has meant there is significant data duplication for traders, with a lack of a joined-up cross-department approach for importing and exporting goods. These requirements are particularly burdensome for SMEs with limited compliance capacity and create additional costs for businesses handling controlled goods such as sanitary and phytosanitary (SPS) goods. Ongoing challenges associated with the Windsor Framework are impacting the sector, including ‘Not for EU’ labelling requirements, the additional mandatory data requirements of Import Control System 2 and the increasing complexity of moving goods between Great Britain and Northern Ireland. The introduction of the EU’s Entry/Exit System is causing operational challenges for operators through border delays and monitoring of driver days, with the Schengen 90-day limit acting as a cap on UK operators’ ability to undertake work into the EU and Schengen area.

Logistics UK / RHA recommendation: The government should continue progressing the UK-EU Sanitary and Phytosanitary (SPS) Agreement and wider regulatory cooperation through the European Partnership Bill. Together, these measures have the potential to reduce unnecessary friction at the UK border, simplify the movement of goods between Great Britain, Northern Ireland and the EU, and reduce the administrative burden on businesses trading internationally. Specifically, the government should:

- Restart working and delivering the STW, which removes data duplication by streamlining importing and exporting goods.

- Ensure the implementation of the UK-EU SPS Agreement delivers meaningful reductions in health certification requirements, border checks and associated administrative burdens.

- Use the European Partnership Bill to facilitate closer regulatory cooperation where it supports the efficient movement of goods and reduces unnecessary trade friction.

- Ensure both measures are used to simplify border processes, reduce paperwork and improve the movement of goods across UK and EU supply chains.

- Accelerate the Windsor Framework Taskforce's work on reducing frictions on goods movements between Great Britain and Northern Ireland, including through the introduction of a One Stop Shop, and a Trusted Haulier Scheme.

- Secure a professional drivers' exemption to the Schengen rule through future EU Reset negotiations, to allow UK operators to support growth in UK-EU trade in goods and tourism.

Expected impact: Reducing border friction would lower compliance costs, improve supply chain efficiency and strengthen trade flows between Great Britain, Northern Ireland and the EU. The SPS agreement could remove many of the health certification and border control requirements currently affecting trade, while also reducing complexity associated with GB-NI movements. Government analysis suggests that agrifood and emissions trading agreements could deliver economic benefits of up to £9bn, while reducing costs for businesses and consumers[10].

Endnotes

[1] ONS (2026), *Non-financial business economy, UK: Sections A to S*, available at: Non-financial business economy, UK: Sections A to S - Office for National Statistics
[2] ONS (2026), *Non-financial business economy, UK: Sections A to S*, available at: Non-financial business economy, UK: Sections A to S - Office for National Statistics and RAC Foundation
[3] The CBI used its business tax contribution analysis in which we break down taxes by industry on a 2-digit SIC level. For employers' NICS we used the latest ASHE and BRES datasets to distribute ER NICs by industry. To estimate the contribution as a share of GVA, we used the latest ONS GVA estimates by industry to estimate the sectoral business tax contribution. Where it was not possible to assign the sector firmly to one or multiple 2-digit SICs, we asked TAs to provide data which we used and scaled accordingly. It should be noted that for some sectors there is a larger margin of error in the contribution statistics given 2-digit SICs do not necessarily fully align with the specific activities progressed in certain sectors. For the logistics sector, we used SIC H.
[4] RHA Annual Haulage Cost Movement Survey (2025)
[5] RHA Annual Haulage Cost Movement Survey (2025)
[6] RHA Annual Haulage Cost Movement Survey (2025)
[7] Logistics UK (2025), *Logistics Performance Tracker Q1 2025*, available at: Logistics Performance Tracker Q1 2025
[8] RHA Annual Haulage Cost Movement Survey (2025)
[9] RHA Annual Haulage Cost MovementSurvey (2025)
[10] UK Government (2025), *PM secures new agreement with EU to benefit British people,* available at: PM secures new agreement with EU to benefit British people - GOV.UK

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