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Dear Joe

PERIODIC REVIEW 2013: CONSULTATION ON THE VARIABLE USAGE CHARGE AND SPECIFIC CHARGE

Many thanks for the opportunity to comment on the proposals in the consultation document published on 17 May. Our particular interest is in what the consultation document proposes on rail freight access charges.

First some background on the UK Major Ports Group. UKMPG is one of the two associations representing ports in the UK. Our nine member groups listed below operate over 40 ports in all parts of the country and handle around 70% of the UK's international trade by volume. UKMPG member ports are all privately financed and do not seek financial help from the taxpayer. Annual investment (much of it inward) in upgrading and developing port facilities has been running at between £200 – 300m a year and despite the current economic climate this investment is increasing as several large container port projects are taken forward. Moreover ports are hugely important to the national and local economy. A recent independent study carried out by Oxford Economics on behalf of our umbrella organisation Maritime UK has shown that UK ports directly and indirectly employ some 340,000 people and contribute around £17bn annually to UK GDP.

UKMPG ports are major generators of rail freight traffic with over 50% of all freight moved by rail now starting or finishing at a UK port. Over recent years ports such as Felixstowe, Southampton, Immingham and Clydeport have invested substantial sums in new rail terminal facilities particularly for container (intermodal) and coal traffic. This infrastructure has all been financed through private investment at no cost to the UK taxpayer. Further investment in rail facilities is currently taking place at London Gateway, the new international container port on the Thames, which is due to start operations towards the end of 2013. Felixstowe is currently constructing a new intermodal rail terminal at a cost of £38m which is due to commence operations in the spring of 2013. Looking further ahead there are plans for additional rail capacity associated with approved container port expansion at Liverpool, Bristol, Teesport and Harwich International. There is no doubt that the stable policy regime for freight access charging has played a significant part in facilitating this private investment in rail at ports.

Turning to the review, we note that one of the objectives is to make freight operators pay a greater contribution to track costs to reduce cross subsidy from the passenger sector and indirectly to lower Government grant. The review rightly acknowledges the significant environmental benefits of rail freight – switching freight from road to rail reduces CO_2 emissions by an average of 70% per tonne moved and also generates 28p per HGV mile in decongestion benefits.

We note that the main proposal in the review is for a substantial new freight charge for power station coal (and spent nuclear fuel) traffic which is thought to be the sector where traffic is least likely to transfer to road subject to a price cap to prevent a fall in traffic of more than a certain percentage (with 10% as the suggested figure). We also see that you are considering introducing a similar levy for iron ore traffic and possibly in the future for biomass though this will not take place in the forthcoming price review because the biomass market is still developing. There are no levy proposals for other freight markets which are considered to be more vulnerable to transfer to rail freight. The other main aspect of the consultation which is of interest to us is the proposal to cap the average level of charge at 5-7% above the previous price review with a 15% downward adjustment for efficiency but also with a 15% confidence level (which could reduce the benefit of the efficiency improvement).

While we understand the economic pressures to increase income we must stress the key importance of continuity in track access charge policy in order to encourage long term investment into rail freight. We therefore have reservations about the concept of the additional levy for individual freight sectors which could in our view upset existing policy stability particularly if it is to be extended to other sectors in future price reviews. In UKMPG's view it is important not to make changes which could cause sudden and unforeseen shifts of traffic between port terminals. It is even more important given the private investment that has been put in and the environmental benefits flowing from rail freight that the aim of freight access charge policy is not to reduce the overall level of rail freight. In this context we find the concept of a price cap to prevent a fall in traffic of more than 10% worrying. Without prejudice to our overall position we would certainly want ports to be closely involved in the technical work underpinning any price cap to guard against the risk of any unintended consequences.

We are also concerned about the possibility of introducing regional charging in CP6. If such a charge were included it could have a major effect on ports through variations on rail to road charging (roads do not have regions!) and through the introduction of inequities between different ports' rail transport costs depending on location.

A final point under this heading is that if despite our reservations levies for certain rail freight sectors are introduced, the additional revenue should be retained within the rail freight sector and used to finance enhancements which would not otherwise be affordable.

I should also say that we welcome the proposed minimum 15% efficiency improvement as a first step to reducing costs to rail freight users think there is scope for even more ambitious savings in order to reduce costs further and to stimulate additional business. Finally there is a clear need for good continuing investment by Network Rail in rail freight links to ports and we welcome the additional funding for rail freight announced on 16 July as part of the forward £9.4bn future rail investment package.

A copy of this response goes to Phil Grindrod in Maritime Commerce and Infrastructure Division, DfT.

Yours sincerely

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