FREIGHT TRANSPORT ASSOCIATION

Richard Gusanie
Office of Rail Regulation
1 Kemble Street
London WC2B 4AN

1st September 2011

Dear Mr Gusanie,

ORR Periodic Review 2013 – First Consultation

Thank you for consulting FTA on this Periodic Review. The Freight Transport Association (FTA) represents over 14,000 companies spread across the UK relying on or providing the transport of freight both domestically and internationally, to or from the UK. Our members involved in rail freight include shippers of bulk, deep sea and domestic intermodal and retail goods, and also freight operating companies and logistics service providers, accounting for approximately 90 per cent of goods moved by rail.

FTA's primary rail freight focus is to represent the shippers – the ultimate end users – of rail freight who make the decisions about modal choice. To this end we are grateful for the opportunity to comment on this Review in respect of its impacts upon freight. Due to our primary representational focus being upon the end users of rail freight services, we will not have detailed answers to give to all of the individual questions set out in your consultation as some will be necessarily more freight train operator focussed.

I have set our views on the consultation questions (some individually, some aggregated) below as follows:

Q1. **Objective for PR13**
FTA agrees with the proposed objective of the review. We particularly feel that it is important to set a framework of continuing efficiency gains and cost reduction (including access charges), a process parallel to that which occurs in other transport modes.

Q.2 **High Level Timetable**
As regards the high level timetable for the review process, we would like to see a deal for freight sorted out reasonably early in the process. This is important so as to give certainty to customers of rail freight who are making modal choices.

Q.3 – 5 **Price control separation and Network Rail devolution**
FTA believes that as rail freight operation is literally a GB-wide activity that it is important that its infrastructure input costs are managed as a GB-wide issue. For example, Scotland's key routes to market are via rail to the south of England ports. Such a view is consistent with EU policy on trans-national freight corridors and ensuring that shippers can access a "one stop shop". At a time when EU policy is trying to break down such barriers to cross-border freight, then FTA does not want to see these created by different regimes and charges within

GB. It must be remembered that rail freight's main competition, road freight, does not have such international (or proposed intra-national) barriers. We also fear that even if such mechanisms could be made to work efficiently that their existence would send a negative signal to prospective shippers thinking of switching to rail, by giving a picture of complexity.

Q6 – 11 **Outputs**
FTA generally agrees with the outputs based approach to Periodic Reviews (Q.6). FTA also agrees with more 'whole system' outputs (Q8) as freight is a GB wide activity. As stated in the section above, FTA is opposed to separate price controls on devolved routes (Q9)

Q12 – 19 **Incentives**

Again, we would have concerns (Q14) about "regional" efficiency benefit sharing mechanisms which while we can see how these could be applied in the case of regional passenger TOCs, the effects upon GB wide freight traffics (such as Coatbridge to Southampton) would be less clear.

Q20 – 24 **Financial framework**

FTA broadly agrees with the current five year control period process (Q20) as striking the correct balance between reviewability and longer term business certainty. The incorporation of "re-openers" is key here for dealing with unexpected events that could cast an economic and fiscal storm over the industry. As stated previously, road freight is rail's main competitor for GB and European traffic: road freight continually strives to seek efficiency gains so as to bring down both its input costs and its final output price to the customer; rail must do likewise if its is to realise potential for modal shift (Q23)

Q25 – 32 **Structure of charges**

As already stated, we have fundamental concerns about the idea of geographically based variable usage charges (Q26). There is the risk that geographically variable charges would increase the disadvantage of peripherality for some areas of Britain (based on geography and also the legacy of the railway that the Victorians left us). Such an approach also increases network complexity for GB wide operations. Rail freight by the nature of its economies of scale tends to find competitive advantage over road when it can operate over longer distances and that will generally mean operating over the proposed "devolved" Network Rail regions.

As regards charges to reflect network scarcity (Q27) and reservation charging (Q28), while network usage needs to reflect the additional incremental costs of operating more trains, it is vital that such a mechanism does not work against the provision of new services or the entry into the market of new operators helping to provide customer choice and stimulate market service development.

While Q29 is specifically about passenger open access operation, rail freight is by definition an open access operation too and we would have concerns about any read across between the two, especially the suggestion of paying fixed as well as variable access charges. It is important that rail freight's cost base declines rather that is put up.

Q30 is best addressed to the freight train operating companies who use electric traction, but it should be pointed out that in road freight, operators have long established fuel efficiency management and driver training programmes to reduce cost and help the environment too.

FTA would strongly advocate the setting of a cap on freight charges (Q31) in advance of ORR's determination. However, we would still want (as in the last Periodic Review) to set this in the context of an expectation of reducing access and other charges, vital if rail is to match the continual cost reduction profile in road freight and achieve modal shift.

FTA remains opposed to the imposition of "Mark-Ups" such as that already applied to ESI Coal and spent Nuclear Fuel traffics, as while it may be true that the market will bear these two examples (consistent with the EC Directive), their imposition does send a negative message to potential users in other markets who see this mark-up charging on captive markets as a 'tax'.

I hope that you will find these comments useful. Please do not hesitate to contact us to discuss further any aspect of our response.

Yours sincerely

Chris MacRae
Manager – Rail Freight Policy
Freight Transport Association
Direct Line: 01892 552355
Mobile: 07818 450353
Fax: 01892 552339
www.fta.co.uk