Joe Quill
Office of Rail Regulation
1 Kemble Street
London
WC2B 4AN

8th August 2012

Dear Joe,

Periodic review 2013: Consultation on the variable usage charge and a freight specific charge

VTG Rail UK Limited is the largest non-FOC private owner and lessor of railfreight wagons in the UK. We are part of VTG AG which is the largest private owner and lessor of railfreight wagons in Europe and is headquartered in Hamburg. Our customers are both the FOCs and those companies that use railfreight as part of their supply chain, examples being TOTAL, Murco, Ineos, Hanson, Lafarge, Tata Steel, DB Schenker, GBRf and Freightliner.

Please find following our thoughts on the above consultation document:

We support the need to continually improve the cost effectiveness of the rail sector but it is clear that railfreight, which operates in a truly competitive market, has already made significant progress in this regard which, it could be argued, underlines the effectiveness of the current charging regime. Our primary concern is that any increase in cost base would adversely impact this competitiveness. Whilst we do not, in principle, disagree with ORR reviewing the structure or level of charges to see whether better sector outcomes can be achieved without detriment to railfreight operators and their current and potential customers, we do have significant concerns that your proposals could have major repercussions for the stability of rail freight, for investor confidence, and for the prospects for continued growth.

We strongly disagree with the principle of charging based on ‘what the market can bear’, since road freight, with which railfreight competes directly, has no such philosophy and indeed benefits from a far simpler charging mechanism. VED is a simple annual charge, meaning that road hauliers have clarity of their costs and are able to quickly respond to customer requests. Rail is already viewed by many potential users as too complex, unwieldy and difficult to understand, and these proposals are very likely to compound that position, meaning that freight that might otherwise move to rail will remain on the roads with all of the negative consequences that entails. The proposed move to geographic disaggregation of track access charging in particular, would impose a significant additional layer of complexity and administrative cost which does not exist in the road freight market, and will act to further deter potential modal shift from road to rail.

The Government has clearly stated that it is supportive of rail and railfreight and it is clear that the ORR has the duty to promote the use of the railway for the carriage of passenger and freight plus the implied duty to enable companies to plan their businesses with a reasonable degree of assurance. We are therefore surprised that a projected 10% drop in railfreight traffic, in those sectors where increased charges have been suggested, has been deemed to be acceptable under this proposal. Such a situation is not at all helpful to VTG, since we must look at a minimum asset life of 30 years when considering the purchase of new wagons. It is imperative that we can see a consistent and stable environment in which to invest, secure in the knowledge that we can make an acceptable return during the life of the asset. We need confidence, as do our customers, potential customers and suppliers who also are looking to make a long term investment in the rail freight sector.

As a customer, choosing to use railfreight is often a big commitment which often takes a considerable period of time to implement and any uncertainty just pushes the door open for road. In this regard, it is clear from the numerous discussions that have taken place within the railfreight community since your consultation was published that it is not just those sectors which are currently being identified for increased ‘freight specific’ charges whose confidence is being negatively impacted. Existing and potential railfreight users in all sectors are concerned that if these changes happen now, it may be their industry that will be targeted in subsequent reviews.

Whilst it is probably true, on the face of it, that ESI Coal traffic could bear additional charges since there is no other viable supply chain alternative, VTG think that the law of ‘unintended consequences’ is likely to apply. VTG believe that with Coal traffic being the major part of the total volume of railfreight lifted, the FOCs use their margin from this volume business to allow them to offer attractive prices for the traffic they need to win against the road competition. The loss of Coal business is therefore likely to have wider ramifications in the competitiveness of railfreight. The impact on the ESI sector with regard to Biomass traffic is also a major concern. VTG has been working with FOCs and Power Generators on the introduction of new, high

volumetric efficiency, wagons to transport Biomass. This proposal throws considerable doubt on the economic viability of moving this product by rail, leaving us with a situation that means that decisions on investment are delayed or negative, both of which are bad news for railfreight and the UK as a whole.
VTG also has significant numbers of wagons serving the steel sector, and whilst these are not directly involved in the movement of iron ore, it is clear that this industry is not constrained to UK based production. We are therefore extremely concerned that your charging proposals may lead to the further cost pressure on UK steel production facilities which could impact upon VTG's business as well as the wider UK economy.

It is also worth mentioning that the growth in railfreight is, by virtue of the mode's environmental benefits, playing a significant role in helping the Government to achieve its carbon emission reduction targets. Your proposal to change the charging regime, which VTG believes will cause a decline in, or reversal of, this growth, will therefore have a significant negative environmental impact.

I trust that my comments are clear, constructive and helpful but should you require any further information please do not hesitate to contact me.

Yours sincerely,

Rob Brook

Managing Director