



Unite response to the ORR periodic review 2013: consultation on the variable usage charge and a freight specific charge

1 Introduction

- 1.1 This response is submitted by Unite the Union, the UK's largest trade union with 1.6 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, energy generation, chemicals, transport, local government, education, health and not for profit sectors. Unite represents over 250,000 members in all transport modes, making it the largest transport union in the UK.
- 1.2 In this response Unite will try and provide an holistic overview of the potential effects of increasing the charges to the rail freight industry. Unite believes in the need for a unified transport policy utilising all freight transport modes to reduce both the environmental impact of transport and improve the working conditions of workers.
- 1.3 In addition, Unite represents workers in the energy, manufacturing and chemical processing industries and is concerned over the potential knock on effects to these industries and other businesses that support these companies, should the ORR proposals come into force.

2 Background

- 2.1 Unite believes that in order to build a sustainable transport policy, the transportation of freight by rail provides a vital link. Unite believes that rail is ideally suited to the long distance haulage market to and from freight hubs from which loads can be moved onto lorries for short distance delivery or to ships for dispatch around the globe. Freight also plays a vital role in moving bulk items such as coal from pits to power plants which are ill suited to other land transport alternatives.
- 2.2 Long distance movement of freight on land is also detrimental to the working conditions of drivers. Due to the lack of adequate truck stops drivers who approach their maximum permissible hours are often forced into spending the night in lay-bys. This has led to a number of drivers being attacked for their loads whilst they sleep. Reducing the need for long distance journeys is therefore both environmentally beneficial and would improve the working lives of many lorry drivers.

- 2.3 Therefore any move to decrease the competitive position of rail freight to the advantage of road transport, which this proposal advocates, would not be welcomed by Unite.
- 2.4 The recently published Transport for Quality of Life “Rebuilding Rail” report¹ highlighted the legalistic bureaucracy that has created obstacles to the movement of freight, in particular reducing flexibility in train paths. This additional cost to all freight operations renders some freight operations uneconomic when compared to the fully flexible option of moving the load by road. Adding to the complexity of rail freight charges by increasing the cost of freight by load type will inevitably lead to more loads being shipped by means other than via rail.
- 2.5 Unite believes that amending rail freight charges down without improving the avenues open to rail freight only leads to increased profits by the rail freight companies as has been seen from past experience. Increasing the cost on the other hand will put pressure on rail freight company profit margins but inevitably cause the movement of freight away from rail unless there is significant investment into improving rail freight flexibility and competitiveness with other transport modes. If there is to be an increase in charges it should not be focused on specific load types as doing so would inevitably lead to job losses in affected industries.

3 Energy Generation

- 3.1 Unite does not believe it should be in the ORR’s power to influence the energy generation mix for the UK. Should the ORR implement its proposals, however, the effect on the energy generation market will be profound. Unite feels that a greater understanding of the energy sector is needed to illustrate why the ORR should not be attempting to move the goal posts on freight costs.
- 3.2 Direct Rail Services (DRS) is a wholly owned subsidiary of the Nuclear Decommissioning Authority and is therefore formally within the public sector. Consequently, increasing the cost of access charges to this industry will lead to an increase in government debt at a time when it is looking to invest in more nuclear generation to assist with plans to combat greenhouse gas emissions. This is a largely captive market as, given the nature of the load, there would be security concerns over its movement by other modes.
- 3.3 As electricity cannot efficiently be stored, the generators have to produce enough energy to meet demand on a minute by minute basis. Whilst nuclear can be utilised to provide a steady zero carbon base load supply, there are no other zero carbon generation options that can provide this steady supply throughout the day, with most being highly unpredictable. As a result, the supply generation mix needs to accommodate a highly flexible and reliable element make up for the shortfalls in low or zero carbon supply and the variation in demand. Coal and gas powered generation fulfil that role of a highly adaptable bulk source of power generation.

¹ http://www.transportforqualityoflife.com/u/files/120630_Rebuilding_Rail_Final_Report_print_version.pdf

- 3.4 In 2010 45.1 million tonnes of coal was utilised for electrical generation, an increase from the previous year due to lack of investment and increased electrical demand. The movement of such large quantities of coal by road would be hugely expensive as it would take around 160 lorries to move the same amount of coal as one coal train². The consultation highlights that around 25% of electrical generation consumed in the UK is derived from coal. Whilst this is true as an average figure, this percentage is highly variable and at times can exceed 50% in the winter months.
- 3.5 Whilst there are environmental arguments for increasing the cost of fossil fuel powered energy generation, the expansion of energy demands has resulted in the continued utilisation of coal as a staple part of our energy generation industry. EU regulations are forcing many older existing coal powered plants to close as their efficiency and economic position become more untenable. Without major investment in suitable alternative forms of generation, coal will continue to be the bedrock of our energy supply needs. Consequently increasing the cost of coal transportation will inevitably lead to plant closures and gaps in the supply, leading to an increased risk of power outages at times of high demand.
- 3.6 Whilst it is true to say that a proportion of energy generation could be replaced with sustainable biomass, such a move requires the adaptation of furnaces to deal with residues left behind in the combustion process which require plant shut downs for extraction in current designs. Consequently, favouring biomass may lead to a far less efficient and more expensive generation methodology. Biomass is therefore generally co-fired in existing coal fired generators to reduce the build up of residues, something that would not be possible in a gas fired plant.
- 3.7 Increasing the cost of coal and nuclear, therefore, will deter investment into new cleaner coal fired and nuclear generation. Despite the predictions over future lack of natural gas supply, the trend in the UK is to replace coal generation with more gas fired generation as it is quick and easy to build with almost instant returns on investment. As a consequence, the move has tied electrical energy costs with that of gas fired generation raising questions over the security of supply. As gas is delivered by pipeline the cost of delivery would not be influenced by ORR's proposals.
- 3.8 The one natural resource the UK has in abundance is coal and hence placing barriers in the way of future investment into new cleaner coal generation would place the nation's economic competitive position at risk as energy generation costs will no-doubt end up on the consumer's bill. The resulting increase will no doubt drive the UK in the direction of more gas fired generation, slowing change away from fossil fuels and place UK plc in a less competitive position generally. In addition, such an increase in fuel prices will also lead to an increase in the number of individuals unemployed and in fuel poverty, and the potential for an increase in the number of deaths amongst the more vulnerable in society.
- 3.9 In your modelling it assumes that the additional cost per tonne would be shared by pit operators, rail freight companies and power stations. Unite believes that past experience would suggest otherwise.

² Value of Freight July 2010 *Network Rail*

4 Manufacturing

- 4.1 The proposed increases to the shipment of raw ore, metals and the automotive industry are equally unhelpful in helping UK plc out of recession, especially at a time when it faces stiff competition from outside the UK. The UK industry through Tata Steel is a leading partner in the European Union Ultra Low CO2 Steelmaking (ULCOS) research and development project which is seeking to reduce CO2 emissions through innovative new processes. As a result, efforts to produce steel more efficiently here fare better than in some more wasteful processes in other parts of the world. Consequently, making the UK's steel manufacturing more expensive by increasing the cost of transport is potentially damaging to efforts to combat climate change.
- 4.2 Metals are utilised in a number of manufacturing endeavours. Increasing the cost of domestically produced iron and steel and imports will have the potential to make UK manufactured goods significantly more expensive. Unite is therefore concerned that the ORR proposals will cause the loss of a number of jobs in manufacturing.
- 4.3 Additionally, if it is the aim of the ORR is to reduce the cost of rail maintenance overspends, one should remember what the tracks are made from. Unite believes, therefore, that increasing the cost of transporting the raw iron ore and the finished metal will have the effect of increasing the price of rail replacements and new trains manufactured in the UK.
- 4.4 In the automotive sector Unite is already increasingly alarmed by the proposals to develop an area of the Speke rail freight terminal which serves Ford and Jaguar factories in Liverpool. Ford has highlighted that should this development go ahead it would put at risk the future of the Ford plant in the area putting hundreds of jobs at risk.
- 4.5 The majority of automotive manufacturers in the UK rely on the availability of rail to make manufacturing plants profitable. Increasing the cost of rail freight transport for this market both in terms of raw materials and finished product may result in factories closing and jobs being exported to other European nations or to those further afield.

5 Complexity

- 5.1 Unite believes that adding to the complexity of rail freight charges will result in the transport mode losing market share in favour of other transport modes instead of encouraging it in order to combat climate change and reduce road congestion. The DfT's own guidance states that freight needs simple stable charging so that it can plan as it competes with road.
- 5.2 The consultation clearly illustrates the benefits of rail freight and the need to develop a network of gauge cleared trunk routes with sufficient capacity to cope with future demands. The recent announcements re track improvements will help, as would gauge clearance on the A14 corridor.

- 5.3 Route based charging will upset the decisions on how goods are moved from A to B and the competitiveness of manufacturing plants based on their location. For example, the movement of iron ore and finished metals to inland sites such as Scunthorpe and Sheffield will be effected to a greater extent by these changes than to Port Talbot, which can benefit more easily from its coastal position. This could lead to more environmentally friendly facilities closing with the consequent loss of employment.
- 5.4 Despite the ORR's and the Government's stated goal to increase freight by rail, and Network Rail's long term efficiency requirements, the proposed policy would raise charges for some commodities three or four fold. This rise would follow only one period earlier of reductions of a third in these charges. Unite believes this will hardly inspire long term confidence for customers to commit to the use of rail services.

6 Alternative transport modes

- 6.1 Unite believes that when looking at increasing the charging regime for one transport mode, one needs to examine the effects such a move will have on the whole transport arena both in the UK and further afield.
- 6.2 The shipment of freight by short sea shipping is already suffering a major challenge due to the application of a cap on sulphur emissions from shipping in the North Sea which comes fully in force into 2015. This move to low sulphur fuels will potentially lead to an 85% increase in the cost of fuel. Moving goods by water is the most environmentally friendly method of moving freight.
- 6.3 Competition from road haulage for routes is not generally based on the load type but on the weight, capacity, distance and urgency of the delivery with significant competition from not only UK hauliers but also from European operators under cabotage rules. Under cabotage rules operators can utilise the UK's extensive road network to haul goods from one doorstep to the next whilst paying nothing toward the upkeep of the road network. Often these drivers fill up their lorries outside the UK borders and consequently benefit from access to cheaper fuel.
- 6.4 Despite representing over 70,000 lorry drivers, Unite supports the introduction of road user charging if it is set up correctly and funds raised are hypothecated for improvements in driver training and facilities, etc. The UK road haulage industry is blighted by a series of attacks on drivers whilst obtaining rest in their cabs due to the lack of secured road-side facilities that accommodate long duration stops. Current proposals have suggested a flat charge for UK operators and a charge based on the time for those hauliers not resident in the UK. Unite believes this idea is flawed as it encourages drivers to maximise the amount of time spent in the UK and disregard working time limitations.
- 6.5 Once introduced, road user charging might provide an environment which could support an increase in rail freight charges to assist in the recovery of maintenance costs. Discussions on the methodology to be employed in the area of road user charging has currently stalled and it may be some time before any alternative is in place.

- 6.6 Rail does not have the capability of door to door delivery. A typical journey involves at least one journey by road. It does not take that much effort to deliver loads not to a rail hub but to their final destination. Consequently making the cost of delivering loads by rail more complex (especially where the load transported is mixed) will unbalance the market. Unite does not therefore support any increase which would make the charging more complex or varies by load type.
- 6.7 It should be remembered that increasing the cost of transport has a direct negative effect on the competitive position of UK plc and it is not always the case that the supplier can absorb the additional costs.

7 Framework for a new freight charge

- 7.1 Given the above and the current regime of substantial government subsidies being fed into already profitable train operating companies (TOC's), Unite does not agree that it is reasonable to expect rail freight, which only receives a small subsidy, to pick up the cost of "*freight avoidable costs*". Unite believes that if the cost to maintain freight only lines amounts to just the £5 million paid currently, this should be the only additional cost born by the freight operators. Unite believes that coal is being discriminated against, given it appears to be the only load which has to pay for spillages.
- 7.2 The DfT's command paper highlighted that department's ongoing support for rail freight. Unite fails to see how implementing a change which will have the potential of reducing tonnage by 10% or more follows this line. Equally, if the specific charging objectives are not to discriminate unduly between users of the network³, why is the ORR suggesting discrimination between loads carried?

8 Conclusion

- 8.1 Unite does not agree that it is appropriate to apply the ORR's approach to applying a new freight charge regime without a similar scheme being imposed on other transport modes and goods to ensure that an appropriate balance is maintained. Unite does not believe the ORR's suggested actions would, in any way help the country out of the recession and would in fact cause significant job losses.

**Julia Long, National Officer
Docks, Rail, Ferries and Waterway
Unite the Union
Transport House
128 Theobalds Road
Holborn
London WC1X 8TN**

August 2012

For further information please contact Colin Potter, Research Officer in the Unite the Union Research Department on 0207 611 2591, colin.potter@unitetheunion.org

³ 2.40c page 23 of the consultation