ORR Briefing note on Iron Ore.

As the ORR is aware there is only one regular flow of iron ore on the NR system, from Immingham Docks to Santon Ore Terminal (Tata Steel, Scunthorpe works). When the plant is running at full production this volume amounts to circa 5 million tonnes p.a.

The ORR's analysis is correct in identifying that the demand for movement by rail is highly price inelastic. Road movement of the ore is feasible but the logistics of loading and unloading the number of road vehicles involved is unattractive (but not impossible as was proved during the 1984 Miners Strike).

The price is set not by the elasticity of demand for the rail movement but by the price elasticity of the finished product at Scunthorpe – i.e. steel. Steel is an internationally traded commodity that is highly price elastic (large numbers of both producers and consumers, low barriers to entry and general excess of supply over demand worldwide) which means producers are mainly "price takers" from the market. Any producer whose cost base is substantially higher than the market average will have problems making a profit.

Scunthorpe works is the only Tata Steel integrated plant in Europe that is not located on a coastal site with an adjacent deep water harbour (the other two are Ijmuiden, on the Dutch coast, and Port Talbot in South Wales). Hence Scunthorpe is at a cost disadvantage since every tonne of its iron ore and coking coal has to be rail hauled from the nearest deep water harbour at Immingham, 20 miles distant. Thus any attempt to push the price of rail haulage of iron ore higher than its present equilibrium risks undermining the economics of the whole plant.

(I must admit to some "previous" in this respect as one of my jobs when working in the railfreight industry was being involved in negotiations with the then British Steel on rates for iron ore movement. Let me say that BS were extremely hard negotiators over even a 1p increase on the rate because of their competitive position).

The other risk from an increase in the iron ore haulage rate comes from the law of "Unintended Consequences". In this case Tata Steel might well feel the level of production costs at Scunthorpe is out of line with their other plants and, rather than close Scunthorpe completely, they could import semi finished slab steel from Ijmuiden or Port Talbot or a combination of both. The result might well be the closure of one or more of Scunthorpe's four blast furnaces, part of the coke oven plant and a portion of the concast plant, with consequent job losses. Shipping say 1 million tonnes of steel slab from Ijmuiden to Immingham would be quite simple. Large numbers of trains would still run between Immingham and Scunthorpe but conveying steel slab rather than iron ore but no supplementary access charges would be paid. Alternatively a million tonnes could be produced at Port Talbot and railed to Scunthorpe. These trains again would not pay the supplementary access charge, since they would be conveying slab, but would traverse some of the most congested parts of the West Midlands rail network on their way to and from Scunthorpe.

Hopefully this explains in a little more detail my fears about the imposition of a supplementary track access charge on iron ore and some of its potential effects.

Brian Ringer.
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