11 March 2019

essential materials
sustainable solutions

Mineral Products Association Ltd
Gillingham House
38 - 44 Gillingham Street
London SW1V 1HU
Tel +44 (0)20 7963 8000
Fax +44 (0)20 7963 8001
info@mineralproducts.org
www.mineralproducts.org

Pedro Abrantes
Head of Analysis and Rail Economics
ORR
7th Floor
Piccadilly Gate
Manchester
M1 2WD

Dear Pedro,

MPA, ORR Discussion on Railfreight Charges

The Mineral Products Association (MPA) is the trade association for the Aggregates, Asphalt, Cement, Concrete, Dimension Stone, Lime, Mortar, and Silica Sand industries. We are the sectoral voice for mineral products and quarrying. All of the aggregates operators engaged in the rail freight of aggregates and other mineral products are members of the MPA. You will be aware that these materials represent the largest flow of rail freight materials measured by tonnes lifted and rail freight use has increased significantly in recent years.

The MPA and our members are keen to make full use of rail freight and to this end MPA has been active in trying to identify obstacles to sustaining and increasing rail freight volumes. This includes engagement with policy makers and planning authorities to ensure the safeguarding of rail depots and infrastructure. This is a continuing challenge although we are making some progress.

However in addition to operating and potential operating constraints related to site safeguarding and infrastructure, there is growing concern amongst MPA members with rail freight interests that rising regulatory and operating costs may impact adversely on the commerciality of industry rail freight, including track access charges.

The pre-announcement engagement with the ORR had focused on the impact on the railfreight sector as a whole. While it is good that the overall impact of charges are reasonable, the significant impact on the Construction industry in terms of cost increases was not discussed or consulted over until the final announcement. We would welcome the opportunity for a more detailed explanation on the decision and the decision-making process, how it was taken and the science behind it, including associated Network Rail calculations, as it has significantly increased the costs on the Bulk sector.

The total bill for Freight Operators is unclear as a result of a change of mechanism and we would welcome a better understanding of the consequences of this change. Many customers have "pass through" arrangements which may now be difficult to quantify. Previously Freight Operators paid a per train fee (type of wagon multiplied by a factor of weight x distance) plus other charges such as the Variable Usage charge to establish their overall bill. However some of the charges have been scrapped and others changed so understanding the overall impact on costs for freight operators running Construction services is a difficult calculation.

Despite encouragement from all parties to invest in new track friendly wagons (particularly in light of track access charges apparently related to damage caused to the track by bulk services) the differential between track friendly and other wagons appears to have reduced, reducing the future incentive to invest in track friendly wagons. It would be helpful to understand the basis for this reduced differential.

In the ORR data the damage and costs to be recovered by the Bulk sector included an estimate that around 10-15% of track damage is made by Network Rail with their own trains. However these services do not pay track access. It is unclear how these costs are then recovered in the model? It appears that the cost is then spread among the rest of the Bulk sector. Could you confirm this & if this is correct, given NR maintain the railway for the whole industry (passenger and all types of freight) we would question why bulk freight appear to be bearing these costs?

The total cost for many of us of using railfreight in our supply chains includes paying for the network and also other ancillary costs such as the rental costs on our railheads, many of which are owned by Network Rail. Given the acknowledged societal benefits of railfreight, has any analysis been done on the significant cost increases of both track access and rent at the same time? While rents are not a regulated charge they are generally determined by a single landlord and are increasing significantly. The compound and cumulative costs arising from these charges are substantial and should be recognised by our regulator.

We are working hard to maximise the use of railfreight in our businesses but the upward direction of costs referred to in the previous paragraph makes it more difficult to sustain corporate commitments to railfreight given the substantial long terms costs associated with the business. It appears that we are being penalised for success and it would be unfortunate if this success in increasing railfreight volumes creates a perception, or a reality, that we are regarded as a cash cow by our regulator and landlord.

We look forward to discussing these issues at our meeting on 18 March. I have signed the letter on behalf of my industry colleagues listed below.

Yours sincerely,

Jerry McLaughlin
Executive Director

Phil Aust
Group Head of Development Day Group

Jason Black
Director Mendip Rail

Simon Blake
General Manager Midland Rail Aggregate Industries

Oliver Brown
Development Director Brett Group

Mark Grimshaw-Smith
Head of Rail and Sea Cemex

Chris Swan
Head of Rail Tarmac