

6 October 2010

To All DP World Southampton Customers

## **RAIL GAUGE CLEARANCE PROJECT**

The topic of rail gauge clearance for high cube containers has been the subject of protracted discussions and a hot topic in the community for a number of years.

I am therefore delighted to advise you that the rail gauge clearance project is on target for completion by 31 March 2011 and the costs are forecast to come in below the original £70M budget.

This is a major inland infrastructure project covering some 52 locations between Southampton and Nuneaton involving the reconstruction of bridges, lowering of track and modifications to a number of stations.

Once the works are complete this will allow the movement of 9'6" high cube containers from Southampton on standard rail wagons to Nuneaton and then onto the West Coast Main Line to Birmingham, Manchester, Liverpool and Glasgow. Today, these high cube containers can only be moved by rail on special low platform wagons that are restricted in availability and reduce train capacity.

This gauge clearance will provide significant benefits to the shipping community in terms of more choice and competition on mode of transport, increased regional competitiveness and environmental benefits through reduced carbon emissions and reduced road congestion.

The funding for this project has come from a number of areas including £43m of Department for Transport (DfT) Transport Innovation Fund (TIF), £6.3m from the Regional Development Agencies and a private sector contribution which will be funded with a single upfront payment by Associated British Ports (ABP). This private sector funding (stipulated as a pre-requisite for obtaining TIF funding) is capped at the lower of £6m or 10% of the project cost.

ABP now need to recover this upfront investment and DP World Southampton has agreed to recover these costs on their behalf through the introduction of an infrastructure charge which we propose to apply as follows:

- £3 per laden import container. There will be no charges applied to exports, empties or transshipment containers.



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- The charge will be made to the clearing agent who makes the customs declaration or removal request.
- The clearing agent will be credited 25p for each £3 charge to cover administrative costs.
- The charge will not commence until the rail gauge clearance works are complete. It is expected the charges will commence in April 2011.
- The charge will only be applied until the ABP investment has been recovered. Current volume projections forecast this to be paid for in 6 to 7 years.
- The charge will be transparent. DP World Southampton will publish an annual statement detailing monies recovered and the outstanding balance.

The primary purpose of this letter is to give you an update on the status of the rail gauge clearance project and advance notice of the infrastructure charge to be implemented next year.

We appreciate that there will be further questions relating to this subject, and have therefore enclosed some "Frequently Asked Questions". We also propose to hold a number of presentations over the coming weeks to expand on the details and answer any specific questions. If you would like to attend one of these presentations please register your interest by sending an e-mail to [infrastructure@dpworldsouthampton.com](mailto:infrastructure@dpworldsouthampton.com)

In the meantime, please do not hesitate to contact Aart Hille Ris Lambers, Telephone 023 8070 6303 or e-mail [ahillerislammers@dpworldsouthampton.com](mailto:ahillerislammers@dpworldsouthampton.com) if you have any questions relating to this letter.

Yours faithfully

**CHRIS LEWIS**  
Managing Director



## **RAIL GAUGE CLEARANCE PROJECT**

### **Frequently Asked Questions**

#### **Why should the Port of Southampton introduce an Infrastructure Charge?**

To enable the transport of high cube containers by rail from Southampton to destinations in the Midlands and along the West Coast, a rail gauge clearance project has been initiated. In order to obtain funding for this project, a contribution from the private sector was required. Associated British Ports (ABP) and DP World Southampton (DPWS) agreed that ABP would provide this up to an amount of £6 million. This contribution has been based on a recovery through a user charge which DPWS has agreed to collect. As this is related to works far outside the normal port limits DPWS cannot include this in their usual port handling charges.

#### **What has changed that the Port of Southampton should now need to charge customers for infrastructure improvements where previously this was not required?**

For a number of years there has been a developing tendency for government to seek commitments from the private sector for infrastructure funding. This is the first time that the Port of Southampton has been requested to contribute a substantial amount to infrastructure works outside the port. For clarity, the Port of Southampton is only looking to recover the committed costs associated with the rail gauge clearance project.

#### **How will The Port of Southampton ensure 'Value for Money' from remote rail works?**

The Infrastructure Charge will only be implemented once the project has been formally completed and high cube containers can actually use the route from Southampton to the West Coast Main Line.

#### **Why will the Port of Southampton not introduce such Infrastructure costs in the course of its normal tariff negotiations?**

Our usual charges will to a degree underwrite any development within the Port of Southampton, but a separate charge for this external commitment adds transparency and will demonstrate our adherence to the principle of an equitable cost only recovery.

#### **Will the Infrastructure Charge be a negotiable item within customer contracts - volume and service dependent?**

No. The Infrastructure Charge philosophy is cost recovery only and therefore the Port of Southampton will ensure maximum transparency and equitable recovery that is neither volume nor service dependent.

#### **Does the Infrastructure Charge represent an attempt by the Port of Southampton to recover other costs?**

No. The Infrastructure Charge will only recover costs directly relating to its contribution to the rail gauge clearance project.



**Will the levy be increased if the cost of the works escalates?**

No. We have committed to a contribution of 10% of the project cost up to a maximum of £6 million. This same amount we are now seeking to recover from the users. The charge will only start upon completion of the project, so there should not be any unforeseen costs.

**Will the Port of Southampton undertake to provide transparency on the cost recovery position annually for the purposes of communicating changes in the expected term of the charge to customers?**

ABP and DPWS will publish a joint annual statement of how much has been recovered and how much remains to be recovered of the original £6 million.

**Why are road users charged for a rail infrastructure project?**

We believe it is important to promote the movement of containers by rail and do not want to impose a charge which could potentially make rail less competitive. Moreover, road users will benefit from this project as well as more high cube containers will be moved by rail, thus reducing road congestion in and around the port.

**When will the Infrastructure Charge be introduced?**

The Infrastructure Charge will be introduced with effect from 01 April 2011 or upon formal completion of the rail gauge clearance on the route Southampton – Nuneaton if the project is delayed.

**Will all containers be charged?**

The Infrastructure Charge will be applied to full import containers only. Export full containers, those containers that are for transshipment and all empty containers will not be subject to the Infrastructure Charge.

**Why will the Port of Southampton levy the Infrastructure Charge only on full Import containers?**

The demand for high cube containers is driven by the import of light goods mainly coming from the Far East. A high percentage of containers are returned empty to the Far East as less volume is exported from the UK. Moreover, a large part of our exports is relatively heavy and would not necessarily benefit from transport in high cube containers.

**How much will the Infrastructure Charge be?**

Import full containers will attract a tariff rate of £3.00/container.

**Who will be charged?**

The nominated clearing agent/declarant, as indicated at the time of out-gate, or the shipping line if no clearing agent/declarant is nominated.



**What about the Clearing Agents/Declarants cost incurred in collecting this charge?**

Our invoices will reflect this and will show a reduction, in respect of a handling fee per container. The net invoice charge to the clearing agent/declarant will be £ 2.75/container.

**How will the start date be applied?**

Import full units moved out of the terminal gate on or after 00:01hrs Friday 01 April 2011 will incur the Infrastructure Charge at time of out-gate.

**How will the Infrastructure Charge be levied?**

Import full containers will be charged to the nominated clearing agent/declarant on a monthly basis in arrears, as per current practice and on the same invoice as for import ISPS and exam charges. The Infrastructure Charge will be triggered when units are out-gated.

**For how long will the Infrastructure Charge be levied?**

DPWS intend to levy the charge until ABP have earned back the original investment of £6 million. The actual duration will therefore depend on the number of boxes being charged every year.

With the current number of imports and an average annual growth of 4.5% we would expect the recovery period to be 6 or 7 years.

**Will it become more economic to transport high cube containers by rail?**

The pricing for transport of containers by rail is the responsibility of the rail operators on which we cannot comment.

However, we expect it will become more economic as standard wagons can be used for the transport of 40' high cube containers. Previously the rail operators needed to use low platform wagons which are longer and therefore reduce the capacity given on a maximum train length. The low platform wagons will be used on routes which are not yet gauge cleared and ensure more high cube capacity on those routes.

**Could you quantify the amount of containers moving from road to rail?**

It is difficult to give exact figures, but we work with following estimate for Southampton. In Southampton currently 29% of 40' standard height containers and only 19% of 40' high cube containers is moved by rail (for 20' boxes it is 34%). It would be a natural tendency if the percentage of high cube containers would move to the 29% for standard 40' containers. For 2010 this would mean a shift of approximately 35,000 high cube boxes from road to rail. The percentage of high cube containers of all containers is rising, from 30% in 2006 to 39% today. We expect this to rise significantly further in future.

**What is the terminal doing to cope with the additional volume moved by rail?**

We initially expect a shift from road to rail which will not increase our total throughput. In order to ensure a reliable feed of the increased volume to and from the rail we are reviewing our processes and systems. We will ensure that we have sufficient equipment available to meet the required service levels.