IP Reference: 20010290

National Infrastructure Planning
Temple Quay House
2 The Square
Bristol
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21st February 2019

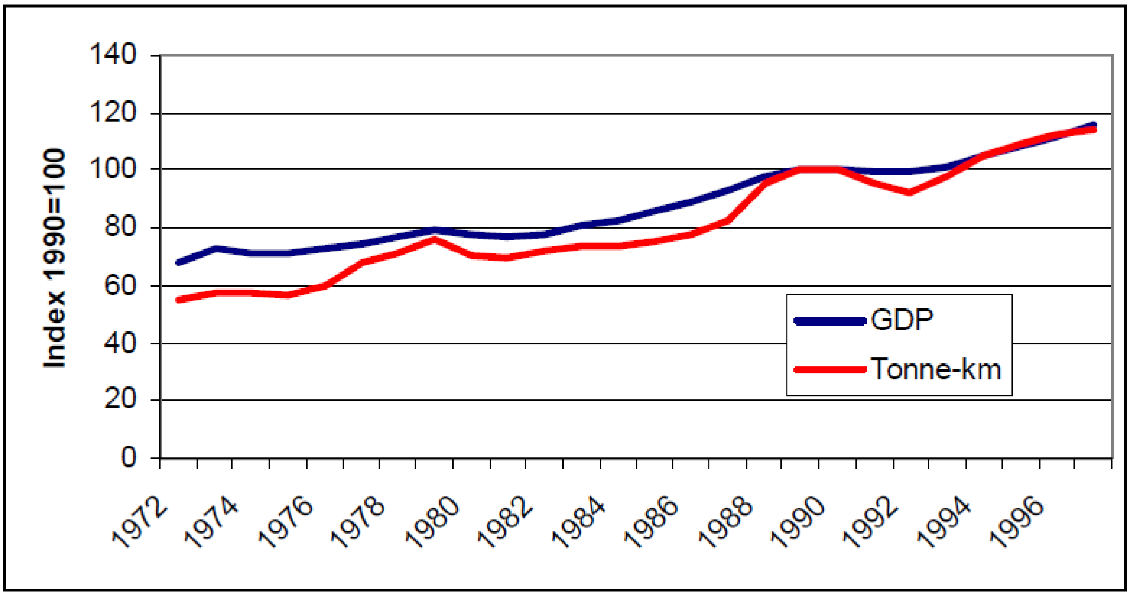
Dear Sir or Madam,

TR050006 Northampton Gateway Rail Freight Interchange – Deadline 5 Submission: Response to the ExA's Further Written Questions

I write as an Interested Party in regard of the above application. I wish to respond to the ExA's further written question 2.0.1 regarding the scheme's "underlying economic/commercial justification, ports and domestic intermodal movement of goods, employment levels and funding implications in the light of Brexit".

Inspection of the applicant's Transport Assessment confirms that the token level of rail activity within the proposed development is but a fraction of the HGV activity that is forecast. The viability of the project is therefore much more strongly influenced by what happens to road freight activity post-Brexit than any other factor.

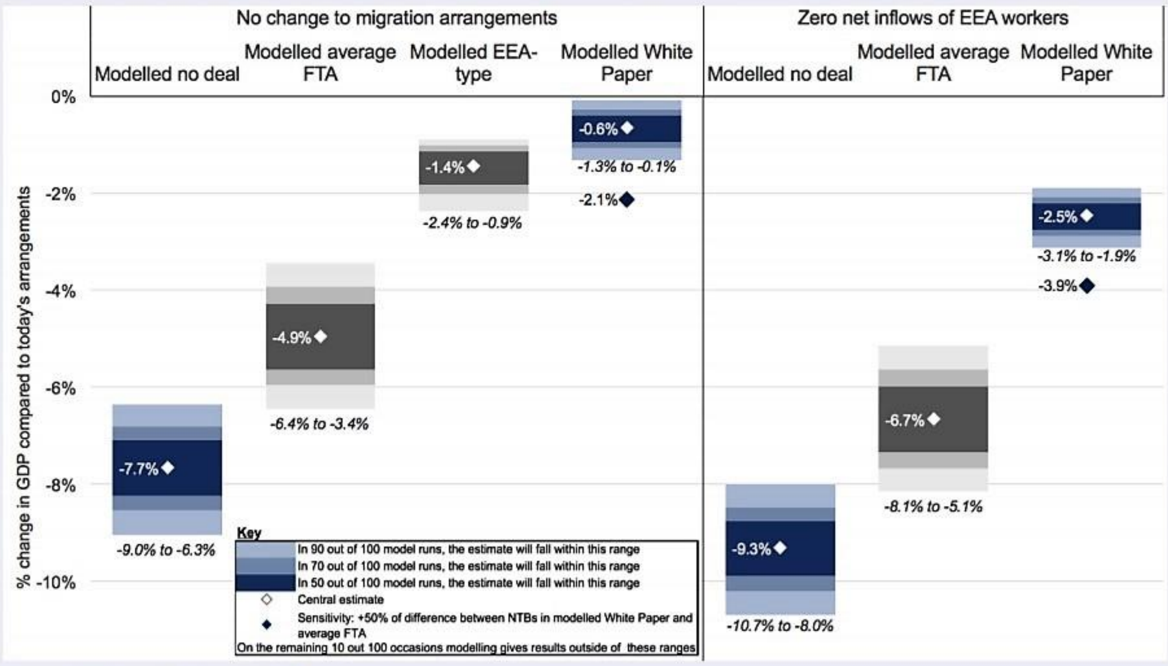
Road Freight Activity and Gross Domestic Product have shown an essentially parallel relationship for the past fifty years. The figure below, taken from Professor McKinnon's 2007 paper, shows the accepted truth that the elasticity of road freight against economic activity is essentially one.



Studies by the World Bank and others have arrived at similar conclusions in over 30 countries, whether developed or developing. Put simply, greater economic success is achieved on the back of road freight growth.

HM Treasury published economic forecasts in November 2018 that sought to model a variety of potential Brexit scenarios. Frustratingly, the current "May Deal" was not modelled, but all of the scenarios saw a marked reduction in Gross Domestic Product.

Figure E.1: Summary of total impacts on GDP compared to today's arrangements for the illustrative no change to migration arrangements and zero net inflows of EEA workers scenarios.



Central estimates and ranges.[14]

These forecasts confirm an unwelcome truth, namely that there are no economic gains under Brexit, only losses. All scenarios are strongly negative in terms of economic activity and will therefore will lead to a reduction in road freight activity on the same scale as that in GDP. Current forecasts range from -4% (May's Deal) to -8.3% (No Deal).

Economic forecasts for our current EU partners have not been widely reported in the UK, however studies by KU Leuven and others model negative impacts across the EU-27 of approximately one-third of the level felt in the UK.

Such economic weakness is likely to trigger a reduction in interest rates, which may have an effect on the cost of commercial finance. However interest rates have been at or close to historic lows for some time and it is not likely that any reduction following "no deal" would make a material difference to the cost of funding the proposed scheme. In contrast, agreeing a deal with the EU is likely to accelerate the long-anticipated rise in interest rates to approximately 1.5% after three years.

Many investors in the UK's logistics and port infrastructure are based outside of the EU. CK Hutchison Holdings of Hong Kong own Felixstowe, investment from Canada's Healthcare of Ontario Pension Plan was essential to the delivery of iPort Rossington, whilst Rail Central's delivery partner Gazeley is owned by Asian giant GLP. The confidence of such investors in the UK is unlikely to be shaken in the medium term, given their current exposure, though some short-term hesitation can be expected.

However, even the most confident property investor cannot counter the reduction in freight activity that is certain to occur. Less freight requires less warehousing, in the long term.

The current level of stockpiling, which has driven up demand for warehousing in the short-term, can be expected to reduce to more sensible levels, releasing warehouse space back into the market.

In the UK, between 140,000 to 550,000 job losses were predicted by the KU Leuven team under a “soft” and “hard” Brexit respectively. Given that the Logistics and Supply Chain sector is responsible for approximately 8% of all employment, a first approximation would suggest a loss of 11,000 to 44,000 posts across the sector.

Such losses are unlikely to land evenly across all regions. The pre-eminence of the East Midlands as a logistics location may work in its favour, with companies moving to a centralised model of distribution.

However, given a background of contraction on such a scale, the need to create new jobs in the volume proposed by Northampton Gateway would be highly questionable.

Turning now to the subject of port congestion, much has been reported concerning the plans for mitigating the effects of newly-instigated checks on cross-channel road freight. Regional mitigation strategies (such as Operation BROCK) are well-advanced, but many company-level plans are yet to take shape.

Government advice issued last year advocated alternatives to traditional road freight such as the use of unaccompanied trailers and increasing the use of containerisation. However, the main recommendation was to use alternative routes for ro-ro freight.

The limited rail connectivity of Northampton Gateway and Rail Central does not lend itself to exploiting alternatives to the Channel and Thames Ports. The best prepared port is Felixstowe, where the operator continues to invest in additional capacity at pace.

When combined with the recent investments by Network Rail in the Felixstowe to Nuneaton route (F2N), both SRFI proposals in Northamptonshire appear to be poorly located.

By contrast, Hinckley NRFI seems to be ideally located to benefit from any gains made by the Haven Ports.

Yours faithfully,

[redacted]

Dr Andrew Gough

Sources

McKinnon et al, "The Decoupling of Road Freight Transport and Road Freight Trends in the UK: An Exploratory Analysis", Transport Reviews, 27 (1), 2007

Vandenbussche et al, "Global value chains, trade shocks and jobs: An application to Brexit", Center for Economic Studies, KU Leuven, 2017

House of Commons Library "Brexit Deal: Economic Analyses" Briefing Paper 8451, 4th December 2018