

Reponses to questions raised by the Freight transport Enquiry to the Confederation of Forest Industries

1. Impact of the working time directive on road haulage costs in this sector:

How has this so far affected labour requirements and haulage costs in the timber transport sector? Might it be possible to change current operating practices to mitigate the effects of the WTD on this sector?

The introduction of the WTD has resulted in an aggregate 10%-20% cost increase across the timber haulage sector.

The cost increase since introduction of the WTD has coincided with other cost increases, notably fuel. The 10%-20% figure excludes increases attributable to other inputs, such as fuel, and is not simply a comparison of total costs pre and post WTD.

The cost increase attributable to WTD varies between hauliers. Most obviously the impact has been minimal amongst owner operators who are exempt. These operators occupy a niche market, often based on long term relationships with a small number of clients. The larger haulage firms who move the bulk of Scotland's timber have reported that the WTD has represented a significant administrative burden. The cost of administering the directive is not assessed. It has required fundamental changes in working practice, particularly through restructuring shifts and working patterns. Cost increases would have been significantly higher if working practices had not been modified. All large operators have been actively recruiting for additional staff. Not all hauliers have been able to recruit additional drivers and as a result in certain areas there is a shortage of transport.

2. Use of red diesel in trucks operating on forest roads:

Has the Confederation estimated by how much the transport cost per tonne for timber would fall if this measure were implemented? Given that there is currently significant infringement of red diesel regulations, is the Confederation confident that this measure could be adequately enforced in the timber sector?

In aggregate, across the industry approximately 40% of total haulage costs are accounted for by fuel. 30% of the fuel used in haulage is off-road, and red diesel is approximately 50% of the cost of non-rebated diesel per litre. On this basis the use of red diesel whilst in-forest and contained in dual tanks in vehicles travelling both in-forest and on the public road would represent a 6% cost reduction. With an average haulage cost of around £7.50/tonne this is equivalent to around £0.45 per tonne.

The Confederation understands that the technology for monitoring and regulating this dual fuel system exists and currently operates in France.

3. Restrictions on the use of 44 tonne trucks on parts of the Scottish rural road network:

What proportion of the rural access roads used by timber companies are affected by these restrictions? Which areas are most seriously affected? Has the Confederation attempted to estimate the additional transport costs that they incur as a result of these restrictions?

A network of so called “Agreed Routes” for timber haulage now covers the road network in all the timber producing regions of Scotland. In essence all timber production is restricted to some degree by these routes. The Agreed Routes limit the road network that is available for timber haulage through a grading of public roads, classifying them as ‘Permissible’, ‘Consultation required’ through to ‘Excluded’. The areas most constrained by restrictions are Dumfries and Galloway, Argyll and the Highlands.

Given the complexity of allocating costs resulting from these restrictions, the determination of the additional cost resulting from these restrictions given here is indicative, not definitive. Additional costs result from;

- re-routing, with longer hauls require*
- longer in-forest haulage (in-forest haulage costs more per mile than hauls on the public road given the quality of the running surface)*
- changes in operational practice.*

Leaving aside the management time required in consultation between industry and councils operational impacts have been significant. For example, a negotiated agreement between industry and council may require a 2 – 3 hour interval between consecutive trucks using a certain length of road. This means that dedicated crane wagons have to be used instead of the more efficient system of flatbeds loaded by independent cranes. This adds a significant cost to the process, and increases the number of lorry journeys required (as self loading lorries carry a lower load than flatbeds). In effect more crane wagons are on the road than need to be because they are required to service a limited number of jobs with restricted access. Consultation routes may also require that the industry contributes to traffic calming/ control measures.

Consistently across the industry figures of an additional £0.50/tonne to £1.00/tonne resulting from specific restrictions are reported. In a western region of the country, a management company reports that from a productive area of approximately 55,000 tonnes harvested last year, the extraction of some 20,000 tonnes entailed significant transport difficulties on the public road.

In aggregate across all loads we estimate an additional cost from these restrictions of £0.25/tonne, equivalent to £1.25 million per year on a 6 million tonne annual Scottish production. This figure excludes the economic cost of timber that it is uneconomic to harvest – see question 4 below.

4. Uneconomic extraction of timber because of high transport costs:

Are there many areas in Scotland where, at present, it is uneconomic to exploit timber resources because of high transport costs?

There are significant areas where this is the case, and acutely in the west and north of the country. A definitive quantification is not possible without extensive research. The basis of the problem and an illustration of its significance, and consequent impact on the Scottish economy is given.

Uneconomic exploitation occurs when the sum of the costs exceeds the value. A harvest will generate several different timber products and this product mix and individual values of components of the mix will determine if the harvest is economically feasible. Whether or not, a harvest is economically feasible depends on factors including:

- *Harvesting cost – influenced by tree size, terrain, & extraction distance.*
- *Product mix – influenced by tree size & quality.*
- *Product Value (Delivered) – influenced by market conditions.*
- *Haulage cost – influenced by distance, lorry type, and road condition.*
- *Management cost (minor component).*

In respect of costs, the haulage cost is the most variable and has the greatest effect on those areas that are furthest from the market. In Scotland, due to the majority of markets being located in the east and south of the Country, the effects are most prevalent in the West and North Highlands respectively.

Given the complexity of the interacting factors, practicably, it is not however possible to put a precise figure on the current area that it is uneconomic to exploit. To provide an indicative figure of the scale of the problem 3 approaches are presented here: analysis of costs and prices; illustrative experience from operational managers; comparison of forecast harvest with actual harvests.

Analysis of costs and prices

Looking at the net return of individual products within a sale, by taking an average value and assuming average harvesting and management costs, it is possible to calculate the haulage cost above which harvesting becomes uneconomic. In the case of chipwood, the lowest value product, the breakpoint would be £7.00 /tonne. This means that any chipwood which has a haulage cost to market of greater than £7.00/tonne will generate a loss to the grower. Indicative haulage costs are a national average in the region of £7.50, and from Kintyre, for example, around £11.25/tonne. On this basis, nationally, chipwood is on average uneconomic to harvest across Scotland and significantly uneconomic from much of Argyll. More generally, in SW Scotland sites west of Newton Stewart are marginally uneconomic for harvesting.

Illustrative experience from operational manager

The Highland Timber Transport Group estimates that 1-2 million tonnes of timber in the Highlands cannot be harvested due to constraints on the public road network. This estimate results from an identification of 67 pinch points unsuitable for timber

traffic on the road network and the corresponding volume 'landlocked' by these points..

One forest management company operating in the west with responsibility for 7,000 ha of productive woodland estimate that there is currently no solution for accessing 2,500 ha – approximately 1/3 of their productive forest area. On a national basis ConFor's assessment is that this is towards the upper end of the experience of managers across the country, but also that it is not a-typical.

Comparison of forecast harvest with actual harvests.

Forecasts of timber production are undertaken by the Forestry Commission. These forecasts represent the best estimate available to the industry and have consistently represented a fair estimation of actual harvests. As with any forecast they are based on both assumptions and sampling errors that are inherent in any data collection.

Comparison of forecast with actual harvests indicates that in Scotland over recent years around 1 million tonnes of available timber is not reaching the market annually – about 15% of the total annual harvest.

5. Development of an industry-based Freight Quality Partnership:

- **what obstacles had to be overcome by the Confederation to establish its own FQP?**
- **what were the main objectives of the FQP?**
- **what benefits has the FQP yielded?**

In the light of this experience, does the Confederation believe other industrial sectors could benefit from a similar initiative?

The Timber Transport Forum developed from a shared need to resolve confrontation between forest industry and roads authorities.

The predecessor to ConFor was one of the active parties that established the Timber Transport Forum together with COSLA and the Forestry Commission. The Forum includes representation from the forest industry, local government, Forestry Commission, Scottish Executive and Scottish Enterprise. Although its roots were in Scotland it now has a UK wide remit. In addition, there is an active network of Regional Timber Transport Groups around Scotland that deal with regional operational issues. The Forum provides a strategic focus for the work. The overall objective is to keep the timber industry supplied and active within the constraints faced by local authorities, notably the roads budget.

The history of timber haulage prior to the establishment of the Forum was characterised by a distrust between local authorities and the industry with parties resorting to litigation.

The Forum and Regional Groups have enabled partnership approaches to management to develop an improved understanding of the issues and constraints faced by the parties. In addition, the Agree Routes Maps have provided an additional tool for managing the issues.

Whilst the Forum and Regional groups have been effective in ensuring active collaboration between the 2 parties, significant costs are still borne by the industry.

The success of the Forum and Regional Groups has largely been down to the active engagement of individuals involved from across the stakeholder groups. Financial support from the Forestry Commission, Scottish Enterprise and industry has also helped fund a project manager. From the history of unproductive confrontation an awareness of the need to develop a mutual understanding based on dialogue and partnership developed. A key driver for this was the understanding that other confrontational approaches had failed. This format could be replicated in other industries where the forces pushing for change are similarly intense and the need for change is understood by the parties involved.