

Rail Delivery Group

Response to:

Delivering the Goods

**Consultation towards
Scotland's Rail Freight Strategy**

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Delivering the Goods

Transport Scotland's Consultation towards Scotland's Rail Freight Strategy

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The **Rail Delivery Group** (RDG) was established in May 2011 to lead the industry in delivering a higher performing, more cost effective and sustainable rail network for Britain's rail users and taxpayers.

The RDG brings together the chief executives of passenger and freight operator owning groups with Network Rail. RDG develops policies, strategies and plans for the coherent management of the rail industry and advances the provision of a safe, efficient, high quality rail service for users and taxpayers.

The RDG mission is to promote greater co-operation between train operators (passenger and freight) and Network Rail through leadership in the industry and by working together with Government, the supply chain and stakeholders.

It is committed equally to the long-term health of the railway as well as the need to see improvement in the shorter term.

It does this by developing strategies for the industry to put into practice and by proposing solutions for policy makers to implement.

Introduction

As the UK's rail industry leadership group, the Rail Delivery Group (RDG) welcomes the opportunity to contribute to Transport Scotland's consultation on rail freight strategy.

With the decline of traditional rail freight traffic such as coal and steel, rail freight in Scotland is changing; opportunities for future growth will be in markets currently dominated by road haulage, which defines the context for the strategic debate. This will be a major challenge for the rail industry, for rail freight's customers and for the UK and Scottish Governments as the benefits of growth in rail freight can only be delivered by all parties working together and with greater policy consistency across different transport modes.

At present, rail freight in Scotland is not realising its full potential – yet there are multiple benefits to be secured from substantial modal shift from road haulage to rail, including:

- supporting economic growth and resilience and greater choice for industry in the face of road congestion and long-term energy uncertainty;
- meeting Scotland's challenging climate change targets, as rail freight typically generates only a third to a quarter of CO2 emissions of road haulage per tonne-mile;
- improving public safety, as rail freight has a vastly better record than HGVs, which are disproportionately involved in fatal accidents;
- reducing the heavy trunk road maintenance burden imposed on the Scottish Government transport budget by the biggest lorries.

Current policy and financial regimes do not adequately reflect rail's contribution to these public policy objectives, and one result of this is that there is not a level playing field between rail and road.

A further fundamental issue is the need to recognise and address the gap between the long-term nature of rail investment and the ongoing dominance of short-term contractual arrangements in transport and logistics. This will require a consistent multi-modal strategy and associated policy measures.

The rail industry, existing and potential rail customers, and agencies in the public sector (both Scottish and UK Governments, as well as Regional Transport Partnerships, Local Authorities and development agencies such as Scottish Development International, Scottish Enterprise and Highlands & Islands Enterprise) will need to work together – using all the potential policy levers at their disposal – to realise the strategic commercial and policy benefits of rail freight.

This response is structured in three parts: general observations about the value and characteristics of rail freight, and responses to the specific questions in the consultation.

The Value of Rail Freight

Recent work by RDG¹ has highlighted that rail freight generates over £1.5bn of economic benefits for the UK every year through a combination of improved productivity, reduced congestion and wider environmental benefits. It is vital for the competitiveness of the economy and is an intrinsic part of everyday life in the UK.

Rail freight transports goods worth over £30bn pa, moving over 25% of the containers entering the UK and underpinning industrial sectors such as power generation, construction and steel. Rail is also a key supplier to UK manufacturing sectors such as the automotive industry and a major supplier to Network Rail and other Infrastructure Managers.

Rail freight has transformed itself since the mid-1990s into a competitive and vibrant industry, recognised by the former CEO of the Office of Rail & Road as “the most transformed sector in the rail industry”. Total volumes increased by over 80% from 13.5bn net tonne kilometres in 1995 to 24.4bn net tonne kilometres in 2013-14.

The sector is changing as the UK economic base itself shifts, with reductions in traditional rail freight markets such as moving coal to power stations - where Governments’ environment and other policy choices are driving conversion to biomass, renewables and other forms of electricity generation. Alongside this is an increase in the volume of containers moved for the growing retail/consumer sectors. Continued rail freight growth will increasingly focus on the retail, construction and international sectors reflecting the ongoing developments in patterns of economic activity.

This will have geographical as well as sectoral implications, as areas with high concentrations of population will become increasingly significant for rail freight. Ensuring sufficient usable rail capacity is available to allow rail to compete with road will be more complex than ever over the next decade.

Rail freight is an intensely competitive industry, both within the mode and with road transport in particular. This strong competition has driven efficiencies, lowered prices to customers and reduced the costs of operation. The drive for longer and heavier freight trains is one example of how this has been achieved. In the decade after 2002/3 the number of freight trains on the network reduced by over 33%, whilst volumes increased by 17% - this meant, while taking the distance travelled into account, that every freight train operated on the network increased its payload by over 50%.

These competitive pressures will continue to act, and the sectors offering the most volume potential for future rail growth are also those with the strongest price and service competition with road transport.

Intrinsic to continued rail freight growth and development will be continued private sector investment. Investment in rolling stock and facilities by freight operating companies (FOCs) has already occurred - over £2bn has been invested by FOCs since 1995.

To support this investment and deliver wider government strategies, over £500m has been invested by Governments (including EU funding) in CP4 on freight specific network enhancements, and a further £230m has been allocated for CP5 freight-specific network enhancements by both the UK Government and Scottish Governments.

Freight customers and supplier, including ports and terminal operators, have also invested heavily in rail freight facilities – including over £250m in the last decade on port-related rail infrastructure

¹ See http://www.raildeliverygroup.com/files/Publications/2015-02_freight_britain.pdf

alone. Investment in new rail-connected warehousing and terminals is critical for future freight growth.

Ensuring the private sector has the confidence to continue to invest to support rail freight - and rail freight growth in particular - should be a key target for government.

Rail freight can move freight in greater volumes, more safely and reliably than road transport. Each freight train removes up to 75 HGVs from the UK's roads. Without rail freight over 7.5m additional road journeys would have been required in 2013/14. Transporting freight by road reduces CO2 emissions by 76% compared to road.

Characteristics of Rail Freight

As already stated, rail freight is a wholly private sector activity determined by customer and market needs. In this respect it is different to passenger rail, and rail freight has a very different, less direct, relationship with Governments, funders and other bodies as a result.

Rail freight operates in *response* to specific customer demand - a key distinction from passenger where services are planned in the context of current and anticipated demand. Some trains are customer-specific rather than multi-customer - so if a customer does not require a service on a particular day or week it will neither be scheduled nor run. Rail freight's use of rail capacity is therefore often very different to that of passenger operators.

Rail freight is a nationwide, international business. It does not correspond neatly to railway operational, funding or political boundaries. This is important as it can be easy to misunderstand the complexity and difficulty this can cause national operators such as FOCs.

Most rail freight services operate across at least two, and often more, boundaries; an intermodal train from Felixstowe to Coatbridge using the cross-country Felixstowe to Nuneaton route travels across four Network Rail Routes.

Freight is often not visible as a priority within the rail industry – with rail freight accounting for only 4% of train numbers and 8% of all train miles, rail freight may not be seen as a priority when developing strategic plans and objectives for the industry.

Responses to the Consultation Questions

1. The Vision For Rail Freight In Scotland

The RDG supports the vision for rail freight in Scotland.

Rail freight can continue to play a major, and has the potential to play a greater, role in a sustainable Scottish economy, as set out in the vision section (Chapter 2) within the consultation document – but only if a more level playing field with road haulage is created.

2. Market Opportunities

Chapter 4 of the consultation document covers most of the sectors which provide opportunities for growth.

An advantage enjoyed by Scottish industry is that many of the transits to markets and from supply areas involve long hauls which are likely to favour rail as a trunk mode. However rail freight also needs to be carried in sufficient volume to be cost-effective, and there are relatively few opportunities for single customer whole-trainload opportunities within Scotland. As a result of the need to organise and operate multi-customer trains in many cases, the additional costs, time-penalties and complexity makes effective competition with road unattractive for many customers.

Where volumes are thinner, the impact of on-rail competition can create unexpected consequences. Customers and suppliers generally welcome the choice and impact on prices and service levels that have flowed from greater rail competition, but the result can also be the dilution of volume such that individual company economics become increasingly sub-scale and therefore vulnerable. Finding ways through these issues is vital to rail freight growth, especially north of the Central Belt.

3. The 3 Biggest Opportunities For Growth

i) Market Opportunities

Intermodal

The current non-bulk rail business is dominated by the movement of containers or swapbodies. Collectively referred to as “intermodal business”, this is the now the largest rail freight sector and has grown steadily over the past forty years. The current planning forecasts for rail freight, contained in the Long-Term Planning Process’s Freight Market Study, which was developed in consultation with UK and Scottish governments, and endorsed by the Office of Rail and Road, project that intermodal has the potential to grow by an average of 2.9% until the mid-2040s.

Intermodal is generally recognised as having three components;

- the movement of containers to and from the key Deep Sea ports of the UK (eg Felixstowe and London Gateway) where the world’s largest container ships make UK calls as part of global distribution patterns. This is usually referred to as Deep Sea Intermodal;
- the movement of containers and swapbodies to and from continental Europe via the Channel Tunnel, usually referred to as Channel Tunnel Intermodal; and
- the movement of containers and swap bodies between UK terminals/ Strategic Rail Freight Interchanges, usually referred to as Domestic Intermodal.

The distances between both the Channel Tunnel and the key UK Deep Sea ports are such that rail is usually an option for both Deep Sea and Channel Tunnel flows. A particular development of the past decade has been the development of significant services in the Domestic Intermodal markets.

Relatively few customers have their own rail sidings and there is therefore often a road delivery/collection leg at (at least) one end of the transit. This has a significantly negative effect on the costs of using rail.

Therefore all three components have significance for Scottish rail freight, even if the issues to be addressed and solutions needed may differ. Common to all three components are:

- the need for suitable rail infrastructure, including Strategic Rail Freight Interchanges. If road legs can be avoided by delivery direct to the warehouse or site, then the economics of rail can be transformed;
- the need for aggregation of volume to fill trains in both directions on a regular basis to control risk. A feature of Scottish Intermodal business is the involvement of a small number of terminal operators/aggregators who have developed such a role for some business. However, for Intermodal to grow strongly, such roles are likely to need to be enhanced.

Forest Products

The volume of Forest Products produced in Scotland means that it has to be considered as a potential market; regional and local concerns with the environmental and societal impact of timber road movements suggest that this might be a good case study for addressing some of the level playing field issues. Historically, rail has moved timber, but little if any of the 7mt of timber harvested or products produced per annum in Scotland moves by rail. Issues to be addressed include:

- the economics of moving a product with such a low intrinsic value;
- provision of suitable rail heads at locations that are close to areas of production, recognising that such locations change frequently, and the need for conventional private siding connections at key mill locations;
- the complexity of finding commercial solutions that will result in the necessary aggregation of volume; and
- the need for cost-effective rail solutions. An example has been the time taken by Network Rail to trial innovative methods such as the Non-Intrusive Crossover System (NICS), which potentially offers much shorter lead-times for completion than conventional connection. Potentially this might offer an opportunity for the timber market in its ability to be readily re-located to emerging harvesting areas.

The Whisky Industry

Scotland's exporting economy is dominated by whisky, and rail plays a major part in moving containerised loads of bottled spirit from Central Scotland to the UK's major Deep Sea ports for export. However, road transport dominates almost all other movements, including inward movement of raw materials such as grain and the movement of spirits from North of Scotland distilleries to Central Scotland maturation plants.

The 2013 "*Lifting the Spirit*" trial whisky train service from Elgin to Grangemouth demonstrated that

rail has the potential to secure a significant modal switch and reduce congestion on roads such as the A95 and A9.

However the trial has not yet led to any significant rail business development, demonstrating that more needs to be done to give customers the confidence and incentive to switch modes. These include the willingness and ability to give commitment and medium term contracts to enable necessary rail investment and development, the need to develop suitable rail infrastructure and terminals and the need to find commercial mechanisms to ensure sufficient regular volume.

ii) Product Opportunities

Channel Tunnel Services

When the Channel Tunnel opened in 1993, there was strong anticipation that services to and from Scotland would play a big part in the new international traffic market. In part, this reflected the importance of Scottish traffic to the previous Train Ferry services. Subsequent history has been variable, with changes to the industrial base in Scotland and periodic crises of confidence in the Channel Tunnel product due to migrant issues leading to the current position where there are no direct international services to/from Scotland via the Channel Tunnel.

There remains commercial interest, but it might be necessary for structural support to underpin any renewed attempt to develop this market due to the strength of short sea shipping.

Urban Logistics

A growing area of development is urban or city logistics – the movement of consolidated loads for retail outlets, often in roll cages, which are delivered by rail to a distribution point in a city or town for “last mile” delivery, often by sustainable forms of transport. This is a young and developing market, but provision of suitable terminal infrastructure (perhaps at large passenger stations) and planning support will be vital.

RDG would support a study into the supply chain for the consumer market in the Central Belt, including how consumer goods are delivered into the cities and how waste is taken out.

Conclusion

None of these potential markets or products are new, and some of the reasons that rail does not feature in their current logistics arrangements are understood. However things change and RDG agrees that it is timely for in-depth reviews of each of these opportunities to be undertaken.

4. The Three Biggest Challenges to Growth

i) Lack of a Level Playing Field:

There are numerous structural and policy differences between rail and road freight operations; not all of these are within the responsibilities of the Scottish Government, but all need addressing to allow rail freight to compete more fairly. These include;

- The difference in Licencing and Taxation regimes:
 - Rail freight has more onerous requirements for Licencing, and

- the Track Access Charge regime is exponentially more complex than the road VED/fuel duty regime.
- Road hauliers do not have any equivalent of the quinquennial rail price review process.
- Rail access charges, which are designed to cover the marginal infrastructure costs for freight in all cases, and an element of fixed costs in some. No such requirement is placed on road transport, despite clear evidence of the failure of the vehicle taxation system to properly reflect the very heavy damage done to road surfaces by the biggest lorries.
- Road damage rises steeply with axle weight, and is widely acknowledged to be proportional to the fourth power of the axle weight. This means that doubling the axle weight increases road damage 16 times, and in the case of the heaviest (44-tonne) trucks – the main competition for rail freight – HGVs are up to 160,000 times more damaging to road surfaces than the smallest vehicles. The vehicle taxation system does not reflect this massive disparity, so the biggest trucks are in effect being cross-subsidised by smaller trucks and cars.

RDG acknowledges that vehicle taxation is not a devolved responsibility of the Scottish Government, but investment appraisal processes for road and rail infrastructure schemes investment appraisal adopts a neutral, cross-modal approach wherever possible – the difference in treatment between the A9 upgrade and the Highland Main Line upgrades being cases in point.

ii) Infrastructure

Rail freight cannot grow without sufficient and suitable rail infrastructure, both on the main network and in the shape of connections and terminals for loading and unloading goods.

In general terms, the nature of the mainline rail infrastructure in Scotland is such that the guiding principles of the UK government's Strategic Freight Network are difficult to apply – especially north of the Central Belt. This reflects both history and economic geography. The practical impact of this is that it becomes harder to achieve successful rail economics with the train size, wagon loading gauge and capacity restrictions that exist on the network. Restrictive loading gauge issues (essentially container height and width capability) directly impacts on rail's ability to compete in one of the key growth markets, as innovative wagon solutions typically impose payload/length ratio downsides that impair the comparative economics.

As well as network infrastructure, sufficient suitable terminals are needed. The principal challenges are the cost and timescale to effect connections to the mainline railway, and the ability of the terminal developer to attract sufficient volume to maintain the terminals as an economic concern.

The nature of rail infrastructure is such that it will continue to be a key task for Governments to fund major infrastructure changes to allow rail freight to develop and to help level the playing field with road haulage. Capacity improvements, electrification and loading gauge clearance will make an enormous difference to rail's ability to compete.

Integrating planning for freight with the wider strategic development of the network is critical, and the RDG will work with Scottish Ministers to support long-term strategic planning, building on the current Route Study. Ensuring that freight's economic and wider benefits are taken into account when planning both the industry and spatial development can improve the financial and business case for investments that benefit the whole network.

iii) Planning Regimes

Allied to infrastructure strategy are strategic, as well as local and regional planning regimes. The National Planning Framework 3 (NPF3) process was unbalanced in its treatment of rail and port developments, and the final NPF3 document contained no rail freight National Developments, while sea freight secured three. We are hopeful that the NPF4 process will address this.

Local and regional planning regimes are important for rail terminals. Only a limited number of manufacturing and industrial sites in Scotland are directly rail-connected (usually in the bulk and semi-bulk sectors such as coal, oil, cement and steel) There are a more limited number of terminals/ locations with the capability to handle unitised traffic either in conventional wagons or containers/ curtain-sided swap bodies sitting on rail wagons.

The possibility of future direct rail connection to existing or planned major industrial sites along rail corridors needs to be carefully protected. This cannot be done by the rail industry alone – although Network Rail does have a limited portfolio of ‘Strategic Sites’ in its ownership. Currently underused or unused freight facilities or capacity - if necessary issuing clear guidance to Network Rail.

Existing and potential manufacturing and processing sites in private ownership along rail corridors across Scotland need to be identified through rigorous strategic analysis, and a suitable method of protection put in place by government. In addition, sites around major rail hubs should be protected for the next generation of Strategic Rail Freight Interchanges and Regional Distribution Centres. Preferably directly rail-connected, these would transform rail economics.

Local Authority Development Plans are also important. It is vital that the Scottish Government helps ensure that an appropriate balance between local and national issues is maintained. On occasion local opposition to rail freight development (usually on the grounds of noise or nuisance) hinders developments that would deliver wider economic, social and environmental benefits.

Development agencies – such as Scottish Development International, Scottish Enterprise and Highlands & Islands Enterprise are also central to the process. Where manufacturers and processors are locating or relocating at a site along a rail corridor, it is of the utmost importance that rail is considered at a very early stage.

The £30m Scottish Strategic Freight Network Fund has provided a welcome focus for investment, and this targeted funding needs to continue in future Control Periods – and at a higher level of spending – if the designated network is to achieve the desired capacity and capability. It will also be important for Transport Scotland to press the DfT for investment in rail infrastructure in England to be aligned so that cohesive outputs for freight can be delivered.

5. The Role Of The Scottish Government

The Scottish Government has a key role in:

- promoting the benefits of rail freight and the value placed by Government on there of rail freight in supporting the economy of Scotland;
- ensuring that the Strategic, Planning and Policy frameworks address the issues set out earlier in this submission and that a level playing field is provided. The more a level playing field is provided, the less other intervention by Government will be needed as market-based solutions will become easier to implement;

- developing a Scottish Strategic Freight Network aligned to the UK model, but perhaps having differing characteristics where the economic geography dictates - e.g. north of the Central Belt. This can provide a consistent framework for infrastructure planning for Government, local and regional bodies, and Network Rail;
- ensuring that network infrastructure is funded and supported where necessary; and
- ensuring that an environment is created and fostered that will encourage investment, including capital grants where demonstrable environmental or economic benefit would be realised.

In addition, there is a need for structured approaches to address some of the issues and market failures outlined in this submission, including:

- how to put in place non-discriminatory frameworks that encourage collaborative working and strategic partnerships involving customers, suppliers, operators and other third parties that will:
 - aggregate volume of traffic to an extent that renders rail freight a viable option for shippers;
 - address the asymmetry of investment in long-life assets in markets that cannot (or will not) give suppliers contractual certainty to underpin capital investment; and
 - minimise both cost and system risk.
- support research and innovation in developing new and better products, e.g. to reduce cost or improve reliability;

6. Creating A Stable Environment For Growth

The RDG welcomes the actions suggested in Chapter 6 of the consultation, but it is important that any Guidance from the Scottish Government to the ORR (or other bodies) - for example on how it expects rail freight to be treated in charging reviews and elsewhere - must align with any Guidance from the UK Government and any other devolved authority.

As set out earlier, rail freight is a UK-wide, business operating in international markets and any complexity or cost arising from different structural solutions for rail in Scotland (for example as part of devolution) risks undermining rail freight growth and development.

The rail regulatory and charging regime needs to recognise the realities of the competitive situation for rail freight and in particular the need for simplicity, to reflect the way road haulage is allowed to operate. Rail freight is inherently more complex than road – partly due to the necessity of interface with an infrastructure authority (which has no parallel in road haulage) – and this complexity must not be exacerbated.

RDG would encourage Transport Scotland to work with the alliance in place between Network Rail and ScotRail to ensure that suitable incentives and safeguards are in place to grow and facilitate freight, as well as passenger, business.

RDG would also encourage Transport Scotland to work with the Department for Transport to ensure that, in the context of any further Network Rail devolution and the establishment of the System

Operator role, fair and effective measures are put in place to ensure that Anglo-Scottish freight can continue to develop and operate efficiently and effectively.

RDG supports the proposed approach to targets. Targets for delivery of agreed and funded enhancements (and their planned outputs) are appropriate, as is the current approach to setting outcomes targets for Network Rail on performance and network operation. It would not be appropriate for the Scottish Government to set targets for private sector activity in competitive markets, whether in the rail sector or industry in general.

However measuring the overall impact of the strategy (in terms of volume and success in driving modal shift) would be appropriate to inform future policy development, and RDG would welcome the Scottish Government expressing the benefits of rail freight more clearly.

7. Consultation Document's Suggested Actions

Annex 1 of the consultation document sets out a wide range of proposed actions. In general RDG welcomes these, but they are numerous and potentially very resource intensive for both the rail industry and end customers.

To avoid unnecessary work, or even potential duplication, development of some of these options should be pursued when there is both greater clarity of both the Government's over-arching vision for rail freight in Scotland, and as much certainty as possible about the structure of the rail industry. In the context of the current Shaw review, and the potential for changes to structures and responsibilities, this is an important consideration.

The RDG is willing to support the Scottish Government to ensure that the implications of any evolution of industry relationships for Scottish domestic, cross-border and international freight – both in terms of supporting the strategic objectives and ensuring that the delivery landscape is consistent with Scottish Ministers' requirements.

Items with long lead times - for example in the context of technological innovation would benefit from development to be progressed as soon as possible.

The RDG strongly supports the continued alignment of the Scottish Government's work on rail freight policy with the concurrent work by DfT on developing their rail strategy.

8. Conclusions

The Rail Delivery Group welcomes this well-timed strategy review from Transport Scotland, and wishes to support the Scottish Government through playing a leading role in ongoing discussions and initiatives, including those set out in the consultation document.

Rail freight has a potentially much greater role to play in meeting both commercial needs and economic and environmental policy objectives across both Scotland and the rest of the UK. Whether the challenges now faced by rail freight – as a result primarily of external circumstances – turns out to be a threat or an opportunity, will be critically dependent on the extent to which the industry, government and customers can work together to transform its prospects.

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