Delivering the Goods: Consultation towards Scotland's Rail Freight Strategy
Analysis of Consultation Responses

Introduction

1. The Scottish Government is committed to supporting a competitive, sustainable rail freight sector that supports economic growth by providing a safer, greener, and more efficient way of transporting products and materials.

2. The consultation paper – *Delivering the Goods – Consultation towards Scotland's Rail Freight Strategy* – was launched in October 2015 and set out a draft vision for the rail freight sector as well as a number of draft proposals aimed at supporting the sector to achieve its potential in a manner consistent with the Scottish Government's broader economic and transport objectives.

3. The evidence collected from this consultation process, alongside that collected from stakeholder workshops held in Coatbridge, Grangemouth, Inverness and London, has informed the final Rail Freight Strategy published in March 2016. An analysis of the consultation responses is set out below.

Background

4. A total of 46 written responses were received to the consultation paper. 13 responses (28%) were received from individuals, 10 (22%) from public sector organisations in Scotland including Local Authorities (LAs) and Regional Transport Partnerships (RTPs), 8 (17%) from representative bodies and campaigning groups, a further 7 (15%) from rail freight industry operators and stakeholders, 5 (11%) from wider professional institutions and trade associations, whilst the remaining 3 responses (6%) were from other private sector companies and a trades union.

5. The consultation sought respondents' views on nine questions:

   - What are your views on the vision for rail freight in Scotland?
   - What are your views on the market opportunities identified in the document?
   - What are the 3 biggest opportunities for growth in the rail freight sector in Scotland?
   - What are the 3 biggest challenges to growth in the sector?

- What are your views on the role of the Scottish Government, as outlined in the document?
- What are your views on the steps necessary to create a stable environment for growth?
- Should targets be set in the final strategy and if so, what areas should these cover?
- What are your views on the actions identified in the document and who should take the lead role in delivering these?
- Any other views?

Key Findings

6. A wide range of views were expressed through the consultation process with a summary of responses to each of the individual consultation questions set out below. Some of the key messages taken from the process are summarised in the following bullets:

   - The rail freight strategy should look to galvanise efforts in the short to medium term towards filling the gap left by the coal and steel markets. If rail freight can stabilise, sustained growth may be possible in the longer term.
   - There is no single, large market waiting to fill the gap left by coal. Rather, the future for the industry in Scotland is likely to be around a range of smaller markets, either on the basis of commodity or geography. In this context, the ability to remove the barriers to innovation and market entry are critical.
   - In order to access and service new markets, the rail freight industry has to be nimble, responsive and proactively seek new opportunities. While recognising commercial matters, it must look towards greater collaboration, both within the rail freight industry and with wider stakeholders in the delivery of services, where this is to the overall benefit of the customer.
   - The Scottish and UK Government must work together to ensure that public investment in rail freight, and their connections to other modes, are completely aligned. This would ensure that the fluidity of cross-border flows are maximised, increasing the opportunities for trade across GB and with the international markets.
   - Rail freight cannot always deliver a door to door service. Therefore, while the economic, environment and safety benefits of greater mode share for rail freight are recognised, this has to be seen in the context of the broader logistics chain.
   - While recognising that safety is a major driver behind the Scottish Government's roads investment programme, there was a view expressed that rail investment should keep pace with road investment to create a Scottish freight 'corridor' with good access from rail to the strategic road network. Also of critical importance is a joined up approach to rail at access ports and harbours, in particular to support Scottish exports.

A vision for rail freight in Scotland

7. The vast majority of respondents recorded strong support for the draft vision for rail freight in Scotland as set out in the consultation document, particularly the alignment with the Scottish Government's Economic Strategy and the alignment with broader social, economic and environmental objectives. The importance of the four core levers of innovation, facilitation, promotion and investment were generally viewed as critical for implementation and translating the vision into reality. A number of respondents noted that this may require further consideration around the prioritisation of levers and plans for implementation.

8. A number of respondents noted the importance of integrating the vision with the Scottish Government's general policy approach to freight covering all modes, recognising that rail freight operates as a key component of the wider logistics chain.

9. Respondents also highlighted the importance of recognising the market reality in which rail freight currently operates and that that the contribution of the sector in Scotland (and by definition the realisation of the vision) would largely be reliant to a large extent on a level playing field with the market overall, particularly in terms of roads.

Market opportunities

10. The majority of respondents agreed that many of the key market opportunities were appropriately reflected in the consultation document, particularly the intermodal markets (whisky and broader food and drink given export volumes), forestry products, construction materials and low bulk niche markets. It was recognised that a number of other markets currently operate successfully in Scotland, including alumina and metals, materials (e.g. piping) for the North Sea oil and gas industry, aggregates, fuels and petrochemicals, and waste products, and that consolidation of these markets was critical to future success.

11. It was noted that the decline in traditional markets such as coal and steel would lead to rail freight competing in sectors dominated by road but opportunities still remained. A number of respondents identified that the key advantage of rail freight remained for transport over long distances with high tonnage.

12. Some concern was expressed around the ability of these markets to compensate for the loss of coal and steel, primarily in terms of the pace of growth. It was noted that the Network Rail unconstrained demand forecasts were optimistic and that a number of critical enabling factors would be required, including stronger collaboration, targeted investment in interchange/storage facilities for intermodal traffic, and

better rail connectivity with ports. A more balanced flow of goods to and from sites (inputs to production and finished products) and Scotland overall (imports and exports) was seen as critical in overcoming existing market barriers.

13. A number of respondents supported the idea of detailed market and commodity studies to review market barriers and potential opportunities for growth.

14. Whilst not specifically a market opportunity, some respondents noted the importance of recognising that reducing road freight volumes could help to reduce public funding to maintain the strategic roads network.

Biggest opportunities for growth in rail freight

15. The majority of respondents agreed that the main growth opportunities for rail freight had been reflected in the consultation document although broader consideration was required as to how these could be realised.

16. At a sector level respondents generally agreed that significant growth opportunities existed for the intermodal and retail markets (e.g. containerised markets), forestry products, and other bulk and high-value goods. It was noted that the approach should be demand-led and that competing for markets currently dominated by road should be the ambition, increasing mode share.

17. A specific opportunity was identified around 'urban logistics' which includes the movement of consolidated loads for the retail sector which can be delivered by rail to a distribution point in a city or town for last mile delivery. This was identified as a young and developing market but one that has recorded some success south of the border and could be explored in Scotland, including complementary opportunities to remove waste products.

18. Respondents identified a number of enabling factors that might help realise the market opportunities. These covered a broad area but included: better connectivity with ports and integration with other modes; enhanced terminal and storage facilities; smarter thinking innovation around access to network and capacity, including better use of private sidings and low-bed wagons; gauge clearance, electrification and capacity to facilitate longer, more efficient freight services; better diversionary routes to increase resilience; the redeployment of former coal resource and capacity; and a review of charging structures and systems to promote use by Small and Medium-sized Enterprises (SMEs).

Challenges to growth

19. The consultation document set out a number of challenges facing the rail freight sector in Scotland and these were broadly consistent with the views of respondents. The key themes identified are set out below.

20. The lack – or at least perception around the lack - of a level playing field with road was raised consistently amongst many respondents as a key challenge. This covered a number of themes including taxation, fiscal regimes, licensing, appraisal, strategic and local planning, investment decision making, infrastructure access and related costs and charging, lack of diversionary routes and barriers to entry.

21. The capacity and capability of the infrastructure in Scotland was another key challenge identified, both in terms of network and wider terminal facilities. Primarily this related to strategic capacity for rail freight services, especially the required conditions (gauge and passing loops) for larger, longer, and more efficient trains on key strategic routes. Particular structural challenges were recorded for key routes north of the central belt to Aberdeen and Inverness, particularly when considering the operational requirements of dominant passenger services. The exposure of rail freight markets to disruptive events was also widely recognised, as evidenced by extreme weather events through the recent winter. The provision of additional freight capacity and robust diversionary routes, particularly for Anglo-Scottish flows, was seen as a key priority going forward.

22. A lack of capital investment into suitable terminal (and indeed loading/marshalling) facilities was raised by many respondents, both in terms of modernising existing facilities and creating new ones. Securing suitable access to existing terminal facilities was also a key factor. A number of factors were put forward to explain this including: low market confidence and uncertainty around longer-term competitiveness and returns; a lack of commitment from major customers; rail industry costs; a lack of innovation and low cost solutions; and fragmented planning. Some industry respondents also cited the industry (i.e. Network Rail) commercial leasing arrangements and investment processes as acting as a disincentive to investment in terminal facilities.

23. The perception of a lack of reliability for rail freight (albeit not supported by the available evidence) was also noted by some respondents, particularly for time-sensitive deliveries when rail was competing with roads where generally 24 hour access was available 7 days per week. Within this strand roads investment, taken alongside the significant decline in fuel costs, was seen as strengthening the competitive position of road haulage, making it relatively cheaper and quicker.

24. Another theme was the lack of promotion and publicity of rail freight services and opportunities, with operators focussed on competing for existing markets rather than the creation of new ones. There was widespread agreement that a change in attitudes towards rail freight was required with better marketing and promotion supported by improved collaboration within the industry itself. Amongst other benefits, this improved collaboration across operators was seen as a mechanism to help correct the lack of domestic traffic from Scotland to England which was creating unbalanced flows in the market and undermining efficiency.

25. Finally, meeting customer expectations for a 'door-to-door' service and the inherent challenge of 'last mile' deliveries which served to make road haulage more competitive was seen as another key challenge among respondents.

Role of the Scottish Government

26. Whilst the focus of respondents varied significantly, there was general support for the role and positioning of the Scottish Government as set out in the consultation document. There was also generally positive response to the focus around the four core levers of innovation, facilitation, promotion and investment although a number of respondents identified that actions should be prioritised across the levers that would have the greatest effect on the rail freight market share.

27. A number of respondents, mainly out with the rail freight industry itself, identified that the current challenges facing the rail freight sector in Scotland and the scale of potential market failures justified a more prominent role for the Scottish Government than would normally be required in a commercially competitive market. Investment in track and terminal infrastructure, better use and indeed extension of grants made available to operators, seed funding for new flows, administering a potential innovation fund, and generally a more deliberate role in supporting growth in the market were some of the key themes identified.

28. Responses from the rail freight industry had a slightly different focus, with the role of the Scottish Government seen to be more strategic in terms of setting the vision, establishing a positive, supporting rhetoric for rail freight and publicising the potential benefits, investing in the core railway infrastructure as a funder and specifier, supporting a stable regulatory framework, ensuring an integrated approach to national and local planning, and generally helping to set the policy agenda for a refreshed approach across the industry. Generally these measures were seen as critical to providing the foundations that would allow commercial operators to have confidence in the long-term future of rail freight in Scotland, provide the incentives for them to invest in their own facilities, rolling stock and machinery, and to help them better exploit existing and new market opportunities.

29. Protecting strategic capacity for rail freight was another core theme identified by industry respondents, ensuring track capacity is adequately protected by Network Rail with sufficient controls to ensure that it is supporting its intended rail freight traffic. Proper consideration of rail freight requirements (current and future) was also identified as a key role for the Scottish Government, particularly when amending timetables for franchised passenger services.

30. Most respondents agreed that the Scottish Government was well placed to facilitate increased collaboration across the industry, recognising some of the scale and volume challenges that are affecting current flows. The potential development of an online web portal containing, for example, key information on rail freight services, rail connected facilities, and key industry contacts. Similar measures were also identified, including support for non-discriminatory frameworks that could encourage further strategic partnerships between operators, customers and suppliers.

Creating a stable environment for growth

31. Respondents generally supported the measures set out in the consultation document to help support a stable environment for growth, although these were focussed largely around the regulatory framework and the guidance issued to the Office of Rail and Road (ORR) expected as part of the forthcoming periodic review process. Whilst respondents recognised that the regulatory framework was a matter for the ORR, using existing levers to better ensure stability and predictability in the regulatory charges regime was essential to providing certainty to rail freight operators and their customers, supporting longer term business planning (including investment in terminals and rolling stock), and fostering growth.

32. Continued investment in the rail infrastructure was widely seen as a key enabler, expanding the electrified network, supporting further gauge clearance, and robust diversionary routes. Respondents recognised the challenges on funding created by Network Rail's reclassification and the potential for further structural change. Some respondents identified the need for full devolution of rail powers to potentially compensate for this and ensure full control for the Scottish Government. The potential for further structural changes to Network Rail – and indeed additional complexity in the regulatory system - was also recognised by some industry operators and the importance of ensuring protections are put in place to properly reflect the cross-boundary nature of many rail freight services.

33. A number of other themes were identified by respondents including: creating a level playing field with roads (but respecting the competitive nature of the market); a demand led approach with flows determined by customer and market needs; stronger incentives to support and grow rail freight within the ScotRail Alliance, potentially secured through the periodic review process; better capturing rail

freight outputs in major enhancement specifications; ensuring appropriate incentives for private investment through the Network Code and Network Rail's commercial leasing arrangements; and a joined up, transparent and efficient approach to national, regional and local planning policies.

Targets

34. There were mixed views amongst respondents on whether the strategy should set targets. Generally respondents from within the rail freight industry did not support the setting of targets, mainly for the general difficulties set out within the consultation document. Some operators cited that it would be inappropriate to set these in what is a commercial industry where operators are already focussed on achieving numerous contractual targets. If targets were to be set then they should be limited to the strategic level, be meaningful and realistic, and be set in partnership with the industry. For example, delivery timescales for strategy actions, better incentives for rail freight within the ScotRail Alliance, or better use of indicators, such as the availability of a seven-day railway.

35. A number of other respondents were in favour of targets to measure the effectiveness of the strategy, to support a change in attitudes and behaviours, to enable efficient investment and modal shift, and to target genuine action. These could include rail freight market share, corridor specific targets once the Strategic Freight Network for Scotland is defined, promotion activity, investment in terminal facilities, volume carried, number of freight trains operating and their utilisation (e.g. container boxes carried), number of carriers, SMEs regularly using rail freight, and various environmental measures in line with broader climate change targets.

Actions

36. Respondents generally supported the broad ambition of the draft actions set out in the consultation document although many made suggestions on how these could be strengthened or indeed recommended consideration of additional actions for inclusion in the final strategy.

37. A key issue raised by some respondents was the need to be clear on the desired outcomes from each action so as to ensure appropriate allocation of resources across all parties responsible for their delivery and to avoid any missed opportunities. It was noted that a number of 'soft' actions had been identified which would require further work to refine.

38. In terms of additional actions respondents made a number of suggestions. This included substantial changes in focus towards more formal fiscal levers (albeit recognising these are limited by current and planned devolved powers), more specific actions around land use planning (initially linked around priority areas in the National Planning Framework), the development of a freight terminal strategy, more action around specific market opportunities (e.g. oil and gas, timber), and additional emphasis on safety and environmental factors as well as appropriate recognition of the costs to public funds of roads investment (maintenance and enhancements) related to road freight activity.

39. Some industry respondents noted that the list of actions were numerous and potentially resource intensive, requiring strong leadership and facilitation from the Scottish Government and coordinated responses from across industry. Accordingly, the positioning of the Scotland Freight Joint Board was seen as critical to delivery.

40. Many respondents identified that the draft timescales for delivering actions had to be more ambitious, with accelerated intervention to respond to the loss of core coal and steel markets and help secure remaining resources.

Other views

41. Respondents were also invited to set out any other views for consideration when developing the final strategy document. Much of this simply repeated the key themes and issues raised against the individual questions summarised above although some additional points were recorded. A summary of key points is as follows:

- Recognition that rail freight operates in response to specific customer demand rather than being planned in advance so use of capacity needs to be different to that of passenger services;
- Strategy should be appropriately positioned within an overarching all-mode freight strategy and should clarify that modal shift from road transportation is the objective;
- Rail connectivity with ports must be assessed to fully exploit opportunities for international intermodal traffic;
- Focus should be on resilience of all infrastructure (rail and road) and proper consideration of ‘structural’ barriers restricting whole-network capability in the north of the country;
- Importance of collaborative working with UK Government around implementation of the strategy, reflecting the development of a similar strategy by the DfT and the GB wide nature of the rail freight market;
- Bright future for rail freight in Scotland if challenges around volumes, congestion and path availability are met collaboratively across operators;

- Addressing capacity constraints needs to be a key focus, particularly lack of path availability on key routes north of the central belt;
- Identification of a gap between the long-term nature of rail investment and the on-going dominance of short-term contractual arrangements within the transport and logistics sector;
- Need to better align strategy with European Climate Change Directives and Climate Change (Scotland) Act.

Next steps

42. This analysis report is being published alongside “Delivering the Goods – Scotland’s Rail Freight Strategy” which confirms the Scottish Government’s vision for a competitive and sustainable rail freight sector that will meet the demands of modern markets, provide a boost to the industry, and support economic and environmental targets. A number of actions are identified in the Strategy which respond to the many issues raised through the consultation process.