4. Creating the platform for growth and tackling the challenges

Overview

5. Scotland has substantial natural resources, a highly skilled workforce, a long-standing reputation for innovation, an internationally recognised brand, sectors and companies that are competing at the highest level of international markets, particularly in the oil and gas and food and drink sectors, and exciting developments in emerging sectors such as offshore renewables.

6. The Scottish Government has also set out an objective to rebalance and reindustrialise the Scottish economy to help support a more resilient and sustainable economy with opportunities for all. With the right conditions, actions and support, these conditions provide a solid platform for a profitable and sustainable rail freight sector.

7. To secure any modal shift and the long-term future of rail freight in Scotland, rail needs to be able to compete effectively with the use of road by heavy goods vehicles. Freight customers want a competitive price to transport their goods and a reliable and consistent service. The roads network is generally always accessible for freight.

8. In some markets the economics cannot be made to work and rail doesn’t offer a viable service alternative to customers. Conversely the transportation of heavy bulk goods in long trains over even comparatively short distances remains a key strength and market opportunity. However, between these extremes there is a margin where strategic intervention can help change the relative economics between rail and other modes and where an equivalent level of service can be offered. This is a focus of this consultation. If, collectively, we can achieve that then logistic companies and rail freight operators are well placed to move in and exploit the changes.

Decline in Traditional Markets – The Changing Economics of Coal

9. Rail has supported the electricity generation market for many years, moving significant volumes of bulk coal both within Scotland and across the border to English power stations. Data from the Scottish Transport Statistics show that between 2002 and 2006 the movement of minerals, predominantly coal, accounted for between 75% and 80% of the total rail freight market in Scotland. This market share has however fallen steadily to around 50% according to most recent data and further decline is expected.

10. Despite strong growth in the intermodal market, the rapidly declining volume of coal being transported by rail has contributed to a net reduction in the total rail freight market in Scotland of around 40%. The Scottish opencast coal sector has actual and predicted production figures of around 2 million tonnes of coal in 2015, and this production level is estimated to decrease to around 0.5 million tonnes by 2020\(^3\). Changes in the economics of power generation and environmental legislation have reduced the demand for and movement of coal for the energy supply industry. Scottish Power’s announcement that they are closing the Longannet plant in March 2016, and similar announcements for other plants south of the border (including the Scottish and Southern Energy (SSE) Ferrybridge plant in Yorkshire) which are serviced by coal flows from Scotland, will mean substantial further reductions in coal flows by rail from next year. Without coordinated intervention the rail freight industry in Scotland is likely to severely decline.

\(^3\) Source – UK Coal Authority
decline. This amplifies the need for other existing markets to grow and new markets to emerge.

Future Demand

11. Network Rail’s Freight Market Study, published in 2013, predicted unconstrained growth in rail freight movements for Scotland from **14 million tonnes per annum to 26 million tonnes by 2043**. However, at the time the study was produced, the pace and severity of the decline in coal traffic was not envisaged and there is early evidence that growth in other markets has fallen below projected levels. Despite these factors the long term forecasts do provide a useful indicator of the full market potential for rail freight in Scotland if certain conditions were met. Accordingly we will look to work with the industry to undertake an in-depth economic, social and environmental review of the existing market and the potential for new and existing markets to grow.

Market Opportunities

12. Opportunities for growth exist across a number of markets, particularly where Scotland may hold a competitive advantage. For example, timber products, whisky, bottled water, fish and meat, or where alternative forms of energy supplies are required, such as biomass. If rail freight in Scotland is to be sustained and grow, new and expanded sub-sectors will need to be explored. Some of these are described below.

Freightliner Coatbridge Terminal

Intermodal markets

13. Intermodal (the movement of goods using “unitised” loads such as containers for more than one form of transport) is the fastest growing sector of the GB rail freight market. This has been driven by an expansion in the movement of consumer goods by intermodal containerised traffic, particularly the cross-border domestic flows between central Scotland and the English Midlands. This growth is from a relatively low base and rail still accounts for a small share of
the cross-border market. However, while the potential for further growth is clear, success will depend on reducing the mileage threshold at which rail is competitive with road and supporting increased collaboration across modes.

**Food & Drink (Intermodal)**

14. Scotland has a hugely successful food and drink sector with a proud heritage and a reputation for producing high quality food and drink with a provenance that consumers trust and seek out. The food and drink production sector is one of Scotland’s biggest economic success stories with annual sales of £8.3 billion⁴ and sustained exports to Europe by rail, road and sea. Feedback suggests that Scotland has a number of markets where there may be untapped potential for transporting goods by rail including perishable goods such as fish and meat. To maximise this the Scottish Government will take an action to work in collaboration with rail industry partners and the food and drink industry to reach a full understanding of the opportunities for growth in the movement of food and drink by rail and how any potential barriers can be overcome.

**Whisky**

15. Within the food and drink sector around one third of all finished whisky products move by rail, including through intermodal transit. A recent pilot project suggests that, with the right environment, there is significant potential for greater efficiency and growth. In particular where the whisky can move as part of a multi-product load.

---

**Pilot project - Lifting the Spirit**

Part funded by HITRANS (the Highlands and Islands Transport Partnership), Highlands and Islands Enterprise (HIE), and Moray Council as well as broader EU funding, this trial examined the feasibility of moving bulk spirit and other food products by rail between Elgin and Grangemouth. To facilitate this, improvements to Elgin freight yard were undertaken along with the procurement of specialised inter-modal containers to use for transporting bulk spirit and casks.

The outcome of the trial demonstrated that it was physically possible to move more bulk spirit by rail and that there was the potential for a sustained service if a number of practical issues were resolved, including compliance and contractual matters.

---

Forestry Products

16. Every year millions of tonnes of timber travels across Scotland and beyond, benefitting the economy and communities that depend on forestry products. Commercial forestry now covers almost 14% of Scotland’s land area with the bulk of timber production coming from heavily forested regions of Scotland. The Scottish Government has a target to continue to expand the forest resource by 100,000 hectares in the decade to 2022.

17. Timber haulage is a key part of the forestry life cycle but by necessity the journey to market often starts on rural roads that weren’t originally designed for heavy traffic. It is therefore vital that all opportunities are sought to minimise the environmental and social impact of timber miles. Clearly where feasible this should include the development of more sustainable modes
of timber transport. Where economies of scale are possible then there is the potential for rail to play a key part.

18. Feedback from the timber industry suggests that rail access in some rural areas can be challenging which restricts the opportunities for intermodal transport of timber. The Highland Timber Transport group has made repeated efforts to resurrect rail haulage but costs and infrastructure constraints have been cited as potential barriers. Innovation will be the key to unlocking transportation of timber by rail and we will support the industry in working with partners especially Forestry Commission Scotland to explore potential opportunities around timber transport and rail.

Construction Industry

19. The scale of the infrastructure programme currently being delivered in Scotland particularly in terms of road and rail projects is unprecedented though clearly the construction sector goes far wider than transport infrastructure. As far as permissible under procurement policy we will engage with public authorities and the rail freight sector in the planning of public procurement. For private sector procurement we will look to help the rail freight industry to maximise opportunities for embedding rail freight in construction projects and to identify areas of growth. This will be taken forward initially through engagement with the major construction bodies.

Low bulk haulage

20. Another area which merits investigation is the transport of low bulk goods, such as parcels and food and drink products, through either conventional freight services or through suitable rail passenger services, particularly on key intercity routes. A current example is the carriage of fresh shellfish on the Inverness to London Euston overnight sleeper service for use in London the next day. Building on examples like this could serve to complement growth in on-line shopping and the current expansion in parcel service providers in and around railways stations and major hubs across the country. It could also potentially enable small and medium sized businesses across Scotland to access new business opportunities through lowering the costs of moving products to more distant markets.

21. Innovative pilot schemes for carrying low-bulk goods on passenger trains have shown some success south of the border such as the partnership between East Midlands Trains and 5PL on routes between Leicester, Nottingham and London. We have recently started two new franchises, so there may be similar opportunities for Scotland, particularly through ScotRail’s introduction of High Speed Trains across intercity routes from 2018 and the planned new Sleeper rolling stock, due for introduction in 2018. Within the scope of the Franchise Agreements we will work closely with the franchisees and the business community to explore the feasibility of potential options.
Accessing international markets

22. Scottish international exports in 2013 (excluding oil and gas) are provisionally estimated at £27.9 billion, an increase of £1.9 billion (7.2%) since 2012.

23. The two largest exporting industries in 2013, as in previous years, were manufacture of food & beverages (£5 billion, 18% of all exports) and manufacture of coke, refined petroleum and chemical products (£3.5 billion, 12.6% of all exports).

24. Just under half of international exports are destined for countries within the European Union (estimated at £12.9 billion, 46%). Within the European Union, the Netherlands was the largest market, followed next by Germany and then by France (£1.8 billion exports in 2013).

25. We do not at this point have a full picture of how much of this is moved by rail freight. However, it is clear that, working with the industry there is significant potential for growth if we can create the right environment.

26. Rail freight movements within Scotland cannot be considered in isolation and current connections with the rest of the UK, the port network and Europe are crucial both now and to achieve growth potential. Across the UK around £30 billion worth of goods are carried by rail each year. 14 million tonnes of freight was transported by 5 Freight Operating Companies to, from and within Scotland in 2013/2014 of which: 47% was exported, 14% was imported and 39% was moved internally within Scotland.

27. A key role for Transport Scotland and Network Rail and others in the rail industry is to ensure that there is synchronisation in investment decisions across the logistics network to maximise the economic, social, and environmental benefits.

---

Harbours and Ports

28. Feedback from stakeholders has indicated that there is in some cases limited rail freight access to harbours and ports in Scotland and with the exception of coal imports at Hunterston, the ports which do have a rail connection in Scotland rarely make use of the rail network. This in part is due to limited interest from customers, the fact that ports see rail as ‘a competitor’ and the difficulties and costs associated with connecting Scottish ports to the national rail network. Grangemouth and other freight handling facilities on the Forth are designated as national developments in the Scottish Government’s long term spatial expression of our economic strategy - National Planning Framework 3 with rail links being considered an integral element as part of their delivery.

29. A sub-group of ScotFlag (page 15) is also considering a range of other potential developments as part of the work to inform the next National Planning Framework (NPF 4). The outcomes of this work will feed into the industry planning processes for future rail freight investment from 2019 onwards.

Channel Tunnel

30. There are currently no direct rail services from Scotland to the continent via the Channel Tunnel. Stakeholders have indicated that this situation has arisen due to insufficient volumes and a number of technical constraints, in particular around rolling stock, which necessitates the transfer of goods that have originated in Scotland to other freight services. The real or perceived inability to run direct services is potentially a lost market opportunity. We will work with the industry to examine what the constraints are and to identify options to overcome these.

31. There have been a number of incidents which have led to the closure of the Channel Tunnel, affecting both rail freight and passenger services. The Tunnel is a matter reserved to the UK Government however, we have been working closely with them to represent Scotland’s interests and will continue to do so.

Actions

- To work with the industry to undertake an in depth economic, social and environmental review of the existing market and the potential for new and existing markets to grow.
- To develop a clear and shared understanding of the opportunities and constraints on growth in the movement of food and drink by rail and how any potential barriers can be overcome.
- To work with partners including Forestry Commission Scotland to explore potential opportunities around timber transport and rail.
- To engage with the rail freight sector in the planning of public procurement generally to maximise available opportunities (as far as permissible under procurement policy).
- To support the rail industry to maximise opportunities for embedding rail freight in construction projects and to identify areas of growth.
- To explore the potential for growth in the movement of parcels on passenger services.
- To consider the issues affecting the operation of cross border rail freight services, including services using the Channel Tunnel.

---

6 http://www.gov.scot/Topics/Built-Environment/planning/National-Planning-Framework