



**TRANSPORT
SCOTLAND**
CÒMHDHAIL ALBA

Delivering the Goods

Consultation towards Scotland's
Rail Freight Strategy



“An efficient national transport network is vital in supporting Scottish businesses to thrive and grow. Rail plays an essential role in supporting Scotland’s economic and social wellbeing.”

Foreword by the Minister for Transport & Islands

This is undoubtedly a challenging time for the rail freight industry in Scotland. Its predominant market, coal, is declining rapidly with the closure of Longannet and reductions in flows to power stations in England. Despite this, I see a positive, sustainable future for Scottish rail freight, where it plays a significant role in Scotland’s economic growth through providing a safer, greener, and more efficient way of transporting products and materials.

I want to support the Scottish rail freight industry as it seeks out new opportunities and to help it grow existing markets. And, despite imposed austerity measures by the UK Government, we have a proven track record of investment in our railways, with over £5 billion committed between 2014-2019, including a £30 million Scottish Strategic Rail Freight Investment Fund.

Key to the future success of rail freight is creating an environment where the industry has the space to innovate, where it can work together for the benefit of its customers, where companies are clear on the benefits of using rail freight and where funders can be assured of optimum value for their investment.

We have had extensive engagement with the rail freight industry and other stakeholders. They have identified a number of barriers which have to be overcome to achieve our shared aspirations for growth, many of which are specific to the sector. However, these are not in any way insurmountable. This document contains a number of proposals designed to help rail freight achieve its maximum potential through a coordinated, collaborative rail freight strategy, which will complement our broader National Transport Strategy.

But the Scottish Government cannot do this alone, particularly in the current fiscal climate. To make this work, we need a firm commitment from the rail freight industry and its customers. Not just in words, but also in positive action and investment. I am grateful to all those who have contributed their time and experiences to date. I want to hear from everyone with an interest in rail freight – this will help to ensure that the strategy for rail freight is the right one and one that we can deliver together.

Derek Mackay
Minister for Transport and Islands

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Questions

As you read through this consultation please consider the questions listed below. We would welcome your views and feedback.

- 1) What are your views on the vision for rail freight in Scotland?
- 2) What are your views on the market opportunities identified in the document?
- 3) What are the 3 biggest opportunities for growth in the rail freight sector in Scotland?
- 4) What are the 3 biggest challenges to growth in the sector?
- 5) What are your views on the role of the Scottish Government, as outlined in the document?
- 6) What are your views on the steps necessary to create a stable environment for growth?
- 7) Should targets be set in the final strategy and if so, what areas should these cover?
- 8) What are your views on the actions identified in the document and who should take the lead role in delivering these?
- 9) Any other views?

1. A vision for rail freight in Scotland

1. The Scottish Government's vision is for a competitive, sustainable rail freight sector playing an increasing role in Scotland's economic growth by providing a safer, greener, and more efficient way of transporting products and materials.
2. We are consulting on a range of issues towards the development of a high level strategy, which will outline the steps that the Scottish Government will take to help the rail freight industry in Scotland fulfil its potential. Working with industry, the regulator and partners across the public, private and third sectors, we believe the potential of the industry can be best realised through four core levers:



INNOVATION
EXPLORING NEW, MORE
EFFICIENT WAYS
OF TRANSPORTING GOODS ACROSS
SCOTLAND AND THE UK
AND TO THE CONTINENT



FACILITATION
**BUILDING THE
SUSTAINABLE
PARTNERSHIPS**
WHICH WILL BRING BENEFITS
TO CUSTOMERS AND HELP TO GROW
EXISTING, NEW AND EMERGING MARKETS



PROMOTION
SHINING A LIGHT
ON THE ECONOMIC,
SOCIAL & ENVIRONMENTAL
BENEFITS OF
MOVING GOODS BY RAIL



INVESTMENT
MAXIMISING THE IMPACT
OF PUBLIC AND PRIVATE INVESTMENT
WITH A FOCUS ON ALIGNED
INCENTIVES AND COLLABORATION
TO DRIVE EFFICIENCY AND
VALUE FOR MONEY



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2. Rail freight – delivering the goods for Scotland

3. Rail freight has a significant role in everyday life in Scotland. Whilst not always visible to us, a wide range of everyday goods and essentials move by rail such as fuel, food and clothing. And some of our exports are also moved by rail, from whisky to shortbread and bottled water. This consultation will help shape our strategy for rail freight, which forms part of our strategic approach to Scotland's railways and will support the delivery of the National Transport Strategy. The rail freight strategy will identify how the sector can support the delivery of the objectives set out in Scotland's Economic Strategy¹, and it will inform the Scottish Government's high-level planning, policy development and strategic approach over the next 15 to 20 years.

Scotland's Economic Strategy

Since 2007, the Scottish Government's central purpose has been to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. This remains the Government's ambition to which all our efforts and actions are directed.

4. Rail freight has a vital role in delivering the Scottish Government's objectives:

Economic growth: Scotland's Economic Strategy reaffirms the Scottish Government's commitment to creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. It forms the strategic plan for existing and all future Scottish Government policy and prioritises boosting investment and innovation, and supporting inclusive growth. A vibrant rail freight sector can play a vital role in this by supporting increased exports overseas and the efficient movement of goods across Scotland and the UK. It can help businesses of all sizes to grow existing markets and explore new ones. In particular, we will work with the rail freight industry and business organisations to examine the role that rail freight can play in creating opportunities for small to medium sized businesses to grow their existing markets and access new ones.

- **Supporting stronger, safer communities:** People and communities rely on rail freight. It is part of our everyday lives delivering mail, parcels, goods and consumables for shops and supermarkets, and an efficient rail freight industry can play a part in keeping consumer prices lower. In particular, we are keen to work with the industry to explore areas where rail freight can support rural communities. Rail freight can also improve safety and reduce congestion, with each freight train **removing up to 76 heavy goods vehicles from the roads**.
- **Tackling climate change:** Per tonne of cargo rail freight produces **76% less carbon dioxide** than road freight. Rail freight emits less than one tenth of the nitrogen oxide

¹ Government Economic Strategy - <http://www.gov.scot/Publications/2015/03/5984>

and fine particulates of road haulage per tonne.² A shift from road freight to rail, where this is viable, can help the Scottish Government meet its commitment to tackling climate change, and help to meet EU targets for modal shift from road to rail (and waterways) of 30% by 2030 and 50% by 2050 for distances greater than 300 kilometres.

- **Internationalisation:** A rail freight industry with a proven track record of moving goods efficiently can help to create the underlying conditions which make Scotland an attractive place to invest. It can help the Scottish economy strengthen its links with the global economy and promote Scotland's international brand.

Actions

- To work with the rail freight industry and business organisations to examine the role that rail freight can play in creating opportunities for small to medium sized businesses.
- To support the industry and local stakeholders in examining areas where rail freight can better support the economic, social and environmental objectives of rural communities.

Coatbridge to Crewe - Freightliner Intermodal Service



² Value & Importance of Rail Freight, Network Rail, April 2013

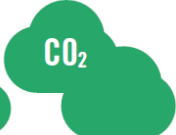
3. Scotland's rail freight industry at a glance

GB-WIDE INDUSTRY
CARRIES GOODS WORTH OVER
£30 BILLION
PER ANNUM:
RANGING FROM HIGH END WHISKY
TO GOODS FOR OUR
SUPERMARKET SHELVES






EACH FREIGHT TRAIN
REMOVES UP TO
76 
HEAVY GOODS VEHICLES
FROM THE ROAD

AROUND
14 MILLION
TONNES 
OF FREIGHT WAS TRANSPORTED
BY 5 FREIGHT OPERATING
COMPANIES 2013/14

PER TONNE OF CARGO
RAIL FREIGHT PRODUCES
76% 
LESS CARBON DIOXIDE
THAN ROAD FREIGHT

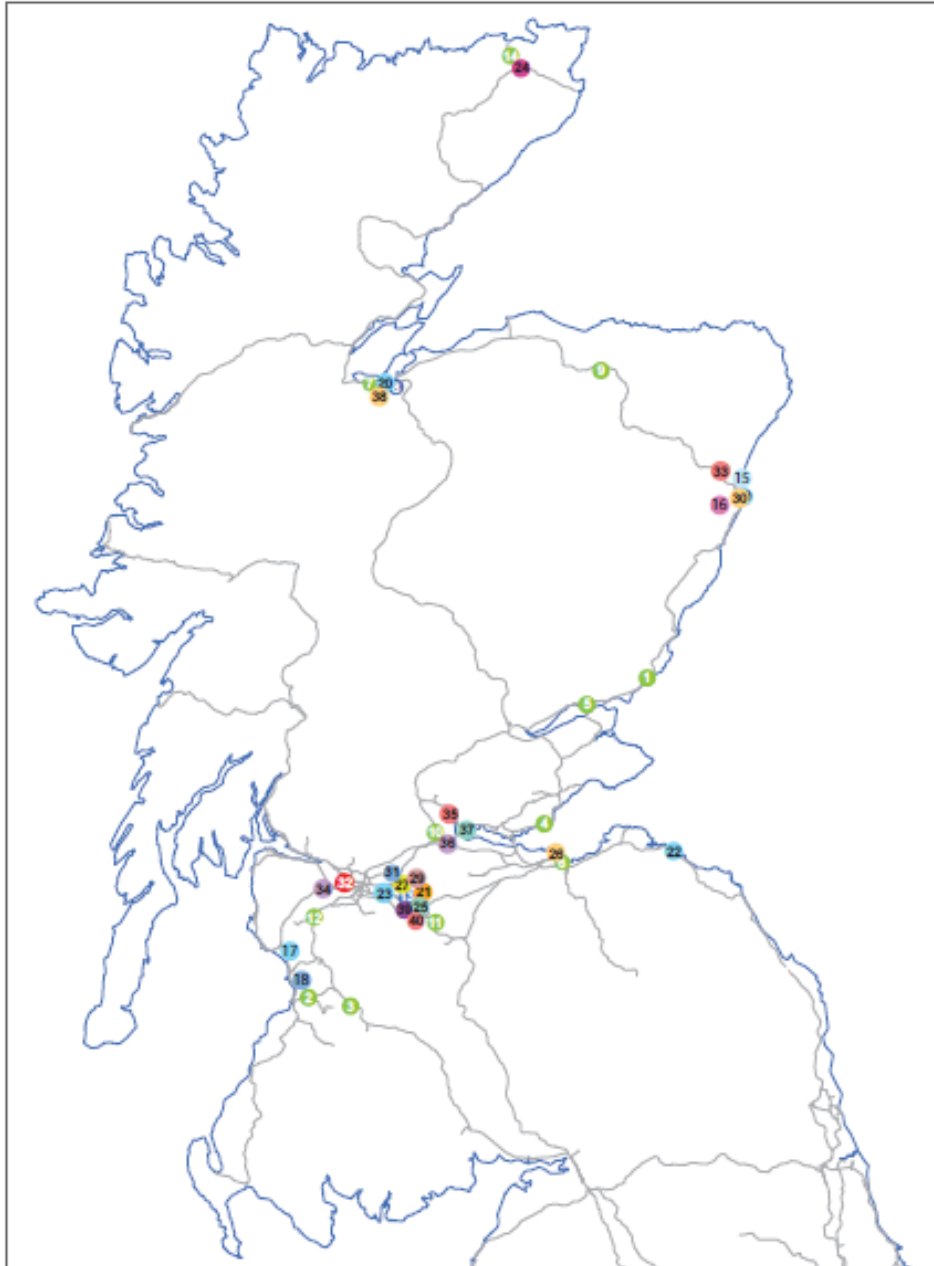
RAIL'S SHARE  **OF THE**
SCOTTISH
FREIGHT
MARKET
IS 10%
— SAME AS THE EUROPEAN AVERAGE

£30 MILLION
SCOTTISH STRATEGIC RAIL
FREIGHT INVESTMENT FUND
RING-FENCED AND
GOVERNED BY THE
INDUSTRY 

PREDICTED UNCONSTRAINED
GROWTH FROM
 **TO** 
14 MILLION **26 MILLION**
TONNES **TONNES**
BY 2043

CURRENT INVESTMENT
PROGRAMME IN RAIL OF
£5 BILLION +  
FOR 2014 - 2019

Scotland: Freight Terminals



Strategic and Supplementary Freight Sites

- 1 Arbroath
- 2 Auchincruive
- 3 Auchinleck
- 4 Burntisland
- 5 Dundee East
- 6 Edinburgh Portobello
- 7 Inverness Coal Depot
- 8 Inverness Needlefield
- 9 Keith Freight Depot
- 10 Larbert Muirhall Road
- 11 Law Jn
- 12 Lugton
- 13 Mossend
- 14 Thurso Yard

- Freight Sites**
- Strategic Freight Site
 - Supplementary Freight Site

Specialist Minerals

- 15 Omya
- 16 Aberdeen Waterloo
- 17 Irvine UPM Kymmene
- 18 Mossend

- Terminal Operator**
- Aberdeen Harbour Board
 - Omya
 - UPM Kymmene
 - PD Stirling

Cement

- 19 Aberdeen Craiginchies
- 20 Inverness
- 21 Mossend
- 22 Oxwellmains (Dunbar)
- 23 Uddingston

- Terminal Operator**
- Lafarge Tarmac
 - PD Stirling

Metals

- 24 Georgemas Jn
- 25 Dalzell
- 26 Leith
- 27 Mossend
- 28 Raiths Farm (Dyce)

- Terminal Operator**
- Network Rail
 - DBS
 - PD Stirling
 - Tata
 - EG Steele

Aggregates

- 29 Mossend

- Terminal Operator**
- PD Stirling

Intermodal

- 30 Aberdeen Craiginchies
- 31 Coatbridge
- 32 Deanside (Hillington)
- 33 Dyce Raiths Farm
- 34 Elderslie
- 35 Grangemouth (1)
- 36 Grangemouth (2)
- 37 Grangemouth (3)
- 38 Inverness
- 39 Mossend
- 40 Mossend EuroTerminal

- Terminal Operator**
- Direct Rail Services
 - DB Schenker
 - Forth Ports
 - WH Malcolm
 - Freightliner
 - JG Russell
 - PD Sterling

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 2020³. 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

³ Source – UK Coal Authority

decline. This amplifies the need for other existing markets to grow and new markets to emerge.

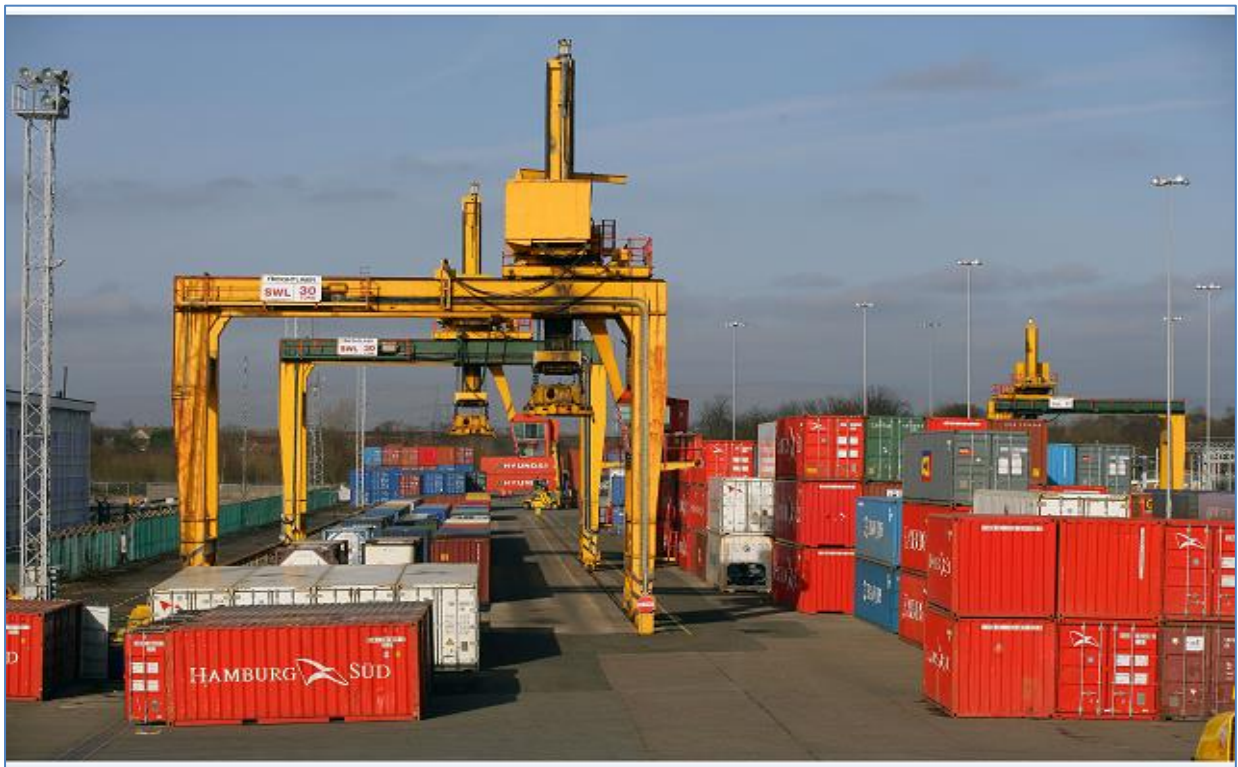
Future Demand

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.

⁴ Synthesis Report of Freight Flow Mapping – Scotland (2012) Transport Research Institute, Edinburgh

Lifting The Spirit Pilot Project, DBS Locomotives



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.

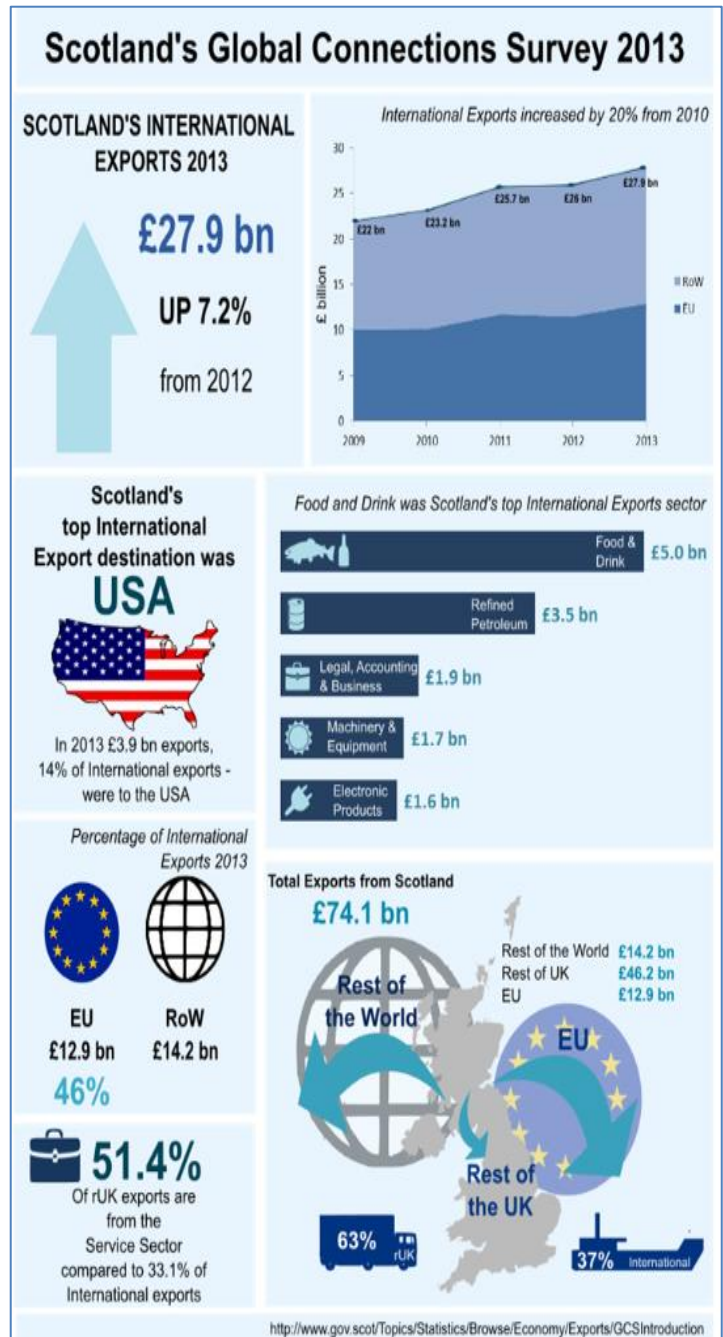
23. The two largest exporting industries in 2013, as in previous years, were manufacture of food & beverages (£5 billion, 18% of all exports) and manufacture of coke, refined petroleum and chemical products (£3.5 billion, 12.6% of all exports).

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).⁵

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.



⁵ Scotland's Global Connections Survey, 2013:

<http://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/GCSIntroduction>

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 3⁶ 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>

5. Role of the Scottish Government

Overview

32. Under executive devolution, the Scottish Ministers have statutory powers to set a strategy for Scotland's freight and passenger rail services. They also have the power to specify and fund outcomes for rail, primarily through the Office of Rail and Road's (ORR) periodic review of Network Rail's outputs and funding requirements, and the letting of the ScotRail and Caledonian Sleeper franchises.

33. Rail freight operates within a commercial market with freight operating companies and third party logistics providers providing services to customers under contract. While the industry itself plays the lead role within this commercial environment, we also see a role for the Scottish Government in supporting innovation, facilitating partnerships and collaboration, promoting the benefits of moving goods by rail, making targeted investment which will deliver wider economic, social and environmental benefits and facilitating synergy between freight and franchised passenger operations. This chapter explores this further.

INNOVATION: Supporting Innovation

34. Scottish industry has a long history of innovation, both technical and commercial. We want to give the rail freight industry the tools and also the space to develop the right solutions to exploit the opportunities and address the challenges of an evolving industry and changing markets. That is why we will work with the industry to consider the value of establishing a rail freight innovation fund for Scotland within the boundaries of the legislative powers and state aid remit available to us.

35. We are also keen for the industry to come forward with proposals for pilot initiatives, in particular in those areas where we see the greatest opportunities for growth (see Chapter 4). Where appropriate, and subject to UK law and State Aid rules, the Scottish Government may consider financial support, provided that the initiatives have a very clear plan to achieve sustainability and to be self-financing in the medium to longer term.

FACILITATION: Facilitating Partnerships and Collaboration

36. There are two aspects to this:

- Strategic partnerships where the industry, the regulator and the Scottish Government come together to consider the key issues affecting Scottish rail freight as a whole.
- Collaboration between industry players in order to facilitate the efficient movement of goods.

Strategic Partnerships

37. There are a number of groups within Scotland which look at the main strategic issues facing rail freight and the wider logistics sector:

- **The Scottish Freight & Logistics Advisory Group (ScotFlag):** monitors and provides advice to the Scottish Government on the delivery of wider freight policy in Scotland and its contribution towards national outcomes and objectives.

- **The Scotland Freight Joint Board:** provides a collaborative governance structure which puts the industry at the centre of planning and investment decisions. A sub-group of the Scotland Freight Joint Board provides oversight and governance of the Scottish Strategic Rail Freight Investment Fund (see page 18).
- **The Freight Working Group** attended by licensed freight operators and Network Rail to identify and progress freight projects and enhancement opportunities.
- **Scottish Rail Industry Planning and Advisory Group:** provides advice to the Scottish Government on future planning priorities and the delivery of the current rail infrastructure programme.

38. Scotland's rail freight interests are also represented on a number of GB wide groups:

- **Network Route Utilisation Strategy Freight Working Group**
- **Freight Industry Steering Group**
- **Department for Transport Rail Freight Forum**
- **Strategic Freight Network Steering Group**

39. We are of the view that the current structure for strategic partnerships in Scotland and with the GB-wide industry strikes the right balance between meaningful engagement, time and resource, but as a matter of good practice will continue to keep it under review.

Collaboration between industry partners

40. A recurring theme during our discussions with the rail freight industry was the potential benefits of collaboration between freight service providers. For example, joint freight movements can improve efficiency, reduce costs and help to free up network capacity. Given the commercial nature of the freight industry, the role of the Scottish Government in this is limited. However, we challenge the industry to further examine areas where collaborative working can benefit freight users and potentially unlock new markets. Where possible, we would consider supporting such initiatives provided that the business case was robust and sustainable and in line with State Aid rules.

PROMOTION: Promoting Rail Freight

41. Emerging evidence from Scottish Government commissioned research into the transport needs of the Scottish growth sectors suggests that there is a lack of awareness among Scottish businesses, in particular small to medium sized enterprises, about the potential benefits of using rail freight and how to access providers. There is also a perception that accessing rail freight services is complex, in particular compared to the ease of putting a lorry onto the road network. This echoed comments which we have received from the rail freight industry itself. Recent discussions with the rail industry have identified the need for a web based portal which could for example provide detailed information about freight timetables, loading capacity, available capacity on the network and contact details of logistics companies. Again we would look to the industry to lead on this work and we will support it where we can within the confines of State Aid rules.

42. Another recurring theme from those discussions was a concern around a lack of proactive messaging on the social and environmental benefits of moving goods by rail. The strong view was that enabling the industry to do so could help to make rail freight a more attractive option for businesses.

43. We are keen to promote the use of rail freight in Scotland in this context and will support this through the following actions:

- We will work with colleagues across the Scottish Government to create a clear understanding of the benefits of rail freight and how this can help to support strategic development and the delivery of national outcomes. In particular, national planning, transport and environmental policy and public procurement.
- We will look to work with the industry to help them develop a strategy to reach out to businesses across Scotland and those serving Scottish markets to outline the broader economic and environmental benefits of using rail freight and to demystify the perceptions of complexity.

STRATEGY & PLANNING

Strategic planning of the rail network

44. As part of the Long Term Planning Process and complementing the published Rail Freight Market Study, Network Rail is also preparing the Scotland Route Study to assess the capacity and capability of the rail network and how this reflects current and projected demand for both freight and passenger services. This is a key input to the periodic review process and we will continue to work collaboratively with Network Rail, the wider freight industry, and other key stakeholders to ensure the analysis and any investment proposals that emerge from it properly reflect strategic priorities for rail freight in Scotland.

National Planning Framework

45. National Planning Framework 3 is the Scottish Government's spatial expression of our economic strategy. It brings together our plans and strategies in a range of matters, including transport and climate change to provide a coherent vision of how Scotland should evolve over the next 20 to 30 years. In preparing development plans, planning authorities should take account of National Planning Framework 3, including the national developments which are designated within it. National Planning Framework 3 is clear that our international gateways need to be supported by the right infrastructure. It also recognises that as well as having a role in reducing the carbon footprint of freight, rail networks are likely to be increasingly important as export potential grows in our transition to a low carbon economy.

46. Scottish planning policy sets out how nationally important land use matters should be addressed and supports the implementation of National Planning Framework 3. The policy is a relevant consideration for planning authorities when preparing development plans and making decisions on planning applications. It encourages consideration of the need for improved and additional freight transfer facilities as well as the identification of suitable locations for new or expanded rail and intermodal freight interchanges, in the preparation of development plans.

47. Action 27 of National Planning Framework 3 commits the Scottish Government to working with the freight sector to identify priority developments for inclusion in National Planning Framework 4. This work commenced in 2014 and we continue to engage with the sector, including rail freight on this within the broader operational context of the network as a whole.

INVESTMENT: Targeted Investment

Investing in the rail infrastructure – supporting a Scottish Strategic Freight Network

48. The Scottish Government has a strong track record of investing in Scotland's railways, with over £6 billion invested in rail infrastructure and services since 2007. For freight, investment in the rail infrastructure has supported new lines, new electrified routes, additional gauge clearance, and other enhancements that have helped improve the network capacity and capability for freight traffic.
49. The current £5 billion investment programme (which runs until 2019) includes the Edinburgh to Glasgow Improvement Programme (EGIP), Highland Main Line Phase 2, Aberdeen to Inverness Phase 1, and a wider rolling programme of network electrification that includes the Glasgow to Edinburgh via Shotts route, which will all bring new and improved opportunities for freight traffic. EGIP and Shotts electrification and related infrastructure works will allow more freight services to run with modern electric traction, helping increase power and haulage capability, providing viable diversionary routes, bi-directional working in key related locations, and helping improve freight performance and journey times, particularly for key cross border flows to and from terminals across central Scotland.
50. In the current rail funding settlement to 2019 a £30 million **Scottish Strategic Rail Freight Investment Fund** (SSRFIF) administered by Network Rail through the Scotland Freight Joint Board - has been made available for specific enhancements projects. The SSRFIF supports increased spending on strategic infrastructure enhancements to encourage growth in rail freight and facilitate modal shift from road to rail. It also positions the rail freight industry at the heart of the governance arrangements, allowing operators to work with Transport Scotland and Network Rail to direct investment on schemes that can help improve competitiveness, grow existing markets, and develop new ones.
51. The principle of a ring-fenced strategic freight fund, which is governed by the industry and demonstrably supports broader economic and social objectives for Scotland, is one that the Scottish Government will continue to support and will inform our approach to specification through the periodic review process beyond 2019.
52. Developing the rail network capability north of the central belt also remains a priority, particularly on the Highland Main Line between Perth and Inverness, and the other intercity routes to Aberdeen. Investment to 2019 will support some additional increased double tracking between Aberdeen and Inverness whilst a combination of some double track sections and longer passing loops on single line sections are expected to be delivered on the Highland Main Line. Substantial improvements to these key intercity routes, including additional gauge clearance and capacity to operate longer length trains, will continue beyond 2019 in line with the Strategic Transport Projects Review (STPR) recommendations and options identified through the industry's long-term planning process. Taken together with a focus on considering making available freight paths to better align with customers' needs, these improvements will help provide the scope for the rail freight market share to increase through the carriage of more intermodal traffic as well as key Highland exports such as whisky and timber.
53. The Scottish Government is committed to a rolling programme of rail electrification, recognising the key benefits it brings in terms of improved journey times and connectivity to cities, environmental benefits and reduced industry costs - particularly on the intercity network, including north of Perth to Inverness and Central Belt to Aberdeen. An electrification strategy is being developed that sets out our assessment of priorities for the roll-out of this programme.

54. The development of a new strategic East Coast cross border freight corridor is a key aspiration, both as a viable alternative route for existing traffic and as a means of tapping into the growth in goods and containerised traffic entering the deep ports, particularly at Teeside and Humberside. Planned upgrades to signalling and securing the necessary gauge clearance to support associated traffic between Berwick and Edinburgh and connections through to the WCML are a vital step forward. A commitment to electrify the Edinburgh South Suburban route will help fully unlock these markets and, accordingly, will be a priority for investment from 2019 subject to confirmation of the business case.

Carmuir's Twin Tunnel Scheme, Spring 2015 Scottish Strategic Rail Freight Investment Part-Funded Project



A holistic approach to investment

55. Feedback from the industry has been that they value highly stability and certainty in the infrastructure investment programme. We remain fully committed to the current programme which runs until 2019, and planning work has already begun for the period beyond that. However, we also want to work with the industry to broaden the scope of potential investment beyond the traditional towards the innovative, seeking out best value and a whole systems approach, ensuring that investment in track and train is fully aligned.
56. In the current climate the Scottish Government cannot, however, fund rail freight interventions in isolation. To maximise the impact of our investment there has to be a commitment from the industry to match that through investment in their own facilities and equipment, such as electric traction and modern terminal facilities to better meet market demand. It is also of critical importance that, working with the industry, we are able to fully demonstrate the value to Scotland of continued investment in rail freight, including continuation of the SSRFIF

Freight grants

57. Scottish Government freight mode shift grants continue to help companies to transfer their goods from movement by road onto more sustainable modes such as rail. The grants enable companies to offset the additional costs of building new rail freight handling facilities, securing handling equipment or storage as well as operating new freight services. Through the Freight Facilities Grant, over £44 million has been invested in 23 rail freight facilities across the country - from Dunbar to Fort William and Ayrshire to Inverness, removing over 170 million lorry miles from Scotland's roads. Additionally, since 2007 the Scottish Government has provided Mode Shift Revenue Support to the rail freight industry (including contributions made to the Department for Transport for the Scottish component of cross-border flows) totalling over £5.7 million - a crucial factor in supporting growth of supermarket intermodal rail freight traffic in Scotland.
58. It is clear that the industry supports the retention of the Freight Facilities Grant and Mode Shift Revenue Support scheme. These grants operate within a competitive commercial environment and state aid requirements must be respected. Transport Scotland's Freight Grants Team will continue to advise industry over scheme details from the early stages of project development, and will ensure the efficient processing of applications.
59. During our workshops there were suggestions that some rail aspects not currently eligible for freight mode shift grant support should also receive public support. The Scottish Government will work with the rail freight industry to ensure a fuller understanding of these aspects and remains open to ideas for alternative viable options in accordance with both domestic and European legislation.

Actions

- To work with the industry to consider the value of establishing an innovation fund.
- To support the industry to identify opportunities for pilot initiatives for rail freight.
- To work with colleagues across the public sector to create a clear understanding of the benefits of rail freight.
- To support the industry to develop a strategy which reaches out to business to promote the benefits of using rail freight.
- To continue the work started in 2014 with the freight sector to identify priority developments for inclusion in National Planning Framework 4.
- To continue a targeted programme of investment in the strategic capacity and capability of the rail infrastructure in Scotland.
- To work alongside industry partners to agree a common understanding of the scale and extent of the Scottish Strategic Freight Network.

Didcot to Mossend: DBS Intermodal Service



6. Creating a stable environment for growth

Overview

60. Railways in the UK and across the European Union is a regulated sector. The key functions of the Office of Rail and Road (ORR), the regulatory body for railways across Great Britain, is to ensure that railways remain safe and efficient, to set charges for train operators using the rail network and to set, monitor and where necessary enforce Network Rail's outputs.
61. Rail regulation is a matter which is reserved to the UK Parliament under the Scotland Act 1998. Therefore the Scottish Parliament does not have the powers to make any changes to the legislation which governs it. The Scottish Ministers can, however, issue statutory Guidance to the ORR on how they discharge their duties in relation to Scotland. The next statutory Guidance, which will be issued in 2016, will reflect the key points made in this Chapter.

Planning regulatory outputs

62. A key component in establishing Network Rail's outputs (periodic review) is the specification from the Scottish Ministers on what they want the rail network to deliver and how much public funding is available for this.
63. The freight industry has raised concerns that there has been a lack of specific commitment to rail freight outputs in previous specifications. Rather, they have been wrapped up as part of broader projects. We agree with this view, and give an undertaking to work with the industry to ensure that freight needs are captured in more explicit detail in future Ministerial specifications based on a clear and common understanding of the scope and scale of the Scottish strategic rail freight network.
64. In support of this, we are of the view that the ORR should include a very specific formal requirement of Network Rail and the wider rail industry as part of the periodic review process that they will clearly demonstrate that the position of freight has been examined and considered in full during rail planning processes. In particular, that all efforts have been made to maximise the synergies between passenger and freight services in proposals for investment priorities.

Incentives

65. A suite of incentives designed to encourage the rail markets to grow and innovate are set by the ORR through the regulatory framework, alongside incentives in areas such as efficiency and optimum use of the network.
66. While this has worked in some cases, the very strong feedback we have received from stakeholder workshops suggests that the existing regulatory framework can act as a disincentive for growth. There are significant questions over a system which, in some circumstances, can lead operators to be more responsive to the avoidance of regulatory fines than to the needs of their customers. There have also been significant concerns raised over the incentives on Network Rail to grow the rail freight sector, and the extent to which the track access regime does not encourage freight operators to behave in a way which maximises the capacity of the network.
67. In considering its approach to regulating the rail freight sector in Scotland, we have a very clear expectation that the ORR will play a proactive role in working with and encouraging the rail

industry to create an environment which is conducive to the expansion of rail freight movements, with a focus on modal shift. This is particularly relevant on a GB-wide basis for cross-border freight movements as connectivity to the rest of GB and overseas is crucial.

Charging

68. The ORR is responsible for setting the structure of track access charges paid by freight operators (and passenger operators) to Network Rail for use of the network. These are set at Periodic Review for the duration of the following control period (5 years). The purpose of these charges (and the 2 additional freight specific charges) is for Network Rail to recoup a share of fixed network costs incurred through freight operations. At a very broad level, we are supportive, of a track access charging structure which enables Network Rail to recover its efficient costs and which is fair. However, the charging structure should not serve to drive existing freight traffic from the railways nor discourage the emergence of new traffic and markets. We also broadly support the industry's calls for some degree of long term certainty in the charging regime – this is critical in order to give rail freight customers the comfort to support investment.

69. As was demonstrated during the last Periodic Review (PR13) with the proposals for the freight avoidable costs, changes to charges can have a disproportionate impact on the Scottish freight sector, which the ORR must be sensitive to and examine in detail before reaching any conclusions. It is vital that the ORR evaluate and learn from the experience of PR13 in this respect to help inform their approach in the future and base their approach in Scotland in the reality of the short, medium and long term position of the rail freight sector and the wider Scottish economy.

70. In partnership with key stakeholders, including the Rail Delivery Group, the ORR is currently carrying out a review of the structure of charges and they plan to publish their initial consultation on the future structure of Network Rail's track access charges later this year. The Scottish Government, through Transport Scotland, will continue to work with the ORR to encourage responsive, adaptable policies for the rail freight sector in Scotland within the overall strategic context of the rail freight strategy.

Simplicity

71. There is undoubtedly a tension between ensuring that the regulatory arrangements are fair and charges are broadly reflective of cost while keeping the system simple. Whatever the optimum solution is, the ORR must ensure that the interfaces between regulated areas and the freight operator and customer are as straightforward as possible.

Targets

72. There are a range of safety, performance, environmental and financial targets already in place across the regulated rail industry, many of which apply directly or indirectly to the rail freight industry in Scotland and across Great Britain. In addition, many of the rail freight companies will set their own internal targets with individual clients and/or across their whole organisations.

73. One of the issues raised during the stakeholder workshops was whether the final rail freight strategy would take the approach of setting targets for Scotland. While we think it is appropriate to set broad delivery timescales for the various actions which have been identified in this document, it is not our intention to propose any broader binding legislative or regulatory targets, particularly given the largely commercial nature of the industry.

74. However, we do recognise that setting meaningful targets can give direction and certainty to the delivery of outcomes. Therefore the industry may wish to challenge itself by setting targets or outputs that it will work in partnership to deliver and which it would be content to see reflected in the final strategy. This could cover areas such as growth, collaboration and investment. We would welcome views on this.

Actions

- To revise the Scottish Government Guidance to ORR to better reflect rail freight and the need for a stable regulatory environment to support growth.
- To ensure the needs of rail freight are captured in more explicit detail in future Ministerial specifications based on a clear and common understanding of the scope and scale of the Scottish strategic rail freight network and that the expected benefits and outcomes are fully delivered

DRS Intermodal Service at Euro-terminal, Mossend.

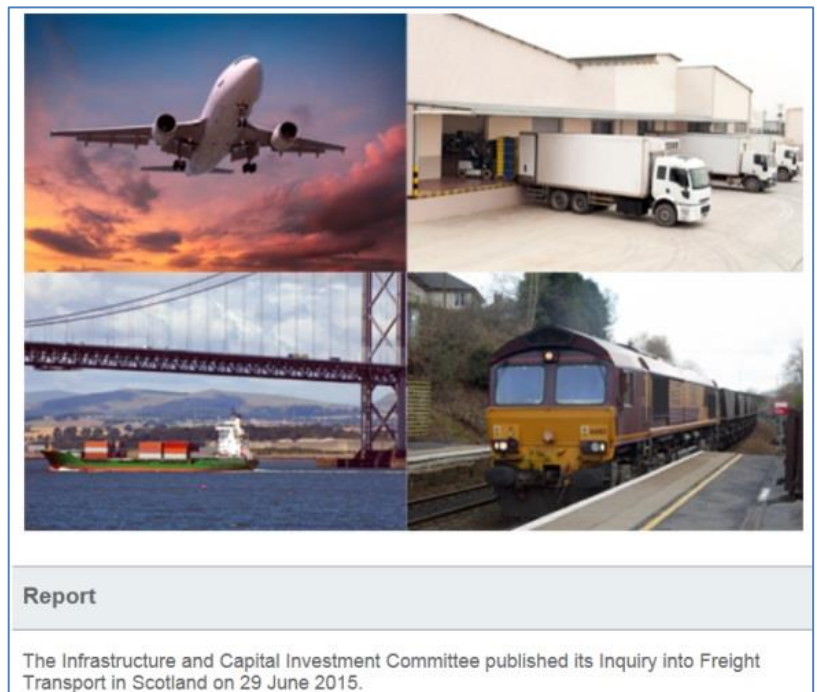


7. Stakeholder input, implementation & next steps

Overview

75. This consultation has been produced with input from a wide range of partners across the rail and logistics industries, and broader public and private sectors. The evidence collected from the pre-consultation phase has been valuable in informing this consultation document and we hope that stakeholders will recognise their feedback and inputs to date. We would like to acknowledge all of those who provided images for use in this document, including Paul Scott of Network Rail (pages 3, 5 and 21) who retains the copyright to them. The image on page 19 and map on page 7 have been provided by Network Rail who retain the copyright and the images on page 11 have been supplied by Frank Roach, Hitrans who also retains the copyright.

76. The Scottish Parliament's Infrastructure & Capital Investment Committee's Inquiry into Freight transport in Scotland and associated report (June 2015) has also been very helpful in identifying and understanding the challenges facing the freight industry more widely in Scotland, and in stimulating debate on the issues.



Next Steps

77. Following the consultation period we shall undertake an analysis of the responses and then publish a final version of the Rail freight strategy early in 2016. It is likely that the implementation of the Strategy will be through a series of actions which have been identified and which will be prioritised and taken forward by Transport Scotland, Network Rail, the ORR and the industry. Engagement with Regional Transport Partnerships and local authorities and other wider public and private sector partners will also be crucial to the successful delivery of the strategy recommendations. We anticipate a 2-3 year action programme and while monitoring of progress will be on-going, a comprehensive review will take place in 2018/2019.

78. During the consultation period a Business & Regulatory Impact Assessment and Strategic Environmental Assessment documents will be published. These will be updated as appropriate following the consultation.

79. Transport Scotland is undertaking a refresh of the National Transport Strategy including a revitalised freight transport policy focusing on changes to the strategic context since 2006 and clarification of existing transport roles and responsibilities of key parties. The rail freight strategy will form part of a suite of documents which supports this.

Closing Summary

80. This is undoubtedly a critical time for rail freight in Scotland, which is why this consultation is all the more timely. It presents a generational opportunity to set the platform for a strategy to deliver a shared vision for a sustainable, vibrant industry, which makes a telling contribution to Scotland's economic and social wellbeing.
81. The consultation document could not have been produced without the support and the insight from the rail freight industry in Scotland and across Great Britain and we are very grateful to all of those who have contributed. However, we are only at the start of a journey and the Scottish Government cannot reach the destination that we all desire by its own action. It will also require commitment and a willingness on the part of all those who want to see rail freight in Scotland succeed.
82. So we would urge the rail industry in particular, and all other interested parties, to respond to this consultation. Don't feel constrained by the questions – these are simply meant as a guide for thought and we would welcome as wide a range of views as possible on the things that are important to the on-going success and growth of the rail freight industry.

Annex 1 – Summary of Proposed Actions

Action	Innovation	Facilitation	Promotion	Investment	Timescale/ Deadline	Responsibility
To work with the rail freight industry and business organisations to examine the role that rail freight can play in creating opportunities for small to medium sized businesses.					March 2017	
To support the industry and local stakeholders in examining areas where rail freight can better support the economic, social and environmental objectives of rural communities.					August 2017	
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.					March 2017	
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.					August 2016	
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).					August 2016	
To support the rail industry to maximise opportunities for embedding rail freight in construction projects and to identify areas of growth.					December 2017	
To explore the potential for growth in the movement of parcels on passenger services.					August 2017	
To consider the issues affecting the operation of cross border rail freight services, including services using the Channel Tunnel.					August 2016	

Action	Innovation	Facilitation	Promotion	Investment	Timescale/ Deadline	Responsibility
To work with the industry to consider the value of establishing an innovation fund.					January 2019	
To support the industry to identify opportunities for pilot initiatives for rail freight.					March 2018	
To work with colleagues across the public sector to create a clear understanding of the benefits of rail freight.					March 2017	
To support the industry to develop a strategy which reaches out to business to promote the benefits of using rail freight.					December 2017	
To continue the work started in 2014 with the freight sector to identify priority developments for inclusion in National Planning Framework 4.					2016	
To continue a targeted programme of investment in the strategic capacity and capability of the rail infrastructure in Scotland.					On-going	
To work alongside industry partners to agree a common understanding of the scale and extent of the Scottish Strategic Freight Network.					August 2016	
To revise the Scottish Government Guidance to ORR to better reflect rail freight and the need for a stable regulatory environment to support growth.					March 2016	
To ensure the needs of rail freight are captured in more explicit detail in future Ministerial specifications based on a clear and common understanding of the scope and scale of the Scottish strategic rail freight network and that the expected benefits and outcomes are fully delivered.					Summer 2017	

ANNEX 2 – Respondent Information Form

Please Note this form **must** be returned with your response to ensure that we handle your response appropriately.

Name/Organisation

Title: Choose an item

First name: Enter first name here

Surname: Enter surname here

Organisation: Name of organisation

Contact details

Address: Address details

Postcode: Postcode

Telephone: Phone number

Email: Email address

Permissions

I am responding as... Choose an item.

Individuals

Do you agree to your response being made available to the public (in Scottish Government library and/or on the Transport Scotland website)?

Choose an item

Organisations/groups

The name and address of your organisation **will be** made available to the public (in the Scottish Government library and/or on the Transport Scotland website). Are you content for your response to be made available?

Choose an item

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Transport Scotland to contact you again in relation to this consultation exercise?

Choose an item

CONSULTATION QUESTIONS

1) What are your views on the vision for rail freight in Scotland?

[Click here to enter text](#)

2) What are your views on the market opportunities identified in the document?

[Click here to enter text](#)

3) What are the 3 biggest opportunities for growth in the rail freight sector in Scotland?

[Click here to enter text](#)

4) What are the 3 biggest challenges to growth in the sector?

[Click here to enter text](#)

5) What are your views on the role of the Scottish Government, as outlined in the document?

[Click here to enter text](#)

6) What are your views on the steps necessary to create a stable environment for growth?

[Click here to enter text](#)

7) Should targets be set in the final strategy and if so, what areas should these cover?

[Click here to enter text](#)

8) What are your views on the actions identified in the document and who should take the lead role in delivering these?

[Click here to enter text](#)

9) Any other views?

[Click here to enter text](#)



**TRANSPORT
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