1. Introduction

The Rail Freight Group – which represents users and suppliers of rail freight services throughout Great Britain – wishes to draw the attention of the Infrastructure & Capital Investment Committee to its concerns about the impact of the Scottish Government's proposed Spending Review on capital grant assistance for freight modal shift from road to rail (and sea).

Freight modal shift offers strong benefits in terms of economic development policy – providing a resilient alternative to total dependence on road haulage, a transport mode which is more vulnerable than rail to longer-term oil price and security trends. Greater availability of rail freight facilities and services allows shippers of freight (manufacturers, processors, retail groups etc) to benefit from a choice of modes of transport. Freight modal shift is also identified specifically as an important element of the Scottish Government's plan to meet carbon emissions reduction targets between 2010 and 2022.

However, the Spending Review places the long-standing Freight Facilities Grant (FFG) scheme in doubt, and provides no clarity on how the Scottish Government is going to deliver capital grant assistance to achieve freight modal shift objectives.

2. Current position

In the Scottish Government’s draft budget for 2012-13, there is no identified budget for the FFG scheme which over the last 36 years has provided capital grants to encourage freight modal shift from road to rail (and more recently, sea) transport.

The Support for the Freight Industry 2012-13 budget of £1.1m will be sufficient only to allow continued revenue grant funding of the rail and water freight flows currently supported by Waterborne Freight Grant and Mode Shift Revenue Support.

In a 23rd September 2011 letter to industry stakeholders, the Freight and Inland Waterways Branch of Transport Scotland indicated that, “No final decision on the budget for Freight Facilities Grant in 2012-13 has been made as yet”, and also noted that the budget statement incorporated a new ‘Scottish Futures Fund’ covering both a ‘Warm Homes Fund’ and a ‘Future Transport Fund’, and indicated that, “Funding of the Freight Facilities Grant scheme will be considered from the Future Transport Fund element of this.” The Transport Scotland letter concluded that, “Once Ministers have decided on how the Future Transport Fund will be utilised we will contact stakeholders with details.”

The budget document states that, “The Future Transport Fund will enable us to reduce the impact of transport on our environment, reducing congestion and supporting better public transport, active travel and low carbon vehicles.” It also states that, inter alia, the Scottish Government will, in 2012-13 to 2014-15, “continue to support freight modal shift.” The proposed budget for the Scottish Futures Fund is:

- £6.5m in 2012-13
- £15.5m in 2013-14
- £37.5m in 2014-15.

Thus in 2012-13 it is proposed that just £6.5m will be available to:

(i) fund Warm Homes
(ii) develop the low carbon vehicle agenda, including progress to deliver vehicle charging infrastructure
(iii) promote active travel choices, through support for cycling and walking initiatives, and
(iv) support modal shift through capital grants for rail and sea freight projects.

In contrast, the Scottish Government’s 2011 document ‘Low Carbon Scotland: Meeting the Emissions Reduction Targets 2010-2022: Report on Proposals and Policies’ (RPP) indicates that £15m has to be spent annually between now and 2022 on freight modal shift in order to deliver on carbon targets.
On the evidence currently available, there is no obvious or adequately funded grant mechanism for achieving freight modal shift in line with policy objectives for sustainable economic development, climate change, environmental protection and road safety. The suggested level of funding for 2012-13 does not give the confidence and continuity which the private sector needs to invest in rail freight.

3. Strategic rail investment and freight modal shift grants

The inherent technical characteristics of rail operation give rail freight particular strengths for transits which involve:
- large regular volumes – ideally trainloads of typically 500+ tonnes payload
- long hauls – particularly when both ends of the transit are not directly rail-connected
- direct rail connection at one end of the transit at least – saving the cost of rail to road transfer and local road collection/delivery.

Rail is dependent on the pattern of economic geography for its competitive success versus other modes, but it is also crucially affected by:
- the capacity and capability (eg height clearances) of the strategic route network, and,
- the availability of convenient access to the network at terminals such as private rail sidings (typically for bulk products) and ‘open access’ railheads (typically for intermodal traffic in containers).

Investment in the strategic route network is essentially controlled by Network Rail and Transport Scotland, and in this context we very much welcome the proposal in the recently published Initial Industry Plan Scotland 2011 that the Scottish Government should create a £50m ‘Scottish Freight Network Fund’ to enable small scale freight-specific enhancements – such as short extensions of electrification, longer loops and local signalling improvements – to be delivered during Control Period 5 (2014-2019).

Investment in access to the network has come from a combination of private investment and the FFG scheme. The private sector has made substantial investment in rail freight over recent decades – from the rail freight hauliers’ funding of new locomotive and wagon fleets to Scottish logistics companies’ demonstration of commitment through establishing new intermodal railheads at key regional centres across Scotland. However, the availability of modal shift capital (and revenue) grants has been fundamental to encouraging private investment in improving access to the network, and the current uncertainty created by the Spending Review is not conducive to planning for a bigger role for rail freight, and thereby contributing to:
- sustainable economic development – through giving key export sectors such as whisky a choice of transport modes, and thereby greater resilience in the face of winter conditions and future oil price and security concerns
- reducing trunk road congestion and the environmental impact of lorries – the key aim of the long-established and successful Freight Facilities Grants scheme, which is now in doubt.

While some new rail freight terminals in Scotland have been entirely funded by the private sector, on a strictly commercial basis, these have tended to be in markets where rail is at its strongest – such as trainload movements of coal – whereas for emerging rail markets such as supermarket supplies (eg Tesco to Grangemouth and Inverness, and Asda to Grangemouth and Aberdeen) FFG has been essential to tip the commercial balance from road to rail.

Since 1975, the FFG scheme in Scotland has offered grant aid up to 75% of the capital cost of facilities such as new sidings and loading equipment required to secure mode switch from road to rail. The availability of FFG capital grant has been critical to the vast majority of the switch from road to rail in the non-coal market in recent decades; it has also secured significant mode switch from road to sea, eg for timber on the west coast. FFG has allowed 33m lorry miles to be taken off Scottish roads annually since 1997, and supports economic development through providing a safe and sustainable alternative to road haulage.

4. Rail freight’s resilience and strategic role
Rail freight is substantially more energy-efficient than road haulage. Recent research\(^1\) by Professor Alan McKinnon (the world-renowned logistics specialist at Heriot-Watt University) has, for example, shown that in the case of the chemicals industry rail freight produces around one third of the carbon emissions per tonne-kilometre of road haulage, even where local road collection and delivery is required in addition to the rail trunk haul.

A related point is that rail freight (both through its greater energy efficiency and its ability to use electrified railways) offers considerably greater resilience than road haulage in the face of “Peak Oil”, the anticipated peaking of global oil production and its inexorable decline thereafter. UK oil production peaked in 1999, and the country has been a net importer of oil since 2004\(^2\). In the case of rail haulage, fuel costs typically represent 20%-25% of operating costs, whereas for road haulage the comparative figure is typically between 30% and 40%.

The Scottish Government has a programme for rail network electrification, and many of Scotland’s key freight railheads are either already served by electric railways (eg Coatbridge and Mossend), will be connected by planned schemes (eg Grangemouth through the EGIP project), or could benefit from future route electrification schemes (eg Aberdeen and Inverness).

For the overwhelming majority of potential rail freight flows there are no comparably low-carbon mode alternatives. The technology and availability of hybrid and battery electric lorries is developing, but electric vehicles have a relatively limited range due to the low energy density of batteries and the relatively long charging time. Their optimum use is likely to be for shorter-haul and lighter-weight urban and city region distribution, rather than the typically long and heavy hauls where rail freight excels. Ideally electric lorries would serve an extended network of regional railheads connected by electric rail routes, minimising the environmental impact of local road collection and delivery.

The strategic importance of rail freight’s resilience and its potentially expanded role in the Scottish economy is therefore clear.

5. Recent history of FFG
In part due to the relatively lengthy process involved in preparing and submitting FFG applications, the FFG budget of around £7m annually in recent years (until the reduction to £2m in the current year) has been under-spent since 2001 (when the Rosyth ferry terminal was funded). The average annual spend since then has been around £2.5m, across rail and water schemes.

The FFG scheme was first proposed for withdrawal in the Scottish Government’s draft 2011-12 budget, but following a cross-party initiative by the rail freight industry and environmental groups, the Scottish Government in its February 2011 Budget removed the immediate threat to the scheme by providing a £2m fund for projects which could be completed during the financial year 2011-12.

When the Scottish Government invited Notes of Interest in applying for FFG after the Budget announcement, a total of 19 companies registered an interest, for projects which would require FFG funding of around £20m – compared to a budget of just £2m. These projects were located throughout Scotland – in the Highlands & Islands, the North East, Tayside, the South East and South Ayrshire.

Due to the short-term nature of the current FFG budget, just 4 schemes out of the original 19 have been progressing through the FFG process.

6. Supporting freight modal shift to achieve economic development targets
Rail freight potentially has an important role to play in meeting economic development targets, and could, for example, be playing a much bigger part in the supply chain of key companies in Scotland’s export-leading drinks sector. Amongst the companies which have in recent years been exploring rail freight potential (on the basis of availability of freight modal shift grants) are Highland Spring at Blackford, which currently sends 100% of its product south by road, and Diageo, which – while it uses

\(^1\) Professor Alan McKinnon and Dr Maja Piecyk, Heriot-Watt University (2010). *Measuring and Managing CO2 Emissions of European Chemical Transport.*

\(^2\) [http://europe.theoildrum.com/node/7057](http://europe.theoildrum.com/node/7057)
rail for many spirit export movements from Central Scotland – is 100% dependent on road haulage for its substantial supply chain between the Highlands / North East of Scotland and Central Scotland.

By way of example of the potential pump-priming / catalytic role of modal shift grants, if the latter can once again be put on a properly-funded budgetary basis over a sustained period of time, then the development of an intermodal railhead at Leven – primarily but by no means exclusively for Diageo – could unlock a widespread shift of whisky-related transport within Scotland from road to rail. This in turn could benefit other sectors of the manufacturing / processing economy since the availability of new or upgraded intermodal railheads – such as at Elgin or Keith – will in turn make it easier for other commodity flows to transfer from road to rail.

Amongst the other locations across Scotland (with associated baseload traffic) which could benefit from a well-funded long-term modal shift grant programme are: Alloa (whisky), Bathgate (national distribution), Borders (waste and timber), Corpach (sawn timber), Crianlarich (timber), Dundee (supermarket supplies), Girvan (grain and whisky) and Kincardine [Fife] (sand).

7. Recommended action

If manufacturers, processors and logistics companies who are interested in the opportunities for shifting freight from road to rail are to be persuaded to pursue this interest, they urgently need much greater clarity about:

1. The freight modal shift capital budget.
2. The criteria for funding specific projects.
3. The process for applying for funding from the Future Transport Fund.

The Rail Freight Group also has severe doubts that a proposed 2012-13 capital budget of £6.5m can adequately cater for the needs of warm homes, low carbon vehicle development, walking and cycling initiatives and support for freight modal shift from road to rail and sea transport.

We recommend that a capital budget of at least £5m in 2012-13 should be devoted to freight modal shift, then building up quickly to achieve the £15m annual average required by the Scottish Government’s RPP.