SUBMISSION FROM THE RAIL FREIGHT GROUP

*Scottish Government Spending Review – Freight Modal Shift*

**Introduction**

The Rail Freight Group – which represents users and suppliers of rail freight services throughout Great Britain – wishes to draw the attention of the Rural Affairs, Climate Change & Environment 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 climate change policy, and is identified specifically as an important element of the Scottish Government’s plan to meet emissions reduction targets between 2010 and 2022.

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

**Current position**

In the Scottish Government’s draft budget for 2012-13, there is no identified budget for the Freight Facilities Grants 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.

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 climate change, sustainable economic development, environmental protection and road safety.

## Freight Facilities Grants and climate change

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, sustainable and resilient alternative to road haulage.

The methodology behind FFG is based principally on congestion benefits from taking heavy lorries off public roads, but also on other public benefits such as climate change, air pollution, noise and accidents.

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. Rail freight also offers significant advantages over road haulage with regard to most air pollutants, and is a considerably safer form of transport in terms of deaths and injuries caused.

A related point is that rail freight (both through its greater energy efficiency and its ability to use electrified railways) offers much 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\(^2\). 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 to electric rail routes, minimising the environmental impact of local road collection and delivery.

## 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.

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2. [http://europe.theoildrum.com/node/7057](http://europe.theoildrum.com/node/7057)
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.

Amongst the locations across Scotland (with associated baseload traffics) which could benefit from a well-funded long-term modal shift grant programme are: Alloa (whisky), Bathgate (national distribution), Blackford (bottled water), Borders (waste and timber), Crianlarich (timber), Dundee (supermarket supplies), Elgin/Keith (whisky), Girvan (grain and whisky) and Leven (whisky).

**Supporting freight modal shift to achieve climate change targets**

Rail freight potentially has an important role to play in meeting climate change targets, but if manufacturers, processors, logistics companies and road hauliers 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.

*David Spaven  
Scottish Representative, Rail Freight Group  
13 October 2011*