

Infrastructure and Capital Investment Committee

Inquiry into freight transport in Scotland

Letter from the Minister for Transport and Islands to the Convener responding to the Committee's report recommendations

Thank you for your email of 26 June enclosing a copy of the Committee's report on its inquiry into freight transport in Scotland. I am grateful for the opportunity to respond to the Committee's recommendations.

As I emphasised whilst giving evidence on 29 April, I recognise and value greatly the contribution the freight transport industry makes to the economy and communities throughout the country.

It is indisputable that the Scottish economy needs efficient, sustainable and robust freight transport in order to meet customer demands and compete effectively in a global economy. The Scottish Government recognises this in our vision for freight, which remains relevant today.

Our vision is for Scotland to be a place where the movement of freight through the entire supply chain is efficient and sustainable on a transport infrastructure that is integrated and flexible – thus allowing Scotland's businesses to compete and grow in a global economy.

We achieve this through working in partnership with both public and private sector stakeholders using our Scottish Freight and Logistics Advisory Group (ScotFLAG). This group ensures that the needs and concerns of the industry and its users are understood by government and that issues and potential solutions are explored collaboratively where practicable.

The evidence given during your Inquiry showed that we continue to enjoy the support of key stakeholders for this partnership approach. ScotFLAG offers an appropriate forum for progressing discussions on freight matters, including any activity in relation to your recommendations.

Several of your recommendations related to accelerated or new funding for particular aspects over the medium term – such matters will be determined by the availability of resources in future spending reviews. As I indicated in my evidence to your committee, on the big question of infrastructure spend, we can unlock extra resources only if we have access to greater spending capacity.

A detailed response to each of the Committee's recommendations to the Scottish Government is annexed to this letter.

Derek Mackay MSP
Minister for Transport and Islands
17 August 2015

ANNEX

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE: RESPONSE TO FREIGHT TRANSPORT INQUIRY REPORT

SCOTTISH GOVERNMENT RESPONSE TO THE REPORT RECOMMENDATIONS

Paragraph 40: Whilst acknowledging the work done in the Strategic Transport Projects Review, the Committee recommends that the timelines associated with the 29 projects are reviewed to reflect current circumstances and priorities and the results published.

The Strategic Transport Projects Review (STPR) considered the existing performance and future requirements of Scotland's national strategic transport networks, including road links to ports, and sets out 29 investment priorities over the period to 2032 which will be delivered subject to the transport allocation within future spending reviews. In doing so, the STPR process identified gaps in the current and anticipated strategic road system in reaching the recommended conclusions.

The pace at which projects will be delivered will be determined by the availability of resources in future spending reviews and our commitments to other STPR proposals. The Scottish Government continues to review priorities on a regular basis.

Paragraph 41: On the A801, the Committee supports the Minister in looking at available budgets in the next spending review to assess whether the completion date for this project might be brought forward. It recommends that the Minister update the Committee on this issue following the publication of the next spending review.

The Strategic Transport Projects Review (STPR) supports the objective to improve access to the Grangemouth port and the freight hub, by improving access for both road and rail freight. This allows for improved road access from Grangemouth onto the motorway network through upgrades to Junctions 5 or 6 on the M9 and an upgrade of the A801 between Grangemouth and the M8 (including carriageway improvements and a new viaduct at the Avon Gorge) to serve developing industrial and distribution facilities along the M8 corridor.

It is planned that the upgrade of the A801 will be in the second cluster of investment under the Falkirk Council Tax Incremental Funding (TIF) project. TIF funding is conditional on projects delivering regeneration and economic growth and is a match-funding programme. The upgrade of the A801 is currently scheduled for delivery in 2021, subject to funding availability.

Paragraph 42: On the planned improvements on the A75 and A77, the Committee calls on the Scottish Government to provide an update on when this list of works is to be completed. Also, given the significance of these routes to the Loch Ryan ports, it requests that the potential for quicker delivery of these improvements be explored.

The total investment on A77 and A75 improvements since 2008 is approximately £77m, which includes the recently opened A75 Hardgrove and A75 Dunragit Bypass. This total also includes investment on the A77 such as the recently opened A77 Symington and Bogend Toll improvements and the planning and design work on the A77 Maybole Bypass. The investment to date has helped improve safety and journey times to and from west coast ports.

The timetable for the delivery of recommendation 11 of the Strategic Transport Projects Review (STPR) in respect of routes to the Loch Ryan Ports will be determined by the availability of resources in future spending reviews and our commitments to other STPR proposals.

Paragraph 47: The Committee was pleased to learn that a number of companies have been able to take advantage of freight grants and the Strategic Timber Transport Fund to help move timber off the road. The Committee is aware of the significance of the sector and asks the Scottish Government to provide details of how it will help to maximise the potential for moving timber by sea.

In comparison to road haulage, moving timber by ship or rail requires a number of additional handling operations which all add to the costs of getting it from the forest to the timber processors. Due to the fact that timber is an internationally traded commodity product, roundwood timber prices, and hence the profitability of harvesting operations, are greatly influenced by both fluctuations in the exchange rate and demand for timber, which is predominately linked to the level of activity of the construction sector. A strong pound leads to greatly increased competition from well-established importers, especially from Scandinavia and the Baltic states, for both the sawn wood and timber board markets in Scotland, leading to reductions in the prices on offer to UK producers, and hence to our timber growers.

Support from the Scottish Government has already had a significant impact on maximising the potential of moving timber by sea through Freight Facilities Grant (FFG) and Waterborne Freight Grant (WFG) managed by Transport Scotland and through the Strategic Timber Transport Fund (STTF) which is managed by Forestry Commission Scotland. These schemes complement each other with the FFG and WFG schemes wholly focussed on modal shift from road to rail or water, whilst the STTF has wider applicability to support a range of projects to facilitate the sustainable transport of timber in rural areas for the benefit of local communities and the environment. Transport Scotland and Forestry Commission Scotland work closely together to ensure efficient allocation of funds.

Over the years FFG totalling almost £8m has been awarded to 7 projects transferring timber from road to water on the west coast of Scotland including:-

- Major expansion of ClydeBoyd's port at Corpach – this has led to it becoming a major timber transport hub in the Highlands with logs being shipped in from around the west coast and woodchip and sawn timber being shipped out of Corpach feeding both the domestic and export markets.
- Launch of the TimberLink service which serves Campbeltown, Ardrishaig and Holy Loch from Troon (ongoing revenue subsidy is provided by the STTF).
- Redevelopment of the pier at Lochaline – over 140,000 tonnes of timber transported by sea from this small remote facility to date.
- Innovative development of 3 mobile floating piers supporting the movement of timber from remote forests on the west coast including the Isle of Mull, Glen Etive and Glenelg – these 3 piers handle on average over 80,000 tonnes of timber per year.

WFG totalling £960,000 was awarded to Boyd Brothers in 2014 to enable it to launch a new shipping service between Corpach and Tilbury in London which enabled BSW Timber to transport sawn timber from its new sawmill at Kilmallie by sea rather than road to one of its major markets.

The Scottish Government's Strategic Timber Transport Fund, supports a number of areas which help realise the potential for moving timber by sea e.g. By

- Subsidising the Timberlink shipping service operating within the Firth of Clyde which ships 80-100,000 tonnes of timber to market per annum. Since it started in 2000 Timberlink has removed nearly 15 million lorry miles from the public road network and reduced the carbon emissions associated with getting this timber to market by nearly 30,000 tonnes of carbon.
- Enabling the operation of a number of floating pier facilities which now operate widely across the west coast through the co-financing of land-side works necessary to enable these piers to operate successfully.
- Co-financing a project to design and deliver five loading points in inaccessible forest areas which will enable the feasibility and cost effectiveness of shipping timber using a large converted landing craft to be evaluated.

Forest Enterprise Scotland (FES), an agency of Forestry Commission Scotland, responsible for management of the National Forest Estate, moves timber by sea where the environmental benefits and economic conditions together make this the preferable option. They

- Take timber off Arran by barge and landing craft.
- Have built and use a new timber pier on Mull.
- Recently renewed long term contracts to ship timber from the piers at Mull and Lochaline.
- Recently awarded a long term contract involving the shipping of small roundwood to Inverness from Argyll.

FES will continue to look to move timber by sea where appropriate and will also consider the need for new timber pier facilities on or adjacent to the National Forest Estate where the timber volumes and alternative options indicate that this is the most desirable route to market.

Forestry Commission Scotland is assisting Scottish Canals in their review of facilities and operations at Ardrishaig in Argyll to explore if the volume of timber shipped from this busy port can be increased.

Paragraph 59: The Committee agrees with the Minister that road safety should be at the centre of any move to change speed limits. The Committee, with this in mind, recommends that the Scottish Government commission studies into expanding the 50mph limit to other parts of the Scottish road network, particularly those in the immediate vicinity of the border with England. Any such work should consider the full package of measures available, have safety as its core priority and be subject to proper testing. The work on the A9, although still at an early stage, shows the advantages of such considered action. The outcomes from the A9 trial should be used to inform any future expansion of the 50mph limit.

There are no current plans to replicate the increase in HGV speed limits introduced in England and Wales here in Scotland, as we believe that there is not sufficient evidence in this area to justify a blanket change in the speed limit. It is well-established that increases in speed correspond with increased risks on the road and the Department for Transport's own impact assessment for the rises states an increase in fatal and serious accidents.

We are committed to improving safety on Scotland's roads – one life lost is one too many. Whilst we also want to see reliable and competitive journey times for all road users, including the freight haulage industry, achieving this has to be balanced against the safety and operational performance of the road network. Transport Scotland will continue to consider emerging evidence regarding speed limits for HGVs – including any findings forthcoming from the rises in England and Wales – alongside our evaluation of the ongoing A9 pilot project, to ensure we get the balance right for all of Scotland's road users.

Paragraph 65: The Committee recommends that the Scottish Government investigates whether data exists on vehicle utilisation, fuel efficiency and the proportion of alternative fuel used and whether this could be made available, or if not, could be collected.

The Scottish Government is investigating whether data exists on vehicle utilisation, fuel efficiency and the proportion of alternative fuel used. The Department for Transport publish estimates of empty runs, loading factors and fuel efficiency by vehicle type and weight covering Great Britain, as part of the annual Road Freight Statistics. Transport Scotland is enquiring about the availability of equivalent data for Scotland. Information on the number of vehicles licenced in Scotland by body type and propulsion type are published in tables 13.9 and 13.10 of Scottish Transport Statistics.

We will review and consult with users on the information published in Chapter 3: Road Freight of the annual Scottish Transport Statistics publication during 2015/16. The next release of Scottish Transport Statistics is scheduled for February 2016.

Paragraph 70: The Committee welcomes the current UK Department of Transport trial of using of longer vehicles, and recommends that the Scottish Government consider how it might work with the UK Government to explore how this might be expanded if the trials are successful.

We have well developed channels of communication with the UK Government that allow the sharing of information, and identification of joint working, on policy developments suggested by this recommendation both at Ministerial and official level. These will allow discussion at an appropriate time on this recommendation. (Department for Transport's Longer Semi-trailer Trial began in January 2012 and lasts for 10 years.)

The trial's 2014 Annual Report can be found on the UK Government's website at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/450031/longer-semi-trailer-trial-annual-report-2014-1.pdf.

Paragraph 89: The Committee recommends that the concerns raised in this inquiry in relation to the suitability of the rail network to facilitate increased freight capacity are highlighted by the Scottish Government in its dialogue with Network Rail to assist the latter's ongoing planning work.

There are 3 elements to the work of the Scottish Government in this area:

- We are encouraging and supporting Network Rail to work closely with its rail industry partners and the regulator to maximise the capacity and flexibility of the current Scottish rail network and to find new and innovative ways to get the best out of the existing assets.
- We are working closely with Network Rail, freight and passenger operators to develop detailed specifications for current major enhancement projects, such as Aberdeen to Inverness, the Highland Mainline and the electrification programme.
- Our refreshed rail freight strategy will consider the on-going role of the Scottish Government in support of rail freight, including future planning, and how this can best contribute to sustainable economic growth. We anticipate launching a consultation on the strategy in the autumn.

Paragraphs 96: The Committee recognises the difficulties faced in upgrading the loading gauge on lines across Scotland. However, it also considers that a standardisation of gauges would go a long way to help move cargo from road to rail. It therefore looks forward to Network Rail's report in how it plans to upgrade the routes over the coming years. It also encourages the Scottish Government to explore the potential for providing more flexibility to current grants. This might enable funding for innovative projects such as the purchase of lower wagons so that larger containers can be transported on lines not presently accessible.

The Route Study will look at demand on the network in Scotland to 2043 and the types of interventions that might be required to realise that demand on an incremental basis. The report will identify a series of infrastructure options for the Scottish Government to consider for investment from 2019 onwards. The new £30 million Scottish Strategic Rail Freight Investment Fund offers the opportunity for the industry to tackle capacity issues in the current Control Period (CP5).

Freight Facilities Grant (FFG) funding can be awarded to innovative projects. Examples include an award of FFG to enable the development of a floating pier for the extraction of timber by coastal and short sea shipping and an award of FFG to enable the launch of an operation transporting timber on rail utilising short Freight Multiple Units. The floating pier proved successful and this solution was then rolled out to other locations with FFG support. Unfortunately the rail project was withdrawn by its promoter for reasons unconnected to the award of FFG.

The Committee will wish to be aware that there is no restriction within the FFG scheme rules on contributing to the funding of lower rail wagons to allow large

containers to be transported on lines not presently accessible, as part of a modal shift project from road.

We consider all grant applications with an open mind and will continue to provide support and guidance to any companies exploring projects aimed at modal shift.

Paragraph 104: The Committee recommends that the Scottish Government explore potential ways for existing terminals to access grants to assist with investing in internal improvements such as new cranes and layout, and external improvements to the access roads (such as the proposed work via the Glasgow and Clyde Valley City Deal). Further investigation is needed into innovative ways this may be achieved, based on the Committee's experiences during visits to other countries in Europe. Potential solutions to explore could include modification of eligibility for existing grants, a loan mechanism or even a public shareholding.

This Government has a strong track record of working in partnership with the rail freight industry and other stakeholders to target investment to maximum effect and value. We fully expect this to continue, and the right strategy for identifying future investment priorities will be subject to consultation as part of the refresh of the rail freight strategy.

The freight sector operates in a competitive market. Decisions on levels of investment made in ports and rail freight facilities are commercial decisions for the operators of these facilities. The various freight mode shift grant schemes that we operate have EC State aid approval to allow Government to intervene in the market but only where rail and water cannot compete with road on cost. For clarity there are no restrictions on existing rail terminals or ports accessing freight grants but only if additional freight traffic will transfer from road to rail or water as a result. Examples of existing freight facilities which have attracted Freight Facilities Grant (FFG) funding include rail facilities at Grangemouth oil refinery, Fort William and Lairg as well as new quays at both Montrose Port and Inverness Harbour.

There was evidence given to the Committee about Freightliner's facility at Coatbridge requiring investment and that it was unable to access FFG. This is the case as Freightliners' operation at Coatbridge does not deliver modal shift from road to rail. It is not competing with road but with the feeder shipping services operating out of Scottish ports supplying the major deep sea ports in southern England. This was confirmed by Kay Walls of Freightliner in her evidence to the Committee when she stated: *'Because of the distances that we run, it would be nonsense to run a road vehicle.'*

The eligibility requirement that freight mode shift grants transfer freight from road to rail or water is fundamental. Any proposed change to this would be wholly incompatible with the State aid approval of these grant schemes and would lead to these schemes no longer operating.

Paragraph 108: Whilst the Committee recognises that matters pertaining to the Channel Tunnel are reserved, it nevertheless recommends that the Scottish Government consider afresh how to get the best use from the Channel Tunnel for Scotland-continent freight flows.

Clearly being able to trade on the international stage is of critical important to Scottish businesses and for broader economic growth. The Channel Tunnel is currently a reserved matter. However, Scottish Ministers and officials do liaise regularly with the UK Government to ensure that Scottish rail freight interests are represented.

Indeed this engagement has been evidenced by our recent interaction with the UK Government over the problems which have arisen at Dover and Calais. These impacted on the free movement of goods, in particular affecting the ability of our seafood sector to export their produce to markets on time and in good condition.

As part of the refresh of the Rail Freight Strategy, we will be considering the issues affecting the operation of cross border rail freight services, including services using the Channel Tunnel.

Paragraph 111: The Committee recommends that the Scottish Government explore ways in which it can trial innovative methods of transporting timber by rail.

In comparison to road haulage, moving timber by ship or rail requires a number of additional handling operations which all add to the costs of getting it from the forest to the timber processors. Due to the fact that timber is an internationally traded commodity product, roundwood timber prices, and hence the profitability of harvesting operations, are greatly influenced by both fluctuations in the exchange rate and demand for timber, which is predominately linked to the level of activity of the construction sector. A strong pound leads to greatly increased competition from well-established importers, especially from Scandinavia and the Baltic states, for both the sawn wood and timber board markets in Scotland, leading to reductions in the prices on offer to UK producers, and hence to our timber growers.

The Scottish Government's Strategic Timber Transport Scheme, managed by Forestry Commission Scotland, has supported a number of projects seeking to identify cost effective mechanisms to transport timber by rail. A current project focusing on the Flow Country, led by HITRANS, is drawing on the lessons learned from this earlier work and is due to report by the end of October 2015.

The Scottish Government will review the findings and consider the recommendations of the Flow Country Project with HITRANS. Should there appear to be a realistic solution it will explore potential mechanisms which would enable this to be taken forward.

Freight Facilities Grant (FFG) funding can be awarded to innovative projects. Examples include an award of FFG to enable the development of a floating pier for the extraction of timber by coastal and short sea shipping and an award of FFG to enable the launch of an operation transporting timber on rail utilising short Freight Multiple Units. The floating pier proved successful and this solution was then rolled out to other locations with FFG support.

Paragraph 115: The Committee recommends that the Scottish Government conduct an appraisal of upgrading the road and/or rail links to the two ports in Cairnryan in order to determine the feasibility of such investment.

This has already been undertaken. The Strategic Transport Projects Review (STPR) included an appraisal of the road and rail links to the two ports at Cairnryan, including the A75 and A77.

This resulted in recommendation 11 - a targeted programme of measures to improve road links to the Loch Ryan ports facilities from the Trans European Network such as physical works aimed at providing safer overtaking opportunities such as 2+1 sections, climbing lanes/overtaking lay-bys and improvements to the operation of junctions around Dumfries. The measures also include improvements to the strategic access around Stranraer on the A751.

In broad terms, the rail industry will present its proposals for future rail investment (including freight) to the Scottish Government as part of the periodic review (PR18) process, which will formally commence early next year. Through our on-going engagement with the industry on this, we will direct them towards the Committee's recommendations to consider as part of their development work.

Paragraph 117: The Committee is concerned at the very limited use of rail transport into Scottish ports and recommends that the Scottish Government examine what needs to be done to ensure suitable facilities are in place to encourage and support use of these links.

Ensuring that rail freight can link smoothly with other modes of transport is of critical importance. In particular, to support trade with the rest of the UK and internationally and to serve the needs of local communities. That is why it is a key consideration in the refresh of our rail freight strategy.

Ultimately, we would look to the rail freight industry to lead the way on the key interventions necessary to maximise the opportunities for the intermodal movement of goods, including strong partnerships across the industry, multi-party investments and joined up planning.

Paragraph 124: Again, the Committee recommends that the Scottish Government explores innovative ways to expand access to the package of grants within the overall envelope of funding which might assist in delivering outcomes that can achieve modal shift, such as for open-user terminals and low wagons.

The scale of the rail investment programme committed by the Scottish Government provides significant opportunities for new transformational technologies and innovation across the whole industry that can help to reduce costs, provide more capacity, and support new approaches to delivery. We encourage innovation and have a track record through initiatives such as the £12 million Paisley Canal Electrification Project (where innovative solutions were found to specific issues and allowed the project to proceed at a 'lower' cost) and we are looking specifically at innovation as part of the Rail Freight Strategy.

There is a principle of open access to freight terminals in Britain. This still has to be negotiated but a rail terminal operator has to offer access at a reasonable price if this is requested. New EU legislation which is being transposed in national law further strengthens access to freight depots.

The Committee may wish to be aware that there is no restriction within the Freight Facilities Grant (FFG) scheme rules on funding low rail wagons. However, some of the rail freight companies which operate in Scotland are using these wagons in England without subsidy. So a clear case would need to be presented by an applicant as to why public sector subsidy would be necessary for use of these wagons in Scotland.

Paragraph 134: The Committee welcomes the development of a new rail freight policy and recommends that the results of this inquiry are taken into account as part of that process. Moreover, the Committee recommends that the rail freight policy be produced not in isolation but as part of a comprehensive freight transport policy for Scotland addressing all modes.

The refreshed rail freight strategy will be fully aligned with the priorities identified in the Government Economic Strategy and will sit alongside the broader policies for transport and freight, such as the National Transport Strategy and the overarching freight policy.

Paragraph 160: The Committee is concerned that Scotland may lose connectivity to major shipping routes if its feeder ports are not developed sufficiently, and recommends that the Scottish Government works with the port operators to ensure that measures are in place to “future proof” Scotland’s strategic container shipping links. It considers that a wider freight transport policy covering all freight transport modes, as recommended above, could set out strategic objectives in this regard. This may also go some way to help meet Scotland’s climate change targets.

We already have planning documents such as the National Planning Framework, Ferries Plan and National Marine Plan covering maritime transport, alongside work by Highlands and Islands Enterprise and Scottish Enterprise looking at port requirements and capacity for industries such as renewables.

The Scottish Government will work with port operators to consider ways in which Scotland’s container shipping links can be future proofed and will do whatever we can to support commercial propositions that come forward but we would be careful not to direct where these should be.

Paragraph 161: The Committee recognises the potential for the deepwater sites Scapa Flow and Hunterston but equally recognises that such developments should be market led and as yet no operator has chosen to develop the ports. The Committee therefore recommends that the potential for ports in these locations might be considered as part of any freight transport policy.

The proposed Scapa Flow Container Transshipment Facility represents an opportunity to develop a hub for container ships at Scapa Flow with facilities for the onward transport of goods in smaller vessels. Clydeport have also been exploring the potential for a deep sea port facility at Hunterston. Both are identified in National Planning Framework 3.

National Planning Framework 3 notes ‘Plans for a transshipment container hub within Scapa Flow, which could benefit in the long-term from the opening up of northern trade routes, are supported within our spatial strategy on broadening opportunities for more remote rural communities.’

Hunterston is identified as an area of co-ordinated action within the National Planning Framework 3. It notes that North Ayrshire Council and its partners are exploring future options for the site. National Planning Framework 3 is clear that future development at Hunterston should aim to make sustainable use of its key assets, including its deep water access. However, National Planning Framework 3 is also clear that development which supports offshore renewable energy and grid connections would align with the spatial strategy, noting that locally there is also desire for improving tourism within the area.

However these opportunities can only be realised if the operator develops a viable business case, which is very much dependent on market forces and trends in the shipping industry.

It is for Orkney Islands Council and its partners for Scapa Flow, and Clydeport for Hunterston, to monitor these and other factors when deciding the most opportune time to take these projects forward.

The Scapa Flow proposal was heavily marketed by the Orkney Islands Council on a number of occasions but the view was taken that market conditions were not right for the development at that time.

If commercial propositions were put forward we would do whatever we could to give the support required to progress them (as appropriate). The propositions would however have to be operator and private sector led.

Paragraph 169: The Committee recommends that the Scottish Government explores ways of working with port operators to help encourage appropriate private investment to ensure these strategic international gateways meet the high standards of service required by their customers.

Ports operators provided evidence to the committee clearly demonstrating that they continue to make a significant level of investment to meet the current and future needs of their businesses – where there is a demand for this and opportunity for a commercial return.

We will work with port operators to consider ways in which we can to create, encourage and stimulate growth which should in turn lead to propositions for private sector infrastructure spend.

We have a mixed ownership of ports and this diversity of Scottish ports is considered one of its strengths. The model in Scotland and the UK is different from the majority of the ports on the continent – where there is a greater element of public ownership and use of concessions. This can create challenges around EU regulations not being designed with our ports model in mind- as well as issues of transparency around state aid around EU port investment. State Aid is a key hurdle for the Scottish Government in supporting certain developments. We are pushing for clearer EU guidance on this to ensure a level playing field.

Paragraph 177: The Committee supports the Scottish Government's efforts to maintain this vital service, but recognises the concerns raised in evidence of operational constraints as well as the ongoing threat of the service being discontinued.

Paragraph 178: The Committee therefore recommends a study into how the service can be secured in the long term, perhaps through a tendered franchise or public-private partnership. Again, this might form part of an updated freight transport policy.

We are fully committed to the continuation of the Rosyth to Zeebrugge Freight Ferry Service in the long term and have provided significant support to the service, within EU State Aid rules.

The Rosyth-Zeebrugge ferry service was launched with over £10m of Freight Facilities Grant (FFG) support to Forth Ports for landside infrastructure. There is no possibility of further FFG support as the project has not as yet repaid the outstanding environmental benefits on which the award of FFG was based. It should be noted that the FFG State-aid approval specifically states that FFG does not provide aid to meet mandatory EC environmental standards.

The two shipping lines which have operated the service, Superfast Ferries and Norfolkline (now DFDS), between them received a total of £2.216m Waterborne Freight Grant (WFG) funding. The WFG State-aid approval is clear that there cannot be on-going subsidy after a maximum of 3 years support - this limit has been reached for DFDS.

We signed a Memorandum of Understanding in November with DFDS and Forth Ports which outlined a series of key actions to help secure the route. Deminimis funding of €200,000 was paid to DFDS in December.

DFDS and Forth Ports announced on 7 July that they will invest over €6m in the future of the route. Along with all parties we are committed to continuing to work together to look at new ways of increasing and improving its service in the long term.

Paragraph 182: The Committee welcomes the Scottish Government's commitment to study the potential impacts on its work on the economic development and future sustainability of the islands. Within this work, the Committee recommends that that Scottish Government include in its consideration the application of RET to freight vehicles over 6 metres in length.

Following a commitment made in the Ferries Plan, Transport Scotland is currently conducting a comprehensive review of ferry freight fares across Scotland's entire ferry network. The aim of the review is to deliver a new freight fares structure that is straightforward and transparent, does not advantage one part of the network over any other part and delivers best value for taxpayers at a time of severe cuts to the Scottish Government's budget.

The Working Group overseeing the review consists of a wide group of key stakeholders including the relevant local authorities and Regional Transport Partnerships, Highlands & Islands Enterprise, the Freight Transport Association and the Road Haulage Association.

The *'Research and Analysis of Options for Ferry Freight Fares'* report was published on 23 June 2015. This research was commissioned by Transport Scotland and carried out by independent consultants Peter Brett Associates with Proversa Limited and was overseen by the Working Group. The research examined the various existing freight fares structures in place across Scotland's ferry network and conducted a best practice review with benchmarking against international practices. A number of options for future freight fares structures were generated and consulted on.

Consultation with a wide range of stakeholders on the options for future freight fares structures took place at the end of 2014.

Transport Scotland, under guidance of the working group, will now undertake further analysis to consider:

- The favoured options for future freight fares structure identified in the research report.
- The potential impacts on economic development and future sustainability of the islands.

The new freight fares structure will be implemented during future Scottish Government ferry contracts. The exact timing of the introduction of the new freight fares structure has yet to be decided.

Paragraph 186: As stated previously, the Committee recognises the complexities surrounding the mixture of ownership models across Scottish ports and understands the role of the private sector in providing port facilities in Scotland. Despite this difficult landscape, the Committee recommends that Scotland needs a clear port policy to ensure that suitable facilities, investment and operational levels are provided to port users. This port policy should be developed as part of a comprehensive freight transport policy for Scotland covering all modes.

We already have planning documents such as the National Planning Framework, Ferries Plan and National Marine Plan covering maritime transport, alongside work by Highlands and Islands Enterprise and Scottish Enterprise looking at port requirements and capacity for industries such as renewables.

Ports operators provided evidence to the committee clearly demonstrating that they continue to make a significant level of investment to meet the current and future needs of their businesses – where there is a demand for this and opportunity for a commercial return.

The market driven approach that we support in ports policy is welcomed by the industry where it will identify the need to invest based on market demand from an end user – e.g. Aberdeen Harbour Expansion or the Rosyth International Container Terminal, New Stena Port and upgrades by P&O at Cairnryan.

Paragraph 191: Given the lack of response from the air freight sector to the enquiry, the Committee recommends that greater dialogue is needed with this sector to ensure that its needs are being met and that the Scottish Government can plan for its future needs and safeguard any strategic infrastructure required. It is suggested that such dialogue could be taken forward as part of the development of a wider freight transport policy.

Opportunities within the air freight sector are kept under constant review. However, the relationship is between businesses and freight companies, and between freight companies and airports. It is for the airport operators to provide whatever facilities they think are required as a means to achieving a return on their investment. That applies both to privately owned airports such as Edinburgh, Glasgow and Aberdeen and to Prestwick which although owned by the Scottish Government must be run on a commercial basis.

National Planning Framework 3 designates enhancements at Scotland's strategic airports as a national development. Whilst this designation is not specifically freight focused it acknowledges that there are development needs in and around the airports which support the key gateway and hub function of the airports.

Paragraph 201: The Committee supports the grant scheme and believes that the Scottish Government was right to maintain it despite it being discontinued in England and Wales. However, the Committee recognises the difficulties raised in evidence, and recommends that the Scottish Government considers whether the current FFG system has already secured the —low hanging fruit of capital spend for modal shift of specific flows, and examines the potential benefits of reforming the grant eligibility and application process to achieve benefits for the wider network.

There are a number of underutilised rail freight facilities across Scotland and so an argument could be made that the main opportunities for modal shift which require new freight facilities are already secured. We do however know from contacts with individual companies and applications for Freight Facilities Grant (FFG) funding that there still are significant opportunities for a number of major businesses in Scotland to transfer freight from road to rail but which require new rail facilities. These businesses are mostly located adjacent to the rail network which have the clear advantage of having no road leg at the start of the journey.

The role of the FFG scheme is to help businesses deliver modal shift from road to rail and water by helping invest in new facilities. It was clear from evidence given to the Committee that industry is of the view that freight mode shift grants should be available. Investment in infrastructure to achieve benefits to the wider network is vital but not the role of our freight mode shift grant schemes. Our £30m Scottish Strategic Rail Freight Investment Fund was set up to address exactly this need.

Paragraph 210: As well as following the work of TACTRAN with interest, the Committee recommends that the Scottish Government and its transport partners explore the potential for consolidation centres in Scottish cities and to identify what is needed to bring them about.

The Scottish Government understands the importance of goods deliveries to city-centre businesses and that these businesses help ensure our urban centres are commercially viable and vibrant places to visit. At the same time we understand the environmental challenges posed by transport – including freight movements - in urban areas.

In the case of consolidation centres, the challenge is to identify the circumstances where a consolidation centre scheme is an appropriate solution, and is commercially viable without on-going public sector funding. Evidence suggests consolidation centres have greater chance of success where they have been developed at the local (rather than national) level, in partnership with the private sector to ensure it is sustainable in the long term from both the environmental and business perspectives.

Transport Scotland recently worked alongside Heriot Watt University and Tactran to deliver the Public Sector Urban Logistics (held on 17 June 2015) - an example of how we are working hard with our partners to identify and share opportunities and experience. This event was referred to by Dr Maja Piecyk (Heriot Watt University) in oral evidence provided to the Committee during the Inquiry.

Scottish Planning Policy 2014 is clear at paragraph 104 that development generating significant freight movements, including distribution and warehousing, should be located on sites accessible to suitable railheads, harbours or the strategic road network and that care is needed to minimise impacts on congested, inner urban and residential areas.

Through Scottish Freight Logistics Advisory Group (ScotFLAG), we will continue to work with our partners across the public and private sectors to identify and facilitate any opportunities to increase the efficiency and sustainability of freight movements in cities – including exploring opportunities for load consolidation. Potentially this will include building on recent experiences in this arena such as the alternative delivery models set up for the Commonwealth Games, and Tactran’s work in trying to establish a consolidation centre.

Paragraph 212: The Committee recommends that the Scottish Government explore opportunities for increasing the use of electric vans, cargo bikes and other forms of sustainable transport for last mile deliveries in Scottish towns and cities and to identify what is needed to encourage an increase in such vehicles.

We will ensure that the use of sustainable forms of transport to carry out last mile deliveries forms an integral part of the development of freight consolidation centres. Indeed, as part of the LAMILO Freight Consolidation Centre in Perth, TACTRAN proposed that last mile deliveries from the centre would be delivered to retail and office premises in the city via electric vehicles (EVs).

The potential to integrate EVs into urban logistics is recognised in Switched On Scotland – A Roadmap to Widespread Adoption of Plug-in Vehicles, published in 2013. Initiatives are already in place which are supporting the uptake of EVs by both private and public sector fleets. For example, through the Energy Saving Trust, workplaces can apply for funding of up to £10,000 for the installation of an EV charge point at their premises. In addition, private sector fleets can receive an interest free loan to buy an EV. Furthermore, through our Switched On Fleets initiative, all public sector fleets across Scotland can access £2.5 million of funding to help with the purchase or lease costs of an electric cars and vans. Through this initiative we expect to add 280 additional EVs to public sector fleets across Scotland by 2016.

Permitted development rights for electric vehicle charging points came into force on 30 June 2014 to lift the requirement for planning permission to be sought for those developments.

We will continue to work with our partners across the public and private sectors (via Scottish Freight Logistics Advisory Group (ScotFLAG)) to identify and facilitate any opportunities to increase the efficiency and sustainability of freight movements in cities – including exploring opportunities for alternative delivery modes where this is feasible.

Paragraph 216: Given the success around the Commonwealth Games, the Committee recommends that the Scottish Government explore the opportunities and challenges of allowing night time deliveries in more urban areas.

I am aware of the success of the arrangements implemented in Glasgow during the 2014 Commonwealth Games, though an earlier attempt at a trial by the Freight Transport Association did not proceed. This requires discussion at a local level between the planners, who have imposed the restrictions in planning permissions to protect local residents, and businesses, to explore what might be done.

The Scottish Government issued guidance on establishing Freight Quality Partnerships in recognition that some issues are best addressed locally. These forums would offer an appropriate avenue for taking forward such discussions.

Paragraph 227: Given the need to reduce greenhouse emissions, it is clear that a combination of model shift and the development of new technology is essential in minimising carbon emissions. Whilst the Committee acknowledges the need for all those involved in freight transport to contribute to this reduction in emissions, it recommends that this should be a prevailing theme in an updated freight transport policy.

On carbon emissions, we are committed to the almost complete decarbonisation of road transport by 2050, and are taking a technology neutral approach to the development of policy and strategy on a range of low emission vehicle technologies and alternative fuels. In the short to medium term, the most realistic options for reducing emission from the freight sector are likely to be dual-fuel gas / diesel HGVs, the use of sustainable biofuels and full electrification for smaller trucks and light duty vehicles. We will continue to work with the industry to better understand the support Government can provide to encourage the uptake of this technology, for example financial support towards vehicle conversion and the provision of a network of refuelling infrastructure.

Our approach on general freight policy is addressed in our response to the recommendation made in Paragraph 239 below.

Paragraph 239: The Committee, therefore, recommends that a new freight transport policy for Scotland is developed and produced that addresses all modes, incorporating a strategy for delivery of the policy goals.

Since 2007, this 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 – including transport policies - are directed and is at the core of our Economic Strategy.

As far as transport is concerned, we are currently refreshing the National Transport Strategy to update it so it sits in the context of Scotland's Economic Strategy (2015) and freight transport is of course an important element of this. That being said, the Scottish Government does not anticipate a fundamental change in our vision, aims and objectives for freight in Scotland which remain as relevant and valid today as they ever have been – indeed the evidence you have gathered in the Inquiry supports this position.

Our vision is that through working in partnership with business and industry, that Scotland will be a place where the movement of freight through the entire supply chain is efficient and sustainable, on a transport infrastructure that is integrated and flexible - thus allowing Scotland's businesses to compete and grow in a global economy.

Paragraph 243: The Committee recommends that the next NPF ensures that rail freight is treated as being of major strategic importance and that strategic rail hubs are given appropriate priority.

The National Planning Framework 3 Action Programme sets out 30 actions for delivery, in addition to the 14 national developments. The Scottish Government has been absolutely clear that delivery is not only for the Scottish Government and the lead partners involved in each of the actions are responsible for delivering the actions. We are routinely receiving updates from the lead partners on delivery progress and update our Action Programme web pages accordingly.

We were clear throughout the process of preparing National Planning Framework 3 that national developments are to support implementation of the overall strategy set out by the Framework, they do not drive it. Whilst National Development Status attracts particular processing attributes within the planning process, we want to see the whole strategy implemented for the benefit of Scotland and this is a priority for the Scottish Government.

As per Action 27 of National Planning Framework 3, the Scottish Government is already working with a sub-group of the Scottish Freight and Logistics Advisory Group (ScotFLAG), this includes the rail freight sector. The agreed aim of that work is 'To provide independent, evidence based recommendations on priority schemes which will help the freight industry to maximise the contribution it makes towards sustainable economic growth in Scotland. This will inform a future iteration of the National Planning Framework.

Paragraph 247: Whilst the Committee appreciates restrictions around state aid, it calls on the Scottish Government to help maximise the drawdown of all available EU funding for freight transport projects.

At present the TEN-T programme, funded from the EU budget, finances infrastructure projects and studies for roads, railways, inland waterways, airports, ports, satellite navigation and traffic management systems lying on the designated network. The Commission's funding priority is rail and low carbon transport.

In our role as infrastructure provider, we are continuing to explore European funding opportunities aimed at improving Scotland's transport networks, including to our ports.

We are fully supportive of proposals that will support modal shift to water. Applications for EU funding (if the criteria is met) will be supported by the Scottish Government and we encourage applicants to approach us at the earliest opportunity to discuss their proposals.

We have supported successful applications for Trainmos I (involving Napier University) and II (Strathclyde University) as well as funding for 50% of the Environmental Impact Assessment (EIA) work for Aberdeen Harbour (£750k).

We have also supported a further 2 projects for the current TEN-T round – 1 is an academic programme and the other relates to Aberdeen Harbour. No other proposals were brought forward from ports on the TEN-T network.

The Regional Transport Partnerships have successfully bid for EU funding for a number of projects – such as Foodport, DryPort, LaMiLo.

Paragraph 250: The Committee recommends that the Scottish Government conduct research into the potential for applying a similar process in Scotland to allow local roads around freight facilities that are considered to be of strategic importance to benefit from improvements.

There are no plans to take control of local road links to commercial freight terminals. Improvements to these roads are a matter for the local road authority and the site owners.

Paragraph 251: The introduction of an innovation fund was also raised in evidence. This could be used to develop new technology, particularly solutions to rail constraints that may facilitate modal shift such as the Non-Intrusive Crossover System (NICS) and the Freight Multiple Unit (FMU).

Paragraph 252: The Committee recommends that the Scottish Government, via ScotFLAG, explore the potential for such a fund.

See comment provided in response to paragraph 96.

Paragraph 262 A key recommendation of the Committee is for the Scottish Government to consider the need for an urgently updated freight transport policy taking account of changing trends in the freight transport and wider logistics sectors, addressing all modes and considering transport within its wider logistics context. It is hoped that the results of this inquiry will provide both an impetus and an input to this endeavour.

Paragraph 263: During the process of developing its freight transport policy, the Committee asks that the Scottish Government give particular consideration to the specific road, rail and water freight issues highlighted in this report.

See comment provided in response to paragraph 239.