



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 4 March 2015



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**INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE**  
**6<sup>th</sup> Meeting 2015, Session 4**

**CONVENER**

\*Jim Eadie (Edinburgh Southern) (SNP)

**DEPUTY CONVENER**

\*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)

**COMMITTEE MEMBERS**

\*James Dornan (Glasgow Cathcart) (SNP)

\*Mary Fee (West Scotland) (Lab)

\*Alex Johnstone (North East Scotland) (Con)

\*Mike MacKenzie (Highlands and Islands) (SNP)

\*David Stewart (Highlands and Islands) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Derek Mackay (Minister for Transport and Islands)

Andrew Malcolm (The Malcolm Group)

Ken Russell (The Russell Group)

Kay Walls (Freightliner)

**CLERK TO THE COMMITTEE**

Steve Farrell

**LOCATION**

The David Livingstone Room (CR6)



# Scottish Parliament

## Infrastructure and Capital Investment Committee

Wednesday 4 March 2015

*[The Convener opened the meeting at 10:00]*

### Subordinate Legislation

#### National Bus Travel Concession Scheme for Older and Disabled Persons (Scotland) Amendment Order 2015 [Draft]

**The Convener (Jim Eadie):** Good morning, everyone, and welcome to the sixth meeting in 2015 of the Infrastructure and Capital Investment Committee. Everyone present is reminded to switch off mobile phones, as they affect the broadcasting system. As meeting papers are provided in digital format, you may see tablets and other mobile devices being used during the meeting.

The first item is evidence on the draft National Bus Travel Concession Scheme for Older and Disabled Persons (Scotland) Amendment Order 2015. I welcome Derek Mackay, the Minister for Transport and Islands, and Tom Davy, team leader for bus and local transport policy, and Nancy Woodhead, concessionary travel policy manager, from the Scottish Government. The instrument is laid under the affirmative procedure, which means that the Parliament must approve it before the provisions can come into force. Following the evidence session, the committee will be invited to consider a motion to approve the instrument under agenda item 2.

I invite the minister to make some opening remarks.

**Derek Mackay (Minister for Transport and Islands):** Good morning, and thank you for inviting me to discuss the draft National Bus Travel Concession Scheme for Older and Disabled Persons (Scotland) Amendment Order 2015. The order sets the reimbursement rate and capped level of funding for the national concessionary travel scheme in 2015-16 and 2016-17. In doing so, it gives effect to an agreement that we reached in January with the Confederation of Passenger Transport, which represents the Scottish bus industry.

That agreement was based on a reimbursement model that was developed in 2013 on the basis of independent research that was commissioned by the Scottish Government. The research was discussed extensively at that time with the CPT

and its advisers. The model and recent discussions on updating the various inputs to it—including forecasts based on historical trends and agreed indices—have given us a good basis for informed decisions that will provide stability and clarity for all parties.

Using the updated model, we have concluded that the appropriate rates for reimbursement in 2015-16 and 2016-17 should be 57.1 per cent and 56.9 per cent of the adult single fare, respectively. We believe that those rates will most closely deliver the aim, which is set out in the legislation that established the scheme, that bus operators should be no better and no worse off as a result of participating in the scheme.

On the basis of those rates and our expectations for future changes in journey numbers and fares, we forecast budget requirements of £202 million and £212 million over the next two years—that is £414 million in total. The figures are reflected in the draft order as budgetary caps.

The order is limited to the next two years. We have agreed with the CPT that the reimbursement model will be reviewed during 2016-17 to ensure that it continues to provide a fair deal for all parties and an appropriate mechanism for determining future payments.

We know that older and disabled people greatly value the free bus travel that the scheme provides, which enables them to access local services, visit friends and relatives and gain from the health benefits of a more active lifestyle. The order provides for those benefits to continue for two years on a basis that is fair to operators and affordable to taxpayers.

I commend the order to the committee, and I am happy to answer any questions.

**The Convener:** Thank you for that opening statement, minister. I invite members to ask questions of the minister.

**Alex Johnstone (North East Scotland) (Con):** Am I the only one with a question? Is that any surprise?

The minister has laid the order, which covers the requirements of the scheme and continues to propose that the scheme should provide free travel for the elderly from the age of 60. However, many people do not believe that 60 is elderly any more and, in view of the growing cost of the scheme, I and others have suggested that it would be more appropriate to align the entitlement to the pension age rather than to the age of 60.

With the costs going up and the effect that that has on the overall budget for support of the bus industry, has the minister given any consideration at all to changing the age of entitlement?

**Derek Mackay:** I am delighted that Mr Johnstone has asked the question without expressing a preference, as any good politician would. I take the point that some people do not regard 60 as particularly old. I have spent most of my life wanting to be older but, now that I have hit a tipping point, I want to be younger again. At the age of 37, I am quite far off the concessionary travel arrangements—as, of course, is Mr Johnstone.

**Alex Johnstone:** I am a lot older than that.

**Derek Mackay:** You said it.

Of course, the Government considers options, but we set out a commitment to continue with the scheme, which—because of the two-year arrangement—will continue through this parliamentary session. It will be for all politicians to decide the future eligibility criteria. There are some who believe that the age of entitlement should be raised to the pension age, and there is consistency in that, but, for the time being, we are sticking to 60. That is what is established in the scheme and it is what we have carried through this session of the Parliament. It will be for everyone to consider their position going into the next election.

If Mr Johnstone believes that a change to the eligibility would have a massive impact on the total cost of the scheme, it might surprise him to learn that it would not. That begs the question whether a system change would be worth any financial saving that might be made, and it brings in another element of the discussion: if we were to expand the scheme, who else would we consider? There is a strong argument to consider extending the scheme to people who are seeking work and people at the younger end of the age spectrum who might require support with travel.

Those are issues for all politicians to consider as they approach their manifestos and the next Scottish Parliament elections. The Government will continue with the scheme as it has outlined and sustained it so far.

**Alex Johnstone:** There are, indeed, several groups to which many of us would wish the scheme to be extended, and any savings could be used for a number of purposes. One of the key groups of people who are not able to take advantage of the scheme is those who are not near bus routes. Those who rely on community transport to support their travel requirements, which are often serious, are not able to access bus services where they do not exist. Savings in the scheme could be used to extend support to community transport. Has any consideration been given to that?

**Derek Mackay:** Mr Johnstone puts a fair question about the extension of the scheme to community transport. Politics is about choices. If

the Conservatives' position was to move the age of eligibility from 60 to 65 or whatever the pension age is for the applicant—I am sure that Mr Johnstone does not propose removing a pass from anyone who is currently a holder, but simply that the revised age would apply to new entrants to the scheme—even in those circumstances it would be about choices. However, that is not a direct equivalent choice for the reason that I am about to give.

I have no doubt that community transport should get more support in terms of eligibility and finance. I am not one for passing the buck, but there is provision for local authorities to provide that support. If a local authority wants to expand the community transport provision or extend concessionary schemes, it is perfectly empowered and entitled to do so. From that point of view, it would be better if local authorities, which understand their local circumstances better and know where the gaps in transport provision are, addressed any gaps that they felt existed. That would help in situations in which there was not adequate private sector bus provision but there was community transport.

Therefore, it is for local authorities to lead on expanding the scheme in community transport. The power and resources exist if they choose to use them in that fashion and set that as a priority.

**Alex Johnstone:** For a number of years, as the cost of the concessionary scheme has risen, the proportion of the total support that has been given to the bus industry through the concessionary scheme has increased and, as a consequence, things such as the bus service operators grant have become less significant in the overall scheme of things. That has potentially had the side-effect of distorting the shape of bus services in Scotland so that services have been targeted at the high level of market interest from concessionary travellers, which has sometimes had the effect of removing services that were more often used by people taking the bus to work or to college, for example. A number of cases have come to me of morning bus services, in particular, being lost because priority has been given to services that run at other times of the day. Have you come across any evidence that suggests that the pattern of subsidy is distorting the shape of bus services across Scotland?

**Derek Mackay:** Not particularly. You must look at the scheme in the round and at the other grant schemes that support bus travel. If you put the scheme in the context of the bus service operators grant as well, you will see that a cocktail of grant support funds the bus industry. Incidentally, 45 per cent of all income for the bus industry in Scotland comes via Government or local authority grant, with the rest coming from the fare-paying public. I

am therefore not sure that the scheme distorts the market to the extent that Mr Johnstone implies.

I do not know whether I misheard Mr Johnstone, but the grant subsidy or reimbursement percentage is not going up. It is actually—

**Alex Johnstone:** No, the overall cost is going up but the compensation percentage is dropping.

**Derek Mackay:** It is correct that the compensation percentage is dropping marginally, but that is because I am trying to squeeze the public pound and get best value from the private sector operators. However, I do not believe that that marginal reduction in the context of an increasing budget and spend is in any way distorting the market.

I suspect that the reasons why routes change and why some routes are not served go much wider than the concessionary travel scheme that we fund. Today, we are debating not eligibility for the scheme—although I am happy to do so at your discretion, convener—but the mechanics of the cap and the funding. I have not seen the evidence that Mr Johnstone describes, but I am more than happy to receive it from local members if they believe that the scheme is in any way disadvantaging local communities. I suspect, however, that the situation is to the contrary and that the scheme is sustaining bus routes that would otherwise have disappeared.

**David Stewart (Highlands and Islands) (Lab):** I have two brief questions on the wider issues. First, is the aim of the scheme to get modal shift so that, for example, we get a 60-year-old driver out of his car and on to a bus or, indeed, undertaking active travel by cycling or walking? The minister will agree that that would cut emissions and congestion on roads—I presume that there is also a wider issue about road maintenance. Secondly, has the minister been approached by veterans' organisations that are keen for veterans per se to have concessionary travel? I appreciate that some veterans will be eligible anyway because some will be over 60 and some will have disabilities. However, has the minister had representations from veterans' organisations? I have had such representations, and I have a great deal of sympathy with the plight of veterans in Scotland today.

**Derek Mackay:** Members can tell why Mr Stewart is my shadow. My aim is to get what he referred to in his first question about the importance of the concessionary scheme: transition to the low-carbon economy, modal shift, people being more active, reduced isolation and the promotion of individual independence. Those are all good reasons to continue the concessionary travel scheme, and many over-60s benefit from the scheme in those ways.

On the point about veterans, I will check the exact detail of that categorisation. However, it is my understanding that transport provision for veterans has improved over the past four years, partly because of the efforts of my predecessor, Keith Brown, as the Minister for Transport and Veterans. I will get back to Mr Stewart on the detail of what transport veterans might be entitled to. If we need to do further work on that, it will be undertaken. From memory—I do not have the detail to hand—I believe that we have enhanced the transport provision that we inherited.

10:15

**Mike MacKenzie (Highlands and Islands) (SNP):** Does the minister agree that, although the points that Alex Johnstone made about aligning the bus pass with the pension age and the retirement age might seem, on the face of it, to be sensible and have some appeal and that our success in longevity is to be commended, that success is by no means universally spread across the country? Lifespans in some areas of deprivation are much shorter than those in other areas. I hope that the Government would carefully consider factors such as the health benefits that go with promoting active families and maintaining family links—families tend to be much more dispersed than they were in a previous era—before it implemented any changes to realign the bus pass with the pension age.

I would like to touch on another issue.

**The Convener:** Is it relevant to the order?

**Mike MacKenzie:** It is relevant to the previous discussion. I represent a predominantly rural area and I have spoken to bus operators who have told me that many of the routes that they operate would not be viable without the revenue that they derive from the bus pass scheme. The scheme is absolutely essential for keeping some of those rural routes viable. That is another factor to consider in proposing any significant changes to the scheme that might impact adversely on rural bus services.

**Derek Mackay:** Those points are all very fair. I will work backwards in answering them.

Because of the bus environment in Scotland, there is a mixture of market forces, commercial interests and concessionary, subsidised and locally supported schemes. That is why some of the provision relies on schemes such as the bus service operators grant and the national concessionary scheme. As I said, I am convinced that some of those routes would have disappeared if it were not for schemes such as the one that we are discussing, and the rules were changed to further support rural communities in the most recent review of the BSOG.

On Mike MacKenzie's first point, life expectancy is lower in our country as a whole and particularly in areas of deprivation. It is a fact that people in Scotland live shorter lives than people in some other parts of the United Kingdom, and we must bear that in mind when we make decisions on entitlement to services and concessions.

The Scottish Government also has a perspective on the pension age that is different from that of the United Kingdom Government, and that is another consideration.

We will continue with the scheme that we have proposed for the two-year period, which will see us through this parliamentary session. There is nothing wrong with members making choices, having an opinion and debating where the scheme works well, how we could change and improve it and what their priorities are. However, our priority is to continue with the national concessionary scheme as proposed, in order to give certainty to operators and residents throughout Scotland who greatly value the way in which it is constructed. In a survey that we conducted, 98 per cent of respondents stated that they were either very satisfied or fairly satisfied with the scheme overall. That may not come as a surprise. That record and response suggests that, even in the west of Scotland, where I am from, to use a colloquial phrase, we're doing no bad.

**The Convener:** As members have no more questions for the minister, we move to agenda item 2, which is formal consideration of motion S4M-12397.

*Motion moved,*

That the Infrastructure and Capital Investment Committee recommends that The National Bus Travel Concession Scheme for Older and Disabled Persons (Scotland) Amendment Order 2015 [draft] be approved.—  
[Derek Mackay.]

*Motion agreed to.*

**The Convener:** That concludes consideration of the affirmative instrument. We will report the outcome of our consideration to the Parliament.

I thank the minister and his officials for their attendance. I will now allow a short suspension for the witnesses to change over.

10:20

*Meeting suspended.*

10:22

*On resuming—*

## Freight Transport

**The Convener:** I reconvene the meeting. Our third agenda item is for the committee to take further evidence on its inquiry into freight transport in Scotland. This week we will hear from rail freight operators. I welcome Andrew Malcolm, chief executive officer of the Malcolm Group; Ken Russell, strategy director of the Russell Group; and Kay Walls, commercial manager for Scotland at Freightliner.

I kick off by asking each panel member to provide the committee with an overview of their rail business and its significance to the Scottish economy, and to place that in a wider context by outlining their strategic vision for freight transport in Scotland and beyond. We will start with Andrew Malcolm.

**Andrew Malcolm (The Malcolm Group):** Our organisation moved into rail back in 2001, not as an alternative to road transport, which is our core business, but alongside it. We very much see transport as a combined road and rail operation. I often stress that road can survive without rail, but rail cannot survive without road, which is a fact that a lot of people miss nowadays. Some people promote rail rather than road.

As an organisation, we run a seven-day service twice a day, the length and breadth of the United Kingdom. Every week, we move about 12,000 domestic loads, north and south, to support the market. Rail has become a key part of our operation. It takes years to get our client base's confidence to use it, but unfortunately it does not take long to lose it. There are a number of challenges on the main routes in and out of Scotland. We have restrictions on the west coast and east coast main lines, mainly due to gauge and height restrictions, and they sometimes cause us delays in the services that we provide to customers.

When we started using rail back in 2001, 90 per cent of what we moved by rail was not time sensitive. People did not have confidence in rail, but they wished to use it. Today, it is fair to say that more than 90 per cent of what we move is time sensitive. Between Russell's and Malcolm's, we probably move the majority of the retail sector's business to Scotland. Rail transport has become a very important part of our organisation and it is something that we hope to develop further.

**The Convener:** Will you place that in a wider context for us? What is your strategic vision?



**Andrew Malcolm:** There is a lot of vision. In our industry, people use the phrase “just in time”, but the culture in the UK is “just too late”. People do not plan far enough ahead with transport and how it works. Trucks give customers so much flexibility that they can cut dramatically their lead times, but rail is rigid. All the penalties that come with rail can deter customers from using it.

Our strategy going forward is to make sure that what we are doing is sustainable and that we are looking for further growth. There is a driver shortage in the UK, so our strategy is ideally not to put any more trucks on the road. We need to get more value from the trucks that we have, and that is where rail can play its part. It can move volume without dramatically increasing the resource. Our strategy as a business is about trying to develop more freight on rail and less on roads.

**Ken Russell (The Russell Group):** I have a similar story to Andrew Malcolm’s, and the scale of what we do is similar. We operate seven days a week, and our core route is predominantly the Midlands to Scotland and vice versa. We do about 100 loads a day in each direction over that route on rail.

Rail is complementary to our services rather than core. We use rail when it fits and we use road and short sea when they are right. It is a matter of choosing what best fits the job in hand. We also have a daily rail service that links the Midlands to London and London to northern France.

In our strategy for the future, we want to widen the network that we can access by rail, make more use of the Channel tunnel and link into eastern and southern Europe as well as maintaining our current links all over France and into Spain.

**The Convener:** I presume that, like Mr Malcolm, you want to grow your business. How do you see the services that you provide fitting into the wider context of freight transport?

**Ken Russell:** We are facing some obstacles with rail that are delaying the development of our international operations. There are the issues with gauge that Andrew Malcolm mentioned, and we also have issues with high speed 1. We are trying to get an increase in the weight of the trains that are allowed over that route. Currently, they are restricted to 1,600 tonnes, but the limit for the Channel tunnel is 1,800 tonnes. It would not cost us any more to run the extra 200 tonnes and it would have a significant impact on commercial services. Unfortunately, we cannot get HS1 to engage with us on that—we have been trying for three or four months.

We are doing some load tests with weight in the Channel tunnel to try to increase the capability of a single locomotive, because we have to use two locomotives to pull the train through the tunnel.

There are benefits to using a single locomotive, which in theory is capable of doing the job. We just need to prove it in a test situation so that Eurotunnel can approve it.

The other general problem that we have in the UK is that the European rail gauge is larger than the UK gauge. European gauge is usually UIC gauge, which is almost equivalent to the Channel tunnel’s capability, depending on which country we are going to. We have a significant decrease in our capability, other than on HS1, and that has an impact on the sorts of equipment that can be run by rail. A lot of the inquiries that we get from the continent for our terminal in Barking are for trailers on trains coming through the tunnel. They cannot get any further than Barking because our gauge is not capable of taking them.

We also get inquiries for 10 foot 6 inch containers to carry the likes of automotive components to manufacturing plant. Again, we cannot fit them on the UK gauge, other than on HS1.

**The Convener:** Thank you. I am sure that we will tease out some of those issues as we make progress this morning.

Ms Walls, will you outline for us the significance of your rail business to the Scottish economy and set out your strategic vision for freight transport?

**Kay Walls (Freightliner):** Freightliner is a long-established rail haulier. We were established in the 1960s—at the time of Dr Beeching, would you believe?—and we were fully owned by British Rail, but we were privatised in 1996 and we are now a private company. Initially, we moved containers by train—we were the first to do that. Since then, containerisation has grown globally and our business has grown as a result. Post-1996, we moved into the bulk haul market. As well as container trains, we run bulk trains for cement, coal, waste and so on—they are big contracts—through Scotland.

10:30

As far as container trains are concerned, our core business is moving goods from inland to deep-sea ports. We send stuff from the UK—from Scotland, in this case—over to America, the far east and the rest of the world. Container trains run from the Coatbridge Freightliner terminal with full-load containers, mostly containing spirits, I am afraid, or thankfully. Those go down to the big ports of Felixstowe and Southampton, to the Thames ports—London Gateway and Tilbury—and the port of Liverpool, and from there the goods go to the rest of the world. Similarly, we bring imports from those countries up to Scotland. A box will land at Felixstowe destined for Scotland and we will bring it up on our train.

The Coatbridge Freightliner terminal has been there for a long time. It was a very busy site—I think that it was the biggest rail terminal in Europe at one point. However, things change and fortunes alter. Post the crash at Hatfield, we had a few issues and we lost a lot of traffic, but I am pleased to say that we are gaining it back. The benefit of Coatbridge is that it is a huge site. We have welcomed other rail operators—we have three of Ken Russell's trains every day and we have run Andrew Malcolm's trains—and we are looking to grow that further.

On our strategic vision, I would like Coatbridge to become an intermodal hub for Scotland. I envisage a core terminal where part trains from other areas—maybe locations in Scotland that could not support a full rail terminal, such as Perth—feed in to a central strategic hub, consolidating and feeding out from there. That is the vision and we hope that it will come. Whether it happens at Coatbridge or somewhere else, it is something that we should be aiming for.

Scotland has limited deep-sea connectivity. We have options to go over to Rotterdam, Antwerp and so on, but we have no deep-sea connectivity of our own. I think that we would all like to have that.

**The Convener:** Thank you. I think that colleagues will want to pick up on the issue of our deep-sea capabilities.

The Scottish Government has to prioritise its spending on infrastructure. What would be your priorities for action that would benefit the freight sector?

**Kay Walls:** Roads are important because we cannot have a rail terminal without a road connection to it. We could look at where the freight is moving and try to target the spend there.

I was dismayed that, when Eurocentral opened, no thought was given to a passenger train service. As such, the roads into Eurocentral are jammed by people trying to get to work. If we are going to build a big investment park, we should look at the rail link. Ken Russell has a rail terminal across from him. Why was a rail link never put into Braehead? Rather than people having individual schemes that benefit individual companies, we need a more strategic overview and joined-up thinking. We need to look at what is good for Scotland. Ultimately, that will benefit everyone, because it will make it easier to get around, reduce cost and therefore encourage growth.

**The Convener:** Mr Russell, what would be your infrastructure investment priorities?

**Ken Russell:** From a Scottish perspective, I would look at the local road infrastructure that feeds the major rail and sea terminals to ensure

that we have the cleanest opportunity to get in and out.

On top of that, we need to look at the west coast and east coast main line access for rail and some of the diversionary options, such as the Glasgow south-western route. We need to have options for the current gauge capability of the west coast main line so that we are not totally reliant on a single route, as our trains predominantly are at the moment, which can cause us problems. Equally, we need good links with London to ensure that we can continue to operate from Carlisle.

**Andrew Malcolm:** I echo what Kay Walls and Ken Russell said. As a transport man at heart who has brought rail to our business, I think that we need to bring a practical mindset to the issues. Scotland is a very short country from coast to coast and if we look at where the population is and where the main freight is. If we look at the working time directive and drivers' hours regulations, our key objective is that we must have vehicles moving fast and sleekly with few delays. I share Kay's view that, in a lot of places where we have rail terminals, we have a lot of congestion and cars. That causes a lot of delay and expense.

In our road fleet, we try to have a standard unit that can fit all requirements. The west coast main line is open to nearly any size of container that we have, but we need other containers that can go on diverse routes around the east coast line. That creates problems with customers in relation to the cubed capacity that they can get on the train, the flexibility and the delay—can the train split to get round, for example? It is about getting alternative routes in place that work.

Fundamentally, it is about having the terminals in the right place. I do not think that we have a bad structure with regard to terminals. A lot of investment is required in the terminals because they are expensive to run and to operate, but a lot also needs to be done on the road network in and out of the terminals to try to get traffic flowing more smoothly.

**The Convener:** Do you all agree that we need investment in the road network—particularly to allow better access to the terminals—and then investment in each of the terminals? You are all nodding. Has anyone done an assessment of what the cost of that investment would be? It seems not. We will move on.

**Alex Johnstone:** A lot of freight can be carried on trains, but what types of freight have been the success stories and which areas of freight transport require improvement to get them on to rail?

**Andrew Malcolm:** It would help if we looked at the problem that Scotland has with the balance between inbound and outbound freight

domestically. There is always more coming into Scotland than going out of Scotland, so trying to balance traffic flows is a challenge, whether it is by road or rail. I know that Ken Russell has a different business model, but probably 90 per cent of what we move north by rail is for the retailers, so it cubes out before it weighs out. However, most of what goes out of Scotland will weigh out before it cubes out.

Rail has a massive disadvantage over road in relation to weight capacity. We normally lose between 3 and 4 tonnes of capacity on rail compared with a road-going vehicle, so we are less competitive. Many years ago, when transport moved from 40 tonnes to 44 tonnes, we had a 44-tonne opportunity with intermodal rail within a radius of the rail terminal. We lost that when they neutralised 44 tonnes for all vehicles. We urge you to have a look at that issue.

The goods that we carry are mainly retail related, drink related and building product related. We try to take any customer's goods and work out how they can fit on road or rail. However, for most of our customers, we have a parallel road service. We have to run the combination to give them confidence in the service. It is not a bespoke rail service—goods may have to go by road and vice versa.

One of our issues in Scotland is not just how to get more volume on to rail but how to get more weight on to rail. That is more important on the southbound journey, where we can benefit Scotland and get goods to market at an acceptable price.

**Ken Russell:** I agree. Equally, if we look at our volume, the main difference between my trains, Andrew Malcolm's trains and Kay Walls's trains is that we are concentrating more on the domestic market or the European market whereas Kay is concentrating on the deep-sea market, predominantly on the intermodal side.

Our other issue is that a lot of the European and domestic market is based on a 45-foot pallet-wide container while the deep-sea market is based on a 40-foot, 8-foot wide container, so we cannot put two pallets in the same direction across the width. If we could persuade shippers to use either European-type equipment to get whisky south or a deep-sea box to bring goods north, that would make a big difference to the trade imbalance. At the moment, empty containers come in to Scotland in order to take whisky exports out and we move an element of empty containers south to bring European and domestic goods north. That is a challenge for us as an industry, and we need to try to overcome it.

**Alex Johnstone:** Is that just one of those insoluble problems, or is there a solution?

**Ken Russell:** There are solutions, but they are not palatable to either party at the moment.

**Alex Johnstone:** So it is insoluble.

**Ken Russell:** At the moment, it would appear that way.

**Kay Walls:** The deep-sea market is out of step with the domestic market. Unlike the rest of the UK, which imports more than it exports, Scotland is a net exporter—99 per cent of the containers on the trains that leave Coatbridge will be fully loaded with exports to the rest of the world. The inbound trains will be around 40 per cent full, so there is a massive imbalance.

That gives Scottish industry and Scottish exporters a major headache, because they struggle to get enough empties. Companies such as Diageo and Edrington will say that not enough empties flow into Scotland. By and large, that is because, when a deep-sea vessel from China lands at Felixstowe or Southampton, most of the cargo goes up to the midlands and the containers will be emptied at Daventry international rail freight terminal near Crick, where the goods will be stored. The empty deep-sea containers will go back to the port to be shipped back out to China or Australia. The goods will then be brought up to the rail distribution centre in Scotland in Ken's or Andrew's containers but, of course, we do not get the empties. That is a continual cycle. Especially in the busy periods, the feed of empties up to Scotland is critical for the whisky industry. Freightliner trains from Coatbridge probably move about 20 per cent of the deep-sea exports out of Scotland. The rest are moved by coastal feeder from Grangemouth or Greenock. There is a huge demand for empties, especially at particular times of the year. The situation gets pretty desperate.

We have tried to crack that nut. I do not know how many meetings I have been to with various people on how to do that. Part of the problem is that, when it comes to deep-sea containers in particular, it is a global market. Because the organisations involved are so huge, one part of them looks after the global supply of containers and another part of them does the ops. We need that to be married up, so that containers can be provided in Scotland, but that is not going to happen, because containers might be needed in Los Angeles or Taipei and that will take priority. It is not a problem that we are ever going to solve locally. As Ken said, if we could get licence to get the people who move goods throughout the UK to share one another's containers, that would be good, but it is a big ask.

**Ken Russell:** On the commodities side, there are some different products that could lead to future growth on rail. At the moment, Andrew and I concentrate on carrying fast-moving consumer

goods such as ambient food and drink products by train, but there is a huge demand to have chilled and frozen goods taken by rail as well. There are apprehensions, especially with chilled goods, because a delay would have big implications. As a result of the service levels that we can now provide, that apprehension is beginning to get broken down. We carry some chilled and frozen goods on our trains, but they represent a very small percentage of the total volume.

There is a huge opportunity for further growth in the domestic intermodal market. The big issue when it comes to making progress in Scotland is that it is possible to get the equipment into Grangemouth, Mossend and Coatbridge without a problem, but it is not possible to get it further north, because a reefer box is 2.6m wide. The fact that the mass-produced units are 2.6m wide restricts where we can go to. At the moment, we cannot go to Inverness with a 2.6m-wide box.

We need to look at whether the economics justifies changing the gauge or whether it would be better to use 2.55m-wide insulated boxes. They would cost a bit more to buy, because they are more bespoke, but that would probably be cheaper than changing the gauge on the route to Inverness. That piece of work has not been done yet.

**Kay Walls:** In the deep-sea market, we move a lot of frozen goods. We ship a lot of frozen fish from Scotland to markets in China, the far east and Spain. That has been happening for many years. We use refrigerated boxes, but because they are deep-sea containers, they have a different profile from the boxes that Ken uses.

10:45

We also move ambient containers. There is a lot of seed potato traffic out of Scotland, particularly before Christmas. We can move about 80 containers of seed potatoes a week in our trains. They move by rail because that is faster than coastal feeder, and they are moved in ambient boxes.

The deep-sea market is well established. All the ports have refrigeration plug-in points, as we do at rail terminals. The big deep-sea ships have refrigerator plug-in points. If there is a disaster and goods are stuck in a train, the charge for the refrigeration will last for about 72 hours, most of the time. A lot of the trains have generator sets, which can be topped up with oils, and they will continue to run like domestic fridges, so there is not an issue there.

However, people on the supermarket circuit are not so au fait with that, so it is a matter of education and of getting people comfortable with it. They are getting there. It is good news that Ken

Russell and Andrew Malcolm are no doubt already moving ahead with those things.

**Alex Johnstone:** We have already covered a lot of the next question that I was going to ask. There is a perceived change in demand for freight on the rails. Coal is becoming less significant as time goes by, simply because we are mining and using less coal. What actions do we need to take with the Scottish rail network to prepare us for the next generation of rail cargo, as things change—other than what we have already said about container standardisation?

**Kay Walls:** It is a matter of enhancing the rail network, as Andrew Malcolm and Ken Russell have both said. We have a real issue if the west coast main line is closed. We can lose trains for three or four days. That would never happen on a motorway—there would always be another outlet. Clearance on the east coast main line is crucial. Network Rail is working on that. Rail freight is growing, the world market is growing and European traffic is growing, but the boxes that are used are pretty odd sizes. We cannot just say, “That’s it. We’ve done it,” and tick the box; there has to be continuous improvement.

As Kenneth Russell says, from the central belt south, to Daventry and the midlands, it is not great, but it is not bad. Once you start to head north from the central belt, however, it is less good. There is also a lack of terminals in the Inverness and Elgin areas, for instance. We could do with some improvements up there.

**Ken Russell:** Differential in gauge is an issue, for example for Aberdeen and Inverness, which are the two most populated areas outside the central belt. There is talk of possible terminals for Perth and Dundee, but I struggle with that, because the economics of rail against road on that route will be very challenging for a rail operator.

**Alex Johnstone:** The places in Scotland where it makes more sense to use rail are the places that we cannot get a standard container to.

**Ken Russell:** Yes, I know. The other aspect is to ensure that we retain the capacity for freight on the railway. We do not want the demise of coal suddenly to appear as increased passenger capacity rather than freight capacity. Growth in domestic and deep-sea intermodal traffic in the UK is accelerating. For a period, it surpassed coal. It is back behind coal at the moment, but it will come back again, given the movements in coal volumes. We are seeing growth on that side. The domestic intermodal market is the sector in the rail freight market with the most growth potential in the next 20 years. Between us, we are doing roughly 200 loads a day north on rail, and we are scratching at the surface of the market. There is a huge opportunity. We are seeing a major change in how

large organisations are procuring their logistic solutions.

Organisations are asking more questions about the carbon footprint of their solution. They are not saying that they want to pay any more money for it but, if we can match their price expectation with a rail solution rather than a road solution, they will generally choose the rail solution now. That is a big change from where we used to be.

**Andrew Malcolm:** I know that the electrification of the Grangemouth path is in the plan now. Electric rail is the most efficient and effective way to move volume. We have that into Mossend and Coatbridge, but we still have to do a change at Mossend to get out to Grangemouth. Obviously, Grangemouth has one of the biggest retailers in the UK—one of the big four is based there, which is why we run a seven-day service to it. The number 1 priority would be further electrification of services.

We would probably like a more formal rail freight strategy setting out what is going to happen over the next five years plus. We need to engage more with that and try to put in ideas. In a traditional business, we are always investing in the future and responding by the day. We sometimes have to take a view on what the market will need in five or 10 years. Therefore, a more formal rail freight strategy would be good, so that we could really see the plan for the next three to five years, and even beyond that. We need to start talking today about what we want to deliver in five years.

On the container market, we cabotage a number of import containers, but customers look for a discount, because they cannot get the cube on. The issue is how we can continue to ensure that the freight grants that are available can help to support keeping stuff on the road. At the end of the day, there are hauliers on the land who run out of Scotland back down to the midlands for the cost of fuel—they are up anyway, so they just take anything back. That is the competitor for rail on that side.

To go back to what Kay Walls said, we are working with a number of our customers on the imbalance of containers in the deep-sea market. A customer might have an import route and an export route, but the two do not meet when they get into other parts of the world. We are now doing joined-up thinking with shipping lines that can provide that third link so that the same container can be used for the three links. That is quite innovative. We are getting customers to come to the table. There is more buy-in from certain customers, who have to think outside the box rather than just procure one route and not the other.

**Ken Russell:** It is important that we maintain close links between the deep-sea, domestic and European markets in the terminals that we go through. If everything is focused through the same terminal, that gives synergies and benefits for overall volumes. We have different peaks in the year. The Christmas peak is a lot earlier in the deep-sea market than in the domestic and European markets. That helps in balancing the flows.

**Kay Walls:** I concur with that. At Coatbridge, we have high fixed costs and, until Kenneth Russell's and Andrew Malcolm's trains came along, it was completely based on Freightliner volume. That is all deep sea, so everything was coming in a huge crescendo. Now, we have a split between deep sea and domestic, which is good, because domestic vehicles arrive in the queue at a different time from the deep-sea vehicles. That definitely works. It has meant that, instead of being a Monday to Friday site for the deep-sea side, we now work seven days, because we are handling Kenneth Russell's trains. We were always 24/5, but we are now 24/7, which is good. It is good to have a mix of rail operators and hauliers. Any site should be multi-user—they are multi-user anyway, but that should be encouraged.

Another point is that there is a big gap with coal. Some of the traffic that needs to transfer to rail is still on road. There is a perception in haulage that you have to be a really big guy like Kenneth or Andrew to use rail, but you do not. Any haulier can buy a slot on my train tonight, and some of them do. I have three or four small road hauliers that will buy individual slots on our trains on any given night. There is a myth out there that that is very difficult, but it is not. We have timetabled daily services that run with spaces on them and anyone can use them. Committee members could use them if you wanted—it is that simple. We have talked about how we can kill that myth dead and encourage more people on to rail.

We have various hauliers who use us only when they are stuck. When they get busy and cannot do an overnight trunk, they will book a slot with us, which is great. On the nights when they can do it, that is fine, because that makes use of their vehicles. There are options out there for people. The road versus rail thing annoys me, because Freightliner could probably be described as a road haulier that does the trunk haul by rail. We have always been a road haulier. At one point, we had the biggest road fleet in the UK, and we still have our own road fleet. Customers can choose whether to use us for terminal to terminal or port to terminal or whether they want us to do the onward delivery from Coatbridge to Aberdeen. That is their choice, but we offer that service. In reality, we probably do about 20 per cent of the haulage that comes through Coatbridge, and the rest is done by

third-party hauliers. Again that is good, because it spreads the work. When the peak comes, no single haulier could cope with it.

Andrew Malcolm, Ken Russell and I have known each other and worked together for years. They are my customers and I am their customer at times. There is a synergy that needs to be recognised and developed.

**Alex Johnstone:** Mr Russell, in your opening remarks, you spoke extensively about the Channel tunnel, so it is obviously taxing your mind. Is freight going through the Channel tunnel at the moment?

**Ken Russell:** We are doing about 60 loads a week through the Channel tunnel at the moment. We are running about 30 loads a day in each direction. On the southbound journey, the largest portion is whisky, with the rest being a mix of various different products.

**Alex Johnstone:** What is the capacity for freight through the Channel tunnel? Is it time limited? Is it an overnight thing?

**Ken Russell:** No. The capacity for freight in the Channel tunnel is still massive. The take-up has been small. The issue is whether you go via Kent, which in effect gives you a 24-hour opportunity to hit the Channel tunnel, or go via HS1, which gives you a limited window between 23:00 and 05:00, five nights a week, and there are only five paths in each direction for freight on HS1. That is a limiting factor. However, there is plenty of capacity to go through Kent and through the tunnel.

**Alex Johnstone:** As I said, you have obviously been addressing this issue. Do you feel that you are making progress? Are you going to succeed?

**Ken Russell:** I think that we are making progress. Our biggest challenge with the Channel tunnel has been the economics of getting it to work against short-sea shipping. What we had to do was go for a European wagon rather than a UK wagon, because it was half the price to use. That meant that we had to use HS1, which allows a wider wagon to be used. That gave us benefits on speed but slightly increased costs. We can now do a rotation from Lille into Barking and back in 24 hours. The service is very attractive in terms of its operational capability. Pricewise, there is a different struggle. It is frustrating that, if we used a UK wagon, we could come through Kent and we would not have the fixed-time criteria that we have because of the HS1 constraints. However, the cost of the wagon took that opportunity away.

**Alex Johnstone:** Looking at the longer term, what is HS2 going to do to the freight business?

**Ken Russell:** I take the view that HS2 will add no value for freight. If anything, it will add a complication because of the congestion that it will

cause in the north of England, where HS2 stops and the traditional network begins. That will push up more congestion towards the Preston area, which will give us an issue in relation to capacity for our freight.

**Alex Johnstone:** What do you mean by congestion? Are you saying that, if there are more passengers on HS2, more passengers will be catching the train to go north?

**Ken Russell:** Potentially. That is my fear.

**Alex Johnstone:** Interesting.

**Ken Russell:** The suggestion is that HS2 will take volume off the traditional network and place it on high-speed trains, but I do not see that happening. The passenger rail operators are still going to want to offer their intercity services rather than just an HS2 solution. I do not think that it will throw up huge additional capacity for freight on the traditional network. In the longer term—20 or 30 years away—it does nothing of benefit in terms of the gauge for freight. We need to look at having a spine up the UK that has a European gauge capability for freight, rather than looking at how we can achieve other benefits for freight.

**Alex Johnstone:** Do others agree with that?

**Kay Walls:** I do not know. At the end of the day, it is a hard call to make. I think that it could stunt future growth. I do not know whether today's freight would be catered for, but we are hoping to see today's freight increase, as it is forecast to do. The concern is that capacity will be built in for today's levels, plus a bit on top, but who knows? The freight business is notoriously fickle. We set out plans based on what a customer says, but that customer, or its factory, could disappear in two years' time. The situation changes all the time. It is not like passenger services. If there is a housing estate, we know that people will travel to work and to the city. If somebody runs a train from there to the city, it is likely that it will run for the next 100 or so years while those houses stand. Freight is the total opposite of that; it changes on a whim.

11:00

**Alex Johnstone:** Would it be fair to say that we will have to do something deliberate to improve freight capacity, or HS2 will not benefit the freight industry?

**Ken Russell:** I believe so.

**Kay Walls:** There should be a specific, freight-only line. Freight access to the other lines should still be allowed, but something should be done about a freight-only line, because it could be a major issue.

**Ken Russell:** That or a freight-preference line.

**Kay Walls:** Yes.

**Andrew Malcolm:** We talk about the cost of rail. It comes with a fixed cost and, when we get it right, it is advantageous, but when we get it wrong, it is costly.

Was it last year, Ken, that the charge levied for every minute that we are late on to the network was put up?

**Ken Russell:** Yes.

**Andrew Malcolm:** If we delay a train on to the network, we are charged, I think, 40p a minute.

**Ken Russell:** It is more than that.

**Andrew Malcolm:** Is it 48p? [*Interruption.*] I am sorry—it is £40 a minute if we delay a train from going on to the network so we will now dispatch trains partially loaded rather than fully loaded. However, if we are delayed on the network, it is virtually impossible to get any form of compensation back through the supply chain to the customer for that.

Freight is seen as the second-best friend and is not given any preference. Certain customers that we have know the cut-off time for getting the train ready. We need to get it prepped, safety checked and out the gate. We cannot not put it out the gate so, if a container gets delayed on the M6 on the way to the Daventry international rail freight terminal—DIRFT—even if only by five minutes, it has to be turned round and taken up the road because we are not prepared to hold the train back for those five minutes.

Freight is penalised, so customers will not take the risk. Certain customers will do so if the delivery is not time sensitive but more freight in the UK is time sensitive and moves in a time window. That takes away a degree of flexibility.

**Kay Walls:** A train could be delayed coming into us through no fault of ours or any train operator. A passenger delay could cause a train to get into Coatbridge three hours late. We have to turn that train round and get it out in its normal time slot, but it takes time to unload and reload a train. Because of delays, I have watched trains get out of Coatbridge half empty when we were screaming for space.

No leeway is given. That is an issue. Ken Russell's trains were all held at Daventry. They could have been moved upcountry, but there was a total ban on moving them. There is a hierarchy in the railway whereby freight trains tend to get put to the bottom of the pile. That is understandable, because a passenger votes and freight does not, but we must realise that, if we want the shelves to be filled in the shops, we cannot behave like that and we must give some kind of priority to freight. I think that the Royal Mail trains get priority.

**Ken Russell:** That is a good point. In some countries, some commodities will attract a different priority in the rail network but, in the UK, nuclear and Royal Mail trains have a higher priority than all other freight and the rest has a lower priority. If there is a major incident on the network, freight almost stops until the issue is resolved for passengers and then freight will drip back in. For the fast-moving consumer goods trains, that is a major problem.

**Kay Walls:** It is certainly a problem for port trains as well. At the back end of the year, we are really busy. Goods come into Coatbridge four or five days in advance because we are stuck for train space. We have a timetabled service and cannot afford to throw another couple of trains in just because it is busy.

We work to vessel deadlines. A ship at Felixstowe will sail on a given day, and we have to get the freight on the final train. If there is a major incident, we will miss our market and I might have Diageo on the phone screaming that it has missed five boxes that were urgent for New York because we missed the ship.

There is a real issue. Freight trains are time sensitive. It is not the case all the time, but there are occasions when it is critical that they get through. There should be some way that we could book priority and say, "Look, this is a hot one. Can we get it through the network?" However, that does not seem to happen at all and it is very frustrating.

**Andrew Malcolm:** We have to bear in mind that, if one train from DIRFT to Scotland is suspended, it takes nearly 50 trucks to move those goods, and 50 trucks are not sitting out in the marketplace where they used to be five or 10 years ago. That puts it into perspective.

We run a dedicated train every night for Asda. We and Ken Russell deliver to stores in Aberdeen for Asda out of its Lutterworth depot, and you would be unlucky if the goods did more than 35 or 40 miles on the public highway. Those are goods that are required to be on the shelves the next day, and it can take 50 trucks to move them the length of the country if a train is delayed or suspended. How we handle that sort of situation has a massive impact on the whole Scottish economy.

**The Convener:** Does Mike MacKenzie have a supplementary?

**Mike MacKenzie:** No.

**Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP):** Some of my questions have already been answered, so I will try to run through them fairly quickly. My first question is on the capacity for expansion of Scottish rail freight. Are

there particular parts of the rail network in Scotland that would constrain future growth?

**Ken Russell:** I do not think that, as we sit here right now, there are parts of the Scottish network constraining growth. Our issues with Scotland are largely based in England, in terms of where our goods are trying to get to and where our freight for consumption is trying to come from.

Tesco is one of our customers: it is fair to say that Tesco would love to have a rail terminal at its depot in the M8 corridor. There is an issue with the amount of passenger traffic in that corridor, and I suppose that in specific instances there is the potential for blockages in a desired operation. In reality, however, we are servicing the M8 corridor between Grangemouth, Coatbridge and Mossend as well as we can. Tesco would see a slight benefit if there was a terminal on its doorstep, but heigh-ho.

**Andrew Malcolm:** We have talked about the possibility of opening up more routes, but the more important factor in my view is the need to look at where we can get more volume and capacity on single trains. We are the first to have our trains restricted in length; we know that we can run longer trains, but if there is any suggestion of delays at all, the trains get shortened.

We have talked about capacity on trains. Last year, we launched the 50ft container. A few years ago, the Government began a trial of moving from 13.6m to 15.6m curtain-siders, so on road we went from a 24-pallet to a 26-pallet footprint. Again, however, there was a disadvantage in rail, where we were still very much stuck on the old 24. We have now brought out a container for the retail sector that can carry 30 pallets, which is great. We will be bringing north another four pallets, which is 15 per cent more volume, at a zero increase in cost, so there is a benefit to the retailer and to us. Given the cost on rail for an 18m wagon, there is no disadvantage, but those containers are now running south with one pallet fewer because they are slightly heavier. The retailers are getting the benefit coming north, but there is a lot of spare capacity. I am sure that if Ken Russell and I looked at the weight per unit on our trains, we would find on the existing services a lot of spare capacity that we could get the benefit of, if we could just get the goods to the rail service and get longer trains.

**Ken Russell:** That last point is important—the loops are too short, so we are restricted in terms of length, especially for daytime trains.

**Adam Ingram:** It has been suggested to us that we should be thinking in terms of transport corridors. For example, rather than simply looking at dualling the A9, we should be looking at the whole transport corridor and at investing in longer

loops going north. Would you agree with that approach?

**Kay Walls:** Yes.

**Ken Russell:** I would definitely agree. Our train to Inverness is restricted to 20 loads, whereas from Glasgow to the midlands we are running up to 36 loads on a maximum-size train. The scale differential has a huge implication for the unit cost.

**David Stewart:** I was interested to hear the comments that Network Rail made recently to the Aberdeen business community, which can be summed up as, “Make the case if you think that more improvements are necessary.”

Adam Ingram has rightly raised a couple of points that I was going to raise about passing loops. Looking at the north service, which has been mentioned—and which is in the area that is home to me—the lack of dualling for rail is a huge problem. I believe that height restrictions also affect you.

Electrification is another issue. When I met representatives from Network Rail last week, they told me that ring-fenced funds are still available to bid for. I am not suggesting for a second that we could, suddenly, use those funds to electrify the line from Perth to Inverness; that is not going to happen. There is a Scottish Government transfer plan, and a Network Rail plan, but I was reassured that there are still funds available to bid for.

What would be the priority extra bids over the next control period in order to facilitate more freight movements, particularly heading north, where there are restrictions?

**Ken Russell:** Longer loops, to enable us to run a longer train, would be a priority. I certainly do not agree with the suggestion that rail is being done a bad turn because the Government is going to dual the A9 or has increased the speed on the A9. Rail has to stand up and be innovative itself, and that should not be to the detriment of another mode of transport. All modes need a free market to do the best that they can on the playing field that they are on.

**David Stewart:** I generally agree, but I make the point that, in respect of the A9, you are essentially comparing a dualled route with the equivalent of a single-track road. I am quite happy to see modes being equally competitive, but the problem is that they are not because the infrastructure is totally different.

I know that I am preaching to the converted with our three witnesses here today, but we want to encourage choices not just for freight but for passengers, and for people to say that they want to use rail rather than road. If they are comparing a dualled road with a single-track road, they will



vote with their feet and take the car. I am sure that you would probably agree with that statement.

**Ken Russell:** In principle, I agree with that statement. Equally, as a business, we always have to justify any expenditure that we make. It might be someone's right to have access to a dual carriageway or a dual rail route, but that cannot be justified because of future use, we have to find different solutions to achieve the endgame. Whether that would involve dualling sections rather than the whole route, or whether longer loops could achieve the same effect, I do not know. I am not sitting here with the answers; we need to explore the options. To dual the whole route would involve phenomenal cost, as will dualling the road.

**David Stewart:** I will leave it at that, convener. I know that we are pressed for time.

**Adam Ingram:** The panel has already discussed loading-gauge restrictions, mostly down south or at the point of changeover from the European to the UK network. Do the witnesses want to add anything on that? Are there in Scotland particular restrictions that might be addressed?

**Ken Russell:** If we need an alternative route for freight so that we address the capacity issues over the next 20 or 30 years, we should look at a route for freight that can use a better gauge, and there is no point in doing it unless we do it right. I would vote for access from central Scotland down to the channel tunnel on European gauge, but I do not expect that tomorrow.

**Andrew Malcolm:** I think that Ken Russell is talking about the gauge for running the train itself. I would probably focus more on gauges' container height restrictions. I will give an example just now. We talked about Asda a few minutes ago. We can run Asda goods from Lutterworth in a 9 foot 6 inch container, but we need to use an 8 foot 9 inch container to get to Aberdeen. The same container should go to Grangemouth distribution centre and come back out with the Aberdeen load on it.

**Adam Ingram:** Is there an issue because of the bridges that the train has to get under?

**Andrew Malcolm:** Yes—that is the problem. Also, our 9 foot 6 inch container cannot go up the east coast line either—it can come up only via the west coast main line. Again, standardisation of gauge height would allow more flexibility with the boxes, which would give the customer more flexibility on the load fill and make the process seamless.

**Kay Walls:** A long time ago, I was involved in a group in Aberdeen. We were running 9 foot 6 inch boxes, which was becoming an issue, and we were saying that we would have to get the gauge

increased on the route to Aberdeen. We were looking at W10, which would take a 9 foot 6 inch box in a standard-bed-height wagon, and the costs that were coming out were horrendous. At that point, the container gauge was not even up to W8, so we could not even get an 8 foot 6 inch container through. Over the years, the tracks had been built up, and we had lost that capability, despite the fact that we had it years ago.

We looked at the cost, and decided that there was another way and that perhaps we could get special low-bed-height rail wagons and get a freight facilities grant: "If the mountain won't come to Mohammed ...". We thought perhaps that we could get the money to build those special rail wagons, which would be in a pool for any operator to use.

That was how things were progressing, and then everything was taken over by a group—I do not know which one—and that part dropped out of the equation. The fact that there was a need for the special rail wagons was lost. They went ahead and increased the route, but we were still in a bind in that we needed a specific set of rail wagons. They come at a huge cost and have a 30-year lifespan. At that point, it was chicken and egg.

11:15

Ken and Andrew can move megas, with 9 foot 6 inch boxes, but we could not do it with Freightliner's 60-foot platform; we would have to use one of our lowliners. If that got funding—I do not think that a freight facilities grant would apply—that would be a solution. Rather than having to raise the height of tunnels and bridges, we could get those wagons and make them available for use: any one who was moving containers or trains on that route would have access to that rail wagon.

**Adam Ingram:** You are looking for grant assistance for the equipment as opposed to the infrastructure.

**Kay Walls:** Yes—we are looking for a common pool rather than going to huge expense. Some of the costs that were coming out from Network Rail to upgrade the route to W10 were huge. You have to consider whether sufficient business would be moved by rail on that route to justify the costs. That might well be the case in the future, but at that point it was not. It may be a better option to buy the special low-bed rail wagons and put them into a common pool for the use of any operator who is trafficking. If Ken, Andrew or I wanted to use them, we could; they would be for general use.

**Ken Russell:** The wagons could be dealt with in the same way that ships used for ferry services were. We want something that is commonly

available to all the operators from a central pool, rather than each operator having to invest but not fully utilising their investment.

**Adam Ingram:** That is an interesting observation, which we will consider for our final report.

We talked about freight facilities and rail terminals. We visited some as a committee and will probably visit more. Does the industry have sufficient rail terminal capacity to handle our freight business?

**Ken Russell:** We have enough rail terminals—although you might say that there is the odd geographic area in which one being added could be justified—but they need help to increase their capacity. The infrastructure within the terminals could be enhanced to do what the terminal is capable of. The footprint is fine; the infrastructure inside is just not quite right for what we need.

**Adam Ingram:** What is lacking?

**Ken Russell:** In Coatbridge, for example, they are working with 50-year-old cranes—

**Kay Walls:** They are 45 years old.

**Ken Russell:** I am sorry—they are 45-year-old cranes, which have limited span and capability. Investment in larger and more modern cranes would increase the capability there tremendously.

**Adam Ingram:** What is holding back Freightliner from doing that?

**Kay Walls:** The cost is holding us back. The difficulty in the market is that we do not get business commitment. The trains that run out of Coatbridge are bought daily by customers on a slot basis, but no customers say that they will buy slots from us every day. Our business runs in peaks and troughs. We run trains to a tight daily timetable; some days they are running half empty and some days they are overflowing. In order to make a commitment to spend, you need to know that your business is going to be there.

In our market in England, 60 per cent of our trains are contracted—shipping lines buy 60 per cent of the trains, so that whether they put a box on or not, they have that certainty. In Scotland, no customer will commit on a contract basis. We are in a situation in which today trains are full, but for the next three weeks they could be empty. You cannot build a business case on that. It is frustrating. Freightliner as a group has always had a very strong interest in Scotland, despite the fact that our trains run at the margin a lot of the time. That is because—to return to the container situation—we are bringing very little from the south. Our train to Southampton is oversubscribed, but when it comes from Southampton, there is 60 per cent space on it,

because people are not sending empty boxes to Scotland. There is a constant issue.

At times, our trains struggle to make a profit. As a business manager in Scotland, I have had to fight hard to keep trains in Scotland. Fortunately, Freightliner sees Scotland as an important market and wants to stick with it, but does it have the money to revamp Coatbridge without someone saying that they will guarantee it business? No.

**Ken Russell:** Taking a case to Transport Scotland for a new terminal would be an easier process than going to it with a case to enhance a current terminal.

**Kay Walls:** A couple of committee members have been around Coatbridge. It is a cracking big site that could, with minimum real-terms spend, double its capacity overnight. It could really be transformed. It is in a great location—as far as rail connectivity goes, you do not get any better.

Prior to the Hatfield rail crash, Coatbridge's volumes were growing. We went all over the central belt looking for a place to relocate it. That would be damn hard. A possible location was the Clydebridge steelworks, which is out by what is now the end of the M74. Kilgarth was another potential site. However, it is very difficult to find somewhere else. In rail terms, it is fantastic. We are within two miles of three motorways, the footprint is large, we are in the right area, close to Edinburgh and Glasgow. It does not get any better, locationwise.

As Ken Russell said, it would be easier to build a new terminal than to enhance what we have, but I ask the committee to look first of all at upgrading what we have, please. We have a decent amount of rail terminals between us but, with a tweak, that infrastructure could be enhanced and would probably meet the next generation's needs. From there on, if more capacity were needed, we would look at building a new terminal.

**Adam Ingram:** What scale of investment are you talking about?

**Kay Walls:** Off the top of my head, I would have thought that £8 million would probably be required, but I do not know. That is about the price that we have paid when we have re-cranned our other terminals in the system that have committed volume.

**Andrew Malcolm:** I would support that. Our terminal infrastructure in Scotland works. Terminals are expensive to operate and run. We also need to go one stage further and to make our ports more rail friendly, too. There are more opportunities to move more freight into the ports by rail

It is fair to say that—I am not trying to talk badly of our friends at Forth Ports—during peak trading,

the road-haulage industry is charging all its customers a premium for delays at Forth Ports, because the site is too congested for what it is trying to put through.

We successfully ran a rail service into there for a few years, but the train did not quite take the goods to where Forth Ports wanted them to go, so it started to charge for the train entering the port. That made the service ineffective, so we went back to road.

It is about striking a fine balance. We should look at connectivity with the ports. Even short-haul rail can work if you manage the asset base properly, but the train should be going straight to the berth rather than going to a stopping point just inside the gate.

**Adam Ingram:** Last week, we had the port authorities before us. I got the impression that there is some competition between rail freight and the ports, which does not sound helpful to us. There seems to be a lack of co-operation—shall I put it that way?—between port authorities and rail freight operators. Why is that?

**Andrew Malcolm:** I can partly understand that. More export freight is heading south to catch a boat than is going through the ports in Scotland. Part of that is because of the time congestion at the ports.

**Kay Walls:** Our entire business model is built on relationships with ports. That is what we do—we connect rail ports to inland UK. Freightliner does not compete with road haulage in Scotland. Because of the distances that we run, it would be nonsense to run a road vehicle. Our competition is the coastal shipping feeder services that run out of Grangemouth. The vessels from there go over to Rotterdam and Antwerp.

I have an example of the competition. Should Diageo put a whisky container on to a ship in the port of Grangemouth that would then sail across to Rotterdam and Antwerp where it would meet the big deep-sea vessel, or should Diageo take the container to Coatbridge to put it on a train to go to Felixstowe to meet the deep-sea vessel? Obviously, my preference would be that it put the container on a train to Felixstowe, but 80 per cent of the market goes the other way because of cost. We cannot compete. It is an unfair market. They have funding that we do not have, and it suits the major shipping lines because there are less calls to the UK if everything is ferried over to Rotterdam. To me, that is bad for UK plc. We need ports, we need Grangemouth and we need feeder services, but the balance is out. However, that is competition.

The competition with Freightliner for deep-sea exports might have been what was referred to, but it is not really competition. The ports do not

operate the feeder ships, but they obviously service them. That is the competition that you may have heard of.

**Adam Ingram:** You made the point earlier that the problem for our rail terminals is more about the road network around them. We received a similar message from the ports. They talked about the last mile of the run-in to the port. Should we focus on the road networks around the terminals as choke points for your whole business?

**Ken Russell:** Yes.

**Kay Walls:** In Coatbridge, there are around 600 lorry movements a day into and out of our site. We are 2 miles from the nearest motorway, so lorries go through a town. There are around 600 movements a day between Ken Russell's vehicles and our vehicles. That is a lot of movement to one site.

The response that we have had so far is that North Lanarkshire Council tried to shut us down. At one point, it suggested building a road out from the back of the terminal and our turning our site round and building a road direct to the M73. We thought, "Great"—except that the council wanted us to pay for it. That was £6 million. No—sorry. We have a terminal and road access. In fact, before we were privatised, we spent £250,000 on building a new access road into the terminal to mitigate the effects of our vehicles on Gartsherrie Road.

It is crazy in Grangemouth. I think that there have been some upgrades to Grangemouth's roads.

**Andrew Malcolm:** The majority of Scotch whisky is bottled in the west and the majority of it—probably 60 per cent plus—is exported from the east. The whole M80 corridor is just a nightmare.

There is the issue of investment in the Avon gorge to get an alternative route to get to Grangemouth. It is okay just now. With the Newhouse interchange, you would not pick the Avon gorge down the M8. There are things like that. How can we get to Grangemouth quicker? The new road network into the port is actually not bad, but there is quite a gridlock if you go down the Denny part of the country. There is a seized-up gridlock there with a line of traffic trying to do that route.

Road, rail and docks all need to have the same strategy if we want to make the whole business more efficient and effective. Our principal objective for every customer is to reduce the unit cost to get to the end market.

**Adam Ingram:** Previous witnesses have raised that issue with us, so it will no doubt feature in our report.

**The Convener:** I would like to clarify something, Ms Walls. You talked about the competition between Freightliner and Rotterdam. Are you saying that you are not able to compete on price, but you are able to compete on speed and quality?

**Kay Walls:** The traffic that we get on our trains is the VIP traffic. In simple terms, if Diageo has a very important load to move to Shanghai and it is put on a train out of Coatbridge, it will be in Felixstowe, Southampton or wherever it is sailing from the next day. It will be on the ship and that will be it: job done. There will be that certainty.

If the container is put on a coastal feeder out of Grangemouth—obviously, that will be quite a small ship—it will sail across to Rotterdam and sit there. Sometimes it will sit there for a couple of days because of the weather, or because a bigger ship is being handled. Eventually, it will be taken into the port. The containers will be discharged and put in a holding area. The containers may then have to move 20-odd miles across the port to get on to the ship. There are umpteen different links in that chain where things can go wrong, so things are not so sure. However, it suits the shipping lines for a lot of cargo to be fed to them for Rotterdam, because that means that they will have to make fewer UK calls, so they subsidise the feeders to a certain extent.

Sea is a sustainable mode of traffic, so those businesses get European Union funding, Marco Polo funding and so on, and we cannot compete in any way. Any business that we get is related to our quality of service. Costs depend on who you are and who you are dealing with, but it is about £150 cheaper to send freight to Rotterdam than it is to send it by rail.

11:30

Feeders have always existed. Until the Hatfield disaster, rail had a healthy share of the market. Prior to Hatfield, in 1999, our deep-sea volume through Coatbridge—bearing in mind the fact that deep-sea volume has grown in real terms—was about 116,000 boxes. After Hatfield, that dropped to 46,000; we lost a huge share. We had to reduce our train offering because there were speed restrictions on the network due to Hatfield, and therefore instead of one train and one train driver to do a run, it was taking two or three. We had to cut our train services.

The Hatfield debacle went on from October 2000 until April 2001 and business started to leach away. The whisky industry started to produce three or four days ahead to meet its market and to catch feeder ships and be routed with them. Once there has been a sea change like that, it is very difficult to come back. A passenger will say, “Oh, the trains aren’t looking so bad today, so I’ll not

bother going by bus or car”, and they will take the train. In business that never happens; once the change has been made, it is difficult to come back.

Industry in Scotland realises that we are important and it continues to support us. The spirits industry has been the backbone of our site for a long time. What saved us from going under was the domestic trains—those of Ken Russell and Andrew Malcolm. The terminal at Coatbridge has high fixed costs and a location like that needs volume to survive. They brought in more volume. I am pleased to say that having gone from 116,000 boxes down to 46,000, this year we will do almost 90,000. We are on the way back, which is great.

We will come to a ceiling at some point and really start to struggle if someone wants to move more volume. That is why an upgrade to Coatbridge is critical. I know that Ken Russell has other trains and Andrew Malcolm probably has some in the pipeline, as does Freightliner, and there will come a point at which we reach a limit. However, for a very small spend, the site could be transformed and capacity would be doubled.

**The Convener:** In terms of the competitiveness of Freightliner’s offer, if you got the level of investment that you have indicated is necessary, what would the implications be? Would you be able to increase capacity and lower cost to the customer?

**Kay Walls:** We would have a slicker operation. At the moment, because of the terminal’s layout and infrastructure, we have to handle every container three times, because there is not sufficient space to store containers under the mainline cranes. When we empty a train, we put the container on to a road vehicle; the road vehicle takes it to another part of the terminal and it is put into storage, where it lies until there is another lift to get it back out. We would cut out those lifts, which would cut the operating costs of the terminal.

We have two separate rail areas; we manage Ken Russell’s trains in one area, and our trains in another area. In order to get trains out of one area we have to move them to another, which means that we need space in the other area. Investment would allow us to increase capacity, which would cut the cost.

In real terms, rail costs have come down. When I started with Freightliner in 1982, the price that we quoted to a customer for moving a container from Glasgow to London was about £20 more than we quote today for moving a container from Coatbridge to Felixstowe. Our costs have come down massively in real terms.

We have put huge investment into the network. We have tried to compete with feeder shipping and we are as lean as we can be, but there is a

limit. The trains that run out of Coatbridge run day in, day out. If they were full every day, back and forward, our prices could go down because the unit cost would go down, but the trains are not full all the time. A lot of the time there are spaces and we do not get commitments.

The heavy haul market—our bulk division—is a different animal entirely, because the customers commit. A coal customer, or Network Rail, will have a contract for three or four years and that allows them to go out and invest in assets. In the intermodal business, especially in Scotland, that is not the case—traffic is here today and gone tomorrow.

**The Convener:** Before I bring in Mr Russell on that point, I want to ask you about the barriers to unlocking investment. Freightliner has clearly not been able to make the £8 million investment, although I think that you have invested in other parts of the business in other locations in the UK. Obviously, there are reasons for that. What are those barriers and how can they be overcome?

**Kay Walls:** We have bought new mobile cranes for Coatbridge. As equipment becomes life expired, we will renew it.

A real step change is needed and that is a big investment. The terminal is working and coping at the moment, but we could do with an upgrade in order to advance. The barrier in Scotland is that no business will commit to us. We cannot go to the board with a business case to ask it to spend money on something, because it will ask where the return is. We do not know that, because no one will tell us whether they will give us continuous business. That is a Scottish issue.

We looked at FFG funding for the terminal, but that is not possible. We are a multi-user site, but we have no customers to sign the bit of paper and say that, if we do something, they will continue to give us business and X number of boxes a day. In some ways, it is easier for Kenneth Russell and Andrew Malcolm. Andrew can say that he has 25 trucks a night going from Scotland to the midlands and, if he is given investment, he will put that freight on a train. He can say what he needs to do that.

The sensitive lorry-mile formula works out and stacks up. Coatbridge is already an established railhead with 200 customers. There is no way on this earth that I can make a case.

I pay tribute to the Scottish Executive; Ian Farmer and the freight grants people did what they could to help us. They looked at all the ways in which we could try to unlock that funding, but we kept coming up against barriers because it just was not possible under the rules. We need something to assist with that. There is a real problem with freight grant take-up just now,

although I do not think that the issue is the same. Ken Russell and Andrew Malcolm must also face problems whenever they try to do something.

**Ken Russell:** The problem with take-up is that no schemes are coming forward. Two schemes might come forward this year—I know of one, and I am told that there will be another. There have not been the applications that have met the criteria that would allow them to progress.

The most important point is that it is not so much the costs in the terminal, as the costs to us of using the terminal. That is what has an impact. At certain times of the day, we are bringing back loads for one of our trains and the terminal is sitting full so we have to bring the load into our own place; later in the day, when capacity has been freed up, we have to take it back to the rail terminal. The way in which the terminal is working has a big cost implication for us. If we could increase capacity, it would help with overall costs, not necessarily just the costs within the terminal.

Hauliers in Scotland generally have the same issue. They have to hold equipment for a specific train until they have a window of opportunity to deliver for that train.

**Andrew Malcolm:** It is fair to say that road transport in the UK as a whole does not run on a cost-plus model. The market rate dictates the rate for the job and cost management dictates whether we make or lose a margin. There is a fine balance between servicing the customer's needs and expectations and ensuring that we can make a margin at the end. It is a question of working together to get cost control right. It is not that we can take money out at no cost to us or the customer. It might just make the job go into a profit for all parties rather than a loss.

**James Dornan (Glasgow Cathcart) (SNP):** I have some questions about the relationship between the ports and rail. Some of the questions have been asked and answered, but do the witnesses have anything to add on the provision of rail facilities to and from Scottish ports as well as access between the quay and the railhead, which was mentioned earlier? Do the provisions limit your ability to increase the use of rail to transport freight to and from the ports? What action should be taken to resolve that issue?

**Andrew Malcolm:** In the past few years, we have engaged quite strongly with Forth Ports. We recommended that Forth Ports should go for a grant to extend the rail siding on the port right down to the quayside. We ran what was probably the shortest train in Europe; it is 42 miles from Linwood in the west right into the port. We could not get a lot of buy-in from Forth Ports to the option that we were trying to market at the time, which was that we should become an inland

terminal. We would consolidate loads at Linwood, for example, and send the train right through to the quay and on to the boat. The train would have to go right to the boat—that was fundamental to take a lot of costs out of the supply chain.

We put the train on board. The train was not a profit maker for Malcolm's. The loss was less doing things by rail than it was doing things by road, because at that time there were issues at Castlecary, issues at Grangemouth and issues at the Kingston bridge. It took a lorry virtually five hours to go to Grangemouth and back. If a train was sent in, if we were lucky, there were 40 boxes on it—or only 20, as standard.

The discussion about that took place, but it lost momentum as priorities changed. However, we think that there would still be a lot of scope for doing things that way.

**James Dornan:** Are you still in contact with Forth Ports on that issue, or has it gone off the radar altogether?

**Andrew Malcolm:** No. We tried long and hard and, eventually, it became even more cost negative to put a train in. The company started to make an access charge for trains going in, which made the whole job not viable. It all went back to road.

**Ken Russell:** I agree with what Andrew Malcolm has said about Grangemouth. We, too, were involved in discussions with Forth Ports. It would make a fundamental difference if the line was extended down to the quayside, rather than to the current terminal. The current terminal is very constrained and can only take a very small train, which adds complications.

Grangemouth is the largest port for intermodal volume. Rosyth has gauge constraints for getting in and out. Greenock also has gauge constraints. It will be very challenging to get them linked into the rail network for the current equipment type that is travelling. There is such a high percentage now. Nine-foot-6 boxes—high boxes—are over half the percentage volume now, and that creates the problem for Rosyth and Greenock.

**Kay Walls:** In years gone by, when I first started with Freightliner, we ran a train with containers to Greenock every day. Before the really deep-sea vessels, we were typically dealing with 2,000 TEUs—20-foot equivalent units—which take up an equivalent depth of water. Today's vessels are growing to 18,000 or 20,000 TEUs. They are massive, and they take 14m to 15m draught.

We used to run trains down to Greenock every day but, after the big deep-sea operators decided that they were moving, that they were closing Greenock and that they would start all their

operations from the south of England, the boats got bigger and the line fell into disuse.

There is a tunnel at Greenock. The last time that we spoke to Network Rail about potentially opening the tunnel, the cost was going to be something like £1.5 million. What is more, housing has been built over it, so opening that line again is probably a big ask.

When the move first happened, Scottish exporters were not happy about it, because they had lost access to deep-sea routes from a Scottish port. In those days, shipping lines would say to traffic from Scotland that had to travel down to Liverpool, the Hull ports or deep-sea ports, "Don't worry, we'll give you an extra subsidy." They gave an extra £70 or £80, which was fine in those days. That is all lost now, and Scotland has to transfer all that way.

I do not know what the capacity at Greenock is, or whether it could take in a deep-sea ship. I know that Hunterston could, but I do not know whether Greenock could. Certainly, a rail link to it would be difficult unless something completely new was done.

**James Dornan:** Aside from having the line go right down to the quay at Grangemouth, is there anything else that could resolve some of the issues that you have? It does not seem practical; certainly, some of the smaller—

**Andrew Malcolm:** Do you mean in order to go back on to rail? It goes back to the investment infrastructure at Forth Ports.

**Ken Russell:** Train length would help, and having track on the quay would be the right result.

**Andrew Malcolm:** If we run longer trains in, they run into the empty container park and they are not wanted there. We take a loaded train in. Ideally, we are trying to get loaded import boxes back out. A shuttle goes on up and down the port.

**James Dornan:** Ms Walls, you mentioned an infrastructure obstacle at Greenock quay. Can you identify other infrastructure obstacles to the free flow of freight by rail to Scottish ports? If so, what improvements might remove those obstacles or deliver further benefits?

11:45

**Kay Walls:** I echo what Ken Russell and Andrew Malcolm said. We do not move trains to Scottish ports. We used to move to Greenock, but that is a historical thing. Aberdeen was another one. When I started at Freightliner, we ran trains to Dundee and Aberdeen ports. The Guild Street facility in Aberdeen was closed, which I thought was a backwards step, as it is right across from the harbour. However, I believe that a rail facility is

now connected to Waterloo yard at the harbour. I see that the price of oil is going up again so, given the level of oil trade, that might not be dead in the water.

A lot of traffic moves up there and we move a lot of it by road. That should be on trains, so a direct, enhanced link to Aberdeen harbour would be good. I do not know about anywhere else. Rosyth has always been talked about, and it has the ferry and freight, but it is gauge restricted, so special low-bed wagons have to be used, which would have to be used at Aberdeen as well.

**Andrew Malcolm:** People would not really want to send a truck from the west to Rosyth. It is an ideal port for something that happens on the north side of the Forth, but it is not an ideal port to run to for the likes of spirits from the west.

**James Dornan:** Ms Walls, you commented on deep-sea ports. Will you expand on the benefit of a deep-sea port?

**Kay Walls:** A deep-sea port for Scotland would be pretty good for inward investment. When an international manufacturer is looking to locate a plant, it looks at transport—at its costs to market. A global exporter needs to consider how it gets its goods to market. A company that produces in Scotland, such as Diageo, Chivas and all those companies, needs to look at how it gets its product to market. At the moment, a company can put its product on a train from Coatbridge, possibly Mossend or wherever down to one of the southern ports and get it on to a deep-sea vessel from there, or it can take the product to Grangemouth, put it over to Rotterdam or Antwerp and put it on a vessel from there. That all has costs.

Some years ago, there was a scheme for a deep-sea port at Hunterston. I was quite interested in that; I thought that it was a good scheme and would have given Scotland an international port. That would have been a different scenario. As opposed to having to go to another country to get goods to market, we could be running down the Ayrshire coast—job done.

The Hunterston scheme has now gone. When vessels come over from the States, South America and Canada, they hit the UK coastline and go down it and through the English Channel to Rotterdam, where the cargo is unloaded and from where it finds its way on feeder vessels to Grangemouth or anywhere else in Europe. Similarly, traffic from the far east comes up through the English Channel, from where it is the same story.

The concept behind the Hunterston scheme was that vessels would come from the States and the far east, meet each other and swap cargo. A vessel from the States would drop off its European or far-east cargo here and sail back over. The

scheme was fronted by Clydeport; it brought in a serious industry contender who had an interest in the scheme.

Another part of the scheme was that containers would be landed on the quay, as at Felixstowe or Southampton, from where containers that are landed come to Aberdeen. Anything for the UK could have been offloaded at Hunterston and run from there down to north-west England or the midlands. Why do something like 80 per cent of the goods that come into Southampton go north of Birmingham? The Hunterston scheme would have helped with that. I always suggest that the UK is like a football field with goalposts at one end. Why is everything going one way? Hunterston would have transformed rail.

We are all trying to funnel in. A shipping line could have chosen to have its UK hub, or at least one of its UK stops, at Hunterston. If one of its containers had been loaded in another part of the country, the container would have come to Hunterston rather than go to Felixstowe, Southampton or Tilbury.

The committee might think that that would be bad news for Freightliner, but it would not be—it would be good news for anyone. Trains would be running both ways. Instead of capacity funnelling one way in the network, there would be a much more balanced way of working. However, the Hunterston scheme is gone.

Another scheme is being looked at up in Scapa Flow. I believe that Professor Alf Baird is fronting it, and it is probably still on the drawing board.

In general, Scotland should consider the idea. We export a huge amount to the rest of the world, yet we do not have our own port. It seems odd that we are financing ports in Rotterdam, Antwerp and Zeebrugge to the detriment of UK ports. Ultimately, it would be better if we had a Scottish port.

That was me on my soapbox; I do not know how Andrew Malcolm and Kenneth Russell feel about this.

**James Dornan:** Do the other witnesses have any comments?

**Andrew Malcolm:** The terminal at Hunterston is the only option for a deep-sea port, and rail would have to work there, because no one in their right mind would run trucks up and down to it, as it does not have a satisfactory road network anywhere near it. Many years ago, we ran iron ore from there into Ravenscraig. There has been investment in the Ayrshire area, but I would not say that things have improved to the point at which people would want to run a significant volume of trucks on those roads.

**Kay Walls:** There was a plan to do a three-town bypass that would provide a direct road link to the terminal. That was part of the plan because it was recognised that the road access was dreadful. Initially, access would have to be by rail. The development would be staged, rather than being super-duper from day 1.

**Ken Russell:** I struggle with the proposal. The issue is the triangulation of volume. If we look at the UK consumption profile and what we consume in Scotland—

**The Convener:** Will you translate “triangulation of volume”?

**Ken Russell:** I am sorry. The consumption of goods in the UK is population based. When someone brings a load of toothpaste into the country, it goes into the midlands and is disseminated from there, with Scotland getting a pallet. People will not put a container of toothpaste into Scotland to service middle England.

I do not see a fundamental change happening in the way in which people ship their trade around the world. Hunterston would be attractive to Scottish exports and a few Scottish imports, but there would be too many empty legs.

**Kay Walls:** I say to Kenneth Russell that the main focus was not to do with goods landing here; it was to do with vessels interlinking and containers being swapped between two vessels, which would have done away with the need to go through the English Channel.

**Ken Russell:** If the polar ice cap disappeared, the plan might work.

**James Dornan:** Let us not wait for that.

**Andrew Malcolm:** We also have Teesport playing a bigger part in freight into and out of Scotland.

**Kay Walls:** That also applies to Liverpool. Liverpool's Seaforth dock is big and is looking to do what Hunterston was looking to do.

**Andrew Malcolm:** From our point of view, the key is to make our existing facilities more efficient before we start looking to open up something new. There are a lot of opportunities to improve what we have. We need to make that improvement sustainable in the medium to long term.

**The Convener:** I do not think that we have a consensus on that point, but thank you for your evidence nonetheless.

Before we move on, I ask members to rationalise and condense their questions so that we can get through all the issues that we want to cover by the close of the session.

**David Stewart:** Some of my questions have been dealt with already, so I am sure that I can follow your advice. Freight grant schemes have been discussed, and we all see the logic of getting freight off the road and on to water and rail. The witnesses will know that we raised the issue with their ports colleagues last week.

I was surprised to find that there has not been a successful application for a freight facilities grant since 2011 although, in fairness, there was a water-borne freight grant award of almost £1 million to Boyd Brothers (Haulage) at Corpach, which you will be familiar with, and there have been examples of support under the mode shift revenue support scheme. Why is the freight facilities grant not working? What can we do to improve the situation? It is clearly in all our interests, for climate change and efficiency, to have the system working.

**Andrew Malcolm:** We have had a lot of strong support through grants since 2000-01, when we first got involved in rail. I compliment all parties that have been involved in delivering that. We have brought a lot of innovative ideas to the table.

A common theme that the committee has heard about today is commitment. In 2001, customers were being quite innovative and would commit to new ideas, so we could use the word “commitment” when we came for a grant, as we were backed by our suppliers and customers alike.

We need to revisit a lot of areas to get new grant money to support previous grant money that we have used up. However, there is a fine line when it comes to going for additional grant support for something that has already had grant funding. Another question is whether there is an opportunity to get grants to retain something on rail rather than bring something to rail.

I have raised the issue often with transport committees. We lost customers last year because of some disruption in our rail network and services as we changed suppliers. We won most of the customers back but, as Kay Walls said, it takes years to get people on to rail but it does not take long to lose them.

We operate in two modes now. There is limited opportunity to bring new volume to rail and to do more of the same. I mentioned that we are trying to get heavier weights for intermodal traffic. If that advantage over road existed, it could persuade people to start using rail a bit more. However, we are evaluating our customer base to see which customers might leave us exposed by moving off rail because it is not sustainable compared with the cost—and the flexibility—of running freight by road.

We are complimentary about the grants that we have had to date. I admit that we have perhaps



been a wee bit slow in coming back with innovative ideas to bring new business to rail, because quite a lot of our focus in the past two or three years has been on how to retain existing business on rail. That area is more exposed than bringing in new business is.

**Ken Russell:** I concur with Andrew Malcolm. The fundamental difference for us now is that, although we were getting three, five or seven-year contracts in the early 2000s, when the issues appeared round the world in 2008-09, everything suddenly moved to annual negotiations. Almost every customer that we have negotiates every year and has done since 2008-09. That is our fundamental problem in providing a commitment for a grant. Perhaps we need to work on how we can overcome that problem to allow more grants to come back through the system. I do not know whether that issue can be overcome.

**Kay Walls:** Similarly, we find the situation impossible because of the mechanism now. We cannot get customers to commit to the business that they are moving with us. If someone landed tomorrow and said, "I want to run three more trains a day—I will put them into Coatbridge and I will give you that revenue for the next three or four years," we could say, "Okay, that business is currently moving on road; we will take it off road. Can we qualify for a grant for some new cranes, please?" However, that will not happen, and that is the issue with the grant.

We have generic growth—we know that we will grow—but we cannot say to somebody when or how it will happen. To secure a grant, someone has to sign up and commit to a specific period when they will move goods off road and on to rail. Until that happens, we will not get a grant.

**David Stewart:** Is the FFG too onerous and too complicated? For example, Montrose harbour, which succeeded in getting a grant, employed an expert consultant for a while to make sure that all the boxes were ticked. In fairness, that was successful. Notwithstanding your comments about customers' inability to sign longer-term contracts, are the grant schemes—particularly the FFG—too onerous and too complicated?

**Ken Russell:** I would not say so. The issue is just the change in the world. How things are tendered nowadays is causing the biggest problem. We have had a number of FFGs over the years. We did them all ourselves; we did not use consultants. We have succeeded with every application that we have put in.

There is nothing wrong with the process per se. The change in the business climate has changed the circumstances, which means that the grant rules are now difficult to comply with.

**Andrew Malcolm:** I agree. It is all down to the word "commitment". We have all supported the grant application process internally. We have not used external consultants. Likewise, we have always matched a grant—at a minimum, pound for pound—if a grant has been available, so we have committed to it.

The issue comes down to the word "commitment". Committing to something when we do not have a commitment from customers, in this day and age, is quite a challenge, especially given some of the margins that we are working to.

**Kay Walls:** The situation is difficult. A lack of commitment has always been a feature of our business and it seems to be becoming more and more of a feature. The same issue does not seem to exist south of the border. We have a degree of commitment there; the bulk sector customers—the big waste contractors and so on—will commit for a period.

However, in the intermodal business, it is here today. Partly because of Grangemouth, the difference with us is that customers have a real choice; they do not say to us, "We'll put these boxes on," because they work in a changing market and they do not get commitment from anyone either. They could be the flavour of the month with the producer or the shipper, and then the next month the producer could say, "Sorry—I am using another shipping line," so they cannot really commit volume to us. The trading environment is difficult.

12:00

**Mary Fee (West Scotland) (Lab):** A number of the questions that I was going to pose to the panel have been answered indirectly. I will ask about efficiency and carbon emissions. As you will know, the Government has set a fairly ambitious target to reduce emissions, and modal shift from road to rail can contribute significantly to that. How can efficiency be improved? We have talked about height and gauge restrictions, longer loops, freight priority and rail links to depots. Is there anything that you have not mentioned that could improve the service that you provide and have the knock-on effect of reducing carbon emissions? Does the rail freight industry have any other initiatives that contribute to reducing carbon emissions?

**Andrew Malcolm:** It is a well-known fact that rail is about 33 to 35 per cent more environmentally friendly than road. However, road transport is getting more environmentally friendly and efficient because of the new Euro 6 legislation, the capacity that we are carrying and other things that we are doing.

To summarise, the answer is everything that we have discussed. Rail is all about volume. The

more volume we get on, the more efficient and effective rail is and the more carbon neutral it is. The answer is about every element that is involved in making rail more flexible and getting more capacity on at the same or lower unit cost.

**Mary Fee:** Is enough done to promote the link between all those efficiencies and the impact on carbon savings? Whether it is longer loops, longer trailers or different gauges, is the importance of those initiatives being stressed enough?

**Andrew Malcolm:** I think that it is. When we sit as a group, we certainly raise the issue. We do not look at one part in isolation. We are all conscious of the part that we play in the environment. As I said, I am about road transport at heart, but we brought rail to Malcolm's. We do not want to put more trucks on the road; we want our growth to come through using existing trucks better and getting more capacity on to rail. We hope that we can let the trucks support the rail and that the two will work hand in hand. Every part that we have discussed is key, and they need to be brought together. We share that among ourselves.

**Ken Russell:** Mary Fee makes a fair point, because I am not sure that the connection to carbon emissions is there. There is more of a connection to the commercial aspects. Perhaps the industry could do a bit better at spreading the word about the potential impact on carbon. In the rail industry and equally in the road industry, we get on and do the job and we do not shout about what we are doing. The public do not realise the implications of a load going by road rather than by rail. People just want to turn up in a shop and get what they want. What happens behind the scenes is not understood at all.

**Kay Walls:** Andrew Malcolm said that rail is 33 per cent more environmentally friendly than road. Freightliner estimates that the figure is much higher, because of the profile of our trains. The wagons that domestic trains use tend to be 54 feet or 45 feet long with one box on them. A deep-sea intermodal wagon is 60 feet long and can have up to three 20 footers on it. Our trains can carry many more boxes, so the benefits go up.

Reducing emissions is a commercial issue. If we can save money on fuel, we will do that. That is what will drive things. The driver is not to reduce emissions but to reduce cost. There are some innovations in the domestic market, such as the new W H Davis wagons, which are 45 feet long. That saves space on trains, which means that there can be more containers per train. Similarly, electric traction saves when compared with diesel. Fewer but longer loops would also help, and that is being worked on. We use electrics in Scotland to move container trains to ports simply because electric trains can build up speed and get out of a

loop much faster than diesel trains can. More electric on the line would also be a benefit.

We continually invest in trying to reduce carbon emissions. We have brought out new locomotives and new wagons that are more track friendly, which reduces carbon. We also have a big road fleet. We do not look just at rail, because we are going the extra mile by road as well. The whole industry is focused on reducing emissions.

**Mary Fee:** Is there anything that the Government should do to make the link between the efficiencies that you can make in the modal shift and the benefits in carbon savings?

**Ken Russell:** The one thing that we have not done very well overall is create a single measure. People can find on the internet various measures for carbon. That in itself creates a mixed message and dampens the effect of what we are trying to achieve. If we could focus on having an agreed, precise measure, that would be beneficial.

**Mary Fee:** How would that be agreed? Would the agreement be between industry and the Government?

**Ken Russell:** Yes—it would be for industry, Government and trade bodies to agree that.

**Mary Fee:** The electrification of the line north of Perth has been mentioned. Are there any other parts of Scotland that would benefit from further electrification?

**Andrew Malcolm:** We mentioned the line to Grangemouth because that is our highest volume line.

**Ken Russell:** From a freight perspective, electrification adds a gauge enhancement. Even if a route would benefit passengers, but not necessarily freight, the outcome is gauge benefit. I am not the person to ask about which routes would be right for passenger trains. From a freight perspective, we would welcome the electrification of any route where that would work for passengers and would therefore support the cost, but that is a different argument.

**Kay Walls:** The main routes are either covered or are being worked on. We could look bits of track here and there, but you would have to consider how many trains a day would run over that track and where the cost benefit would be. Where it can, Network Rail is on the case as far as electrification goes. As Ken Russell said, first of all we need the loops to get the bigger trains; electrification would be the second cherry on the pie.

The west coast mainline is done and the east coast mainline is in the process of being done. Those are the main arteries. If we ever get the third route that is being talked about, it should

obviously be electrified. I am not sure whether Teesport is electrified.

**Andrew Malcolm:** I am not sure.

**Kay Walls:** I think that the final mile is not—it is electrified so far and then you have to change to a diesel loco to get to the Hull ports. However, dealing with that is not in the gift of the Scottish Government. There are various routes throughout the UK that could do with a tweak, but in Scotland there is a pretty strong lobby for what we need, so Network Rail is on the case.

**Mike MacKenzie:** I thank Andrew Malcolm and Kay Walls for the time that they have spent with us and the hospitality that has been shown to us on our visits. I found the visits very useful in informing my consideration of the inquiry.

Much of the ground has been covered and we are probably chasing the clock a wee bit, so I will try to condense my questions and roll them together.

Do you agree that an updated national freight policy is required? I believe that the current policy is 10 years out of date. To what extent do planning policy and practice, both through national planning framework 3 and more generally and locally, support—or not—the rail freight sector? Finally, are there any lessons from Government policies or assistance for rail freight in European countries from which we can learn lessons?

**The Convener:** Mike MacKenzie wins the prize for succinctness this morning.

**Mike MacKenzie:** Thank you.

**The Convener:** Who would like to comment on the planning system and on Government freight policy and lessons on infrastructure from other parts of Europe?

**Kay Walls:** As David Spaven from the Rail Freight Group said, rail was barely mentioned in the recent planning framework. The framework had umpteen schemes for ports and so on but rail seemed to have dropped below the radar.

The problem might be that rail freight operators and logistics partners do not shout loudly enough and that other modes have a better audience. We probably have to do that shouting.

We have to be careful to make sure that every mode is catered for, but I honestly think that there is a lack of the strategic planning that is needed to benefit the whole of Scotland. People tend to look at their own areas and decide what they want. We are a small country, and if there was a strategic vision for Scotland, individuals might not think that it was ideal for them, but if we all had something to work towards, we would do it.

Yesterday, the Network Rail joint board discussed the right place for a big freight hub near Aberdeen. There are five potential sites. If somebody just chooses one of those sites, it will be fine—we will all work with it—but there is a lot of to-ing and fro-ing, with people saying that they want it in their area and so on.

That happened when the Channel tunnel was being built. Umpteen councils said that they wanted a terminal without having a business case and knowing whether there would be traffic to support that terminal. Terminals were built because it was thought that they would be great, but people were not asked whether they would use them. Public money was used to build a lot of terminals that were mothballed or underused. It was a bit mad, really: no one would invest in a business that did not have a business case. If we are going to build something new, we need to know where the traffic will come from—we need a best-guess scenario.

If there is a dirty great factory down the road that is producing 80 or 90 containers of goods a day, the banker can see that something is coming out of that factory. However, we still seem to put terminals or big rail distribution centres in the wrong places. We have the Co-op terminal halfway along the M8 and one in Livingston, but there are no rail links nearby. Why was some thought not given to the fact that those terminals were going to generate a huge amount of business and so should be sited near a rail link? I get frustrated with such things. Eurocentral was alluded to earlier; why is there not a passenger halt there? Why is there no rail freight facility going into Braehead when Kenneth Russell and Andrew Malcolm have terminals sitting across from it? That is frustrating.

**Mike MacKenzie:** That answers my first two questions. Which other country can we learn from about Government help and interventions?

**Kay Walls:** Switzerland is the only place I know that specifies that a new factory has to have a rail link. As far as the Swiss are concerned, roads are meant for other things. A production facility that has a lot of products going in and out gets a rail link. We should learn from Switzerland.

**Mike MacKenzie:** Thank you; that is useful. Does anyone else have a comment?

**Andrew Malcolm:** In the UK today, we have an effective logistics service that responds to the needs of the market. However, as I said, in the UK we also have a very strong just-in-time culture that, by default, does not make for a very efficient logistics operation. Our European counterparts are more relaxed about how they manage goods requirements, and that gives transport providers,

whether road or rail, more time to manage the resource more efficiently.

One thing that we measure on road transport very closely is our empty mileage. We will never eliminate that, but if our culture was to change, we could reduce it significantly, which would impact on the effect that we have on the environment. The same would happen with rail. As I said, we are trying to get more of our customers' time-sensitive goods on to rail, but there are penalties with that. The Europeans have a more relaxed attitude in comparison with our just-in-time attitude in the UK.

The Europeans also seem to have a more relaxed attitude to compliance with their own European legislation. We are very compliant in the UK—we are probably 95 to 99 per cent compliant—in comparison with other parts of Europe. We need to get a balanced standard.

You asked about a freight strategy. There needs to be more joined-up thinking in the UK as a whole on freight and the links between freight and passenger transport. We need a proper, global policy on rail, the impact that it can have and the role that freight can play, rather than just a policy on rail freight.

I think that you will find that there is agreement with a lot of what Kay says—that sounds great, doesn't it?—but we will not agree on rates, that is for sure [*Laughter.*]. Kay said a lot about this, but I think that we have a culture in the UK that we really need to change.

**Mike MacKenzie:** Thank you; that is a very useful insight.

12:15

**Ken Russell:** Most European countries deal with major infrastructure investment for rail completely differently from how we do it in the UK. They do not have short-term views on what they are going to invest in; they really look at what the long term might produce. I suppose that the political environment around investment here makes it very difficult for any UK Government to tackle investment decisions. On the development of the Europe-wide freight corridors that have been set up, I think that the UK is the only country that is lagging behind. We should look at how European countries are going about investment, because we are not achieving the investment in our infrastructure that they are achieving in theirs.

**Mike MacKenzie:** Thank you very much indeed.

**The Convener:** We have covered a lot of ground this morning, but I will try to pull it all together. Mr Russell's point about the need for a long-term view of investment in the rail network was interesting. We have also covered the wider

need for investment in infrastructure; the operation of the rail network; possible electrification; longer loops, which Mary Fee mentioned; improvements to the capability of gauge to take higher and wider containers; and improvements to the road network to address the issue of the last mile into ports.

Do the witnesses have one specific ask for the committee to take to the Government? Is there one thing that we should be asking the Government for that would make a difference and deliver real, positive benefits to your businesses and the freight sector as a whole? We will start with Mr Malcolm and work along.

**Andrew Malcolm:** Everything that you quoted is relevant. My current business aims are to sustain what we are doing on rail and develop it. If something happens on gauge, we will have to invest in containers—that will not be a problem, because it will be standardised equipment.

This issue might be outwith the committee's remit, but we would like to get back something on weights that we had many years ago. Today, trucks that are designed to run at 50 tonnes gross are running at 44 tonnes gross. It would be a benefit if we could have a level playing field on the carrying capacity for freight to and from the terminals. I do not think that it would take rocket science to do that. It could happen very quickly and no investment would be needed, because the trucks and trailers are designed to do it, and the trains can handle it. We lack only legislation that would allow us to do that. If we had legislation that was similar to what we had a number of years ago to allow us enhanced carrying capacity within a restricted radius around a rail terminal, that would give us the opportunity to start focusing on putting on to rail more goods that currently bypass rail.

That is one request that I would certainly have high up on the agenda. I have raised the issue with the Freight Transport Association, the Road Haulage Association and the committee. Getting that extra capacity would certainly bring rail on to a level playing field with road, if not give it an advantage over road.

**Ken Russell:** If I choose one and Andrew Malcolm chooses one, do they both go through? [*Laughter.*] I must admit that what Andrew said is absolutely right.

I also think that simply having longer, heavier trains would be a big benefit for us, even within Scotland. If we could get longer trains on to the Aberdeen to Inverness route, that would give a big advantage. For the freight market overall, it would be good to have longer, heavier trains. I support what Andrew just said, too.

**The Convener:** Ask, and you will receive.

**Kay Walls:** The freight terminals that we already have in Grangemouth and near Glasgow in Coatbridge, for example, are cracking sites, but they could do with a tweak, some investment and an acknowledgement of what they actually do and what they bring for Scotland. We are well served, certainly in the central belt, with rail terminals. People say that it would be good to put another one in the area, but it would not. That would simply dilute what is currently moving through the existing freight terminals, and they would end up closing.

We need to recognise the existing infrastructure, enhance it, look to the future and go on from there. What the committee is doing today is great, because you are listening to the industry. Everything will change—everything changes consistently—so the committee should keep in touch with us and make sure that the discussion continues.

As far as enhancement is concerned, I agree with Kenneth Russell and Andrew Malcolm, in that it would be good to have routes to the north and longer loops. Putting more containers on a train cuts the unit costs, which will attract more business to rail. The way to do it is to enhance the network.

**The Convener:** I thank each of the witnesses for their evidence and for assisting the committee with our fact-finding visits, which we found incredibly helpful.

*Meeting closed at 12:20.*



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