



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 1 April 2015

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INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE
8th 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:

Paul Barker (Unifeeder)

Justin Kirkhope (The Co-operative Group)

Stein van Est (DFDS Seaways)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 1 April 2015

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Jim Eadie): Good morning, everyone. Welcome to the 8th 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. Meeting papers are provided in digital format, so tablets may be seen in use during the meeting.

No apologies have been received.

Agenda item 1 is to decide whether to take in private item 3, which is consideration of the committee's approach to scrutiny of the Harbours (Scotland) Bill. Do members agree to do that?

Members *indicated agreement.*

The Convener: Thank you.

Freight Transport

10:00

The Convener: Item 2 is further evidence on our inquiry into freight transport in Scotland. This week, the committee will hear from retail and shipping sector representatives.

I welcome Paul Barker, who is country manager for Unifeeder; Stein van Est, who is the managing director of DFDS Seaways; and Justin Kirkhope, who is the national transport support manager for the Co-operative Group. Good morning, gentlemen.

The witnesses have not requested to make an opening statement, so we will move straight to questions. I will kick off by asking the panellists to provide the committee with an overview of their businesses and their roles in the Scottish freight transport sector. Who wants to begin?

Paul Barker (Unifeeder): Shall we start with the largest business?

Justin Kirkhope (The Co-operative Group): We operate about 2,800 food stores in the United Kingdom, in which we are the fifth-largest food retailer. We also provide supply chain and distribution services to a further 1,200 Co-operative stores, which is 4,000 stores in total. Our turnover is about £10.5 billion. Unlike the bigger four retailers, we are a co-operative that is owned by our members, which makes us unique.

We operate 400 stores in Scotland. We provide supply chain and logistics distribution facilities for a further 200 Co-operative stores, including Scotmid and a number of small community co-operatives. Our reach stretches from Shetland and Orkney across to the Western Isles and down through Caithness. We have quite a large presence in Inverness, we have a large presence in the central belt, including East Lothian, and we have stores in Dumfries and Galloway.

We make about 5,500 deliveries from our Newhouse composite distribution centre each week and we have about 350 pieces of transport equipment on the road at any one time. We handle about 1.1 million cases a week out of that a site for Scotland alone. We also have a cross-stock facility in Inverness, which allows us to deliver to stores to the north and to the east of Inverness.

Stein van Est (DFDS Seaways): DFDS has a slightly smaller presence in Scotland. We operate a ferry service between Rosyth and Zeebrugge; we employ a number of people at Rosyth, where we have a ferry operation and an agency called Denholm Shipping Company. The service to Zeebrugge is one of 26 services that we operate in north-west Europe. DFDS has a logistics division

and a seaways division—I represent the seaways division. The logistics division has a number of offices in Scotland, where we are primarily involved in the salmon trade.

We carry about 40,000 units on the Rosyth to Zeebrugge service. Westbound trade is primarily trade cars; we have a number of automotive customers. We ship in and export out 21,000 containers and 6,000 trailers annually.

Our customer base is a mix of industry and retail. We export for the Scotch whisky trade, as well as importing some of the elements that go into whisky. Therefore, we carry a mix of cargo types. It is a one-vessel operation: the Finlandia Seaways provides a roll-on, roll-off service and sails three times a week between Rosyth and Zeebrugge. In total, we operate approximately 50 vessels across north-west Europe. In addition, we have made our first step into the Mediterranean, where we operate a service between Marseille and Tunis.

For us, the Rosyth to Zeebrugge service is an important service that we have been operating for a while. Previously, it was operated by Norfolkline, which was acquired by DFDS, and we have been operating the service since 2008. Initially, it was a combined passenger and freight service that was provided by the Scottish Viking. We moved to a two-vessel operation, but because of falling demand we had to cancel the service that was being provided by one of the vessels, so we now operate the route with one vessel—the Finlandia Seaways.

Paul Barker: Unifeeder is the largest feeder operator in Europe. That might mean nothing to some people, as they might not know what a feeder is. The best way of describing it is that there are two elements to the business. We are the last marine mile and the first marine mile for the top 20 shipping companies in the world—we combine with the motherships to bring cargo in and out of Scotland.

We also operate a short-sea division, which deals with intra-European deliveries. In northern Europe, we operate 47 vessels that call weekly at 49 ports from Rotterdam up into the Baltic. We operate two services into Grangemouth, which connect Scotland with Hamburg and Rotterdam. To give you an idea of the mix of cargoes on those services, probably one of the most poignant is that we bring in Russian Standard vodka and we take out Scotch whisky. I am not sure whether that is synergy, but that is the kind of cargo that we deal with. We work with many of the retailers and shippers that import to and export from Scotland.

The Convener: That was very helpful. Thank you.

Based on the reach of your respective businesses, how would you describe the infrastructure that currently exists to support the freight industry in Scotland? What improvements, if any, would you identify as being necessary?

Paul Barker: From Unifeeder's perspective, because our focus is primarily marine, we buy in our road and rail services in Scotland. The benefit of the current industry—which is also the curse of it—is that it is a relatively small community. There is a set number of carriers, which is not increasing; if anything, it is decreasing somewhat. Therefore, it is quite a closed market.

Competition is always interesting. One observation that I would make is that, at peak times, we find that when the system is full, it really is full. That creates backlogs for us.

The Convener: Is there anything that we could do to address that?

Paul Barker: I could get on my hobby-horse about general industry issues.

The Convener: This is your chance.

Paul Barker: It is. For my sins, before I came into the marine sector I was in the road sector—I was chairman of the Freight Transport Association. My biggest criticism of my industry is that we are not a sexy industry to come into. The average age of a driver is not mid-20s to mid-30s; it is mid-40s to mid-50s. Getting a new cohort of people into the industry would be a good start. That is just an observation.

The Convener: Do you have anything specific in mind to address the backlog that you mentioned?

Paul Barker: No—not really. As I said, once the system is full and we have a vessel coming in with, say, 100 units on it, it might take us three or four days to clear it, as opposed to two days, which is how long it would normally take. The work still gets done; it is just that it gets done more slowly. That obviously has an impact. The classic example is deliveries to supermarkets, with which we get into a bit of a backlog. It is a question of capacity; I do not think that there is a magic bullet.

The Convener: Are there specific measures that could increase capacity or bring about a modal shift that would reduce pressure on the existing capacity?

Paul Barker: My ongoing debate with Forth Ports is around “Please unload my vessel quicker,” and working longer. An unfortunate thing for our industry is that when the wind blows as it has done in the past few days we do not work, because either the vessels or the cranes stop. That is all driven by safety considerations. However, my wish is for all the terminals in the UK

to work much more quickly and cheaply, but that is a selfish view.

Stein van Est: To distinguish us a little bit from Unifeeder, I say that our operation is characterised even more by fast turnaround times. We operate a service that means that to enable us to have three weekly calls in and out of Rosyth, we allow ourselves only a four-hour turnaround time because we need to spend the rest of the time at sea. So, we have four hours to turn around a vessel, which means that we need to discharge 100 units and load approximately 100 units. It is a ro-ro operation, which means that, compared with containers, all units have either a Mafi roll trailer or their own wheels so that they can drive on and off. Therefore, by default the turnaround is already a bit faster.

I agree with Paul Barker that the infrastructure is fairly limited in the sense that only one provider—Forth Ports—can provide services to us on the east coast of Scotland: there is only one ro-ro berth available on the entire east coast of Scotland that we can use, and it is owned and operated by Forth Ports. The position is not necessarily competitive and can create, and has created, service issues for us as a customer of Forth Ports.

On suggestions for changes to infrastructure, I say that investment is needed in additional ro-ro berths on the east coast of Scotland that would be operated by parties other than Forth Ports. Charles Hammond of Forth Ports has attended the committee to present his view on the issue, which is probably contradictory to what we believe is necessary to develop the ro-ro industry in Scotland. Forth Ports is in a situation where there is simply no competition for it. We look at the issue in terms not only of price levels but of service levels.

Justin Kirkhope: In terms of road infrastructure, we welcome recent developments for the M74 extension and we can see the work on the M8 going on outside our distribution centre at Newhouse in Lanarkshire, which is also welcome.

On the focus on the A83, it provides a vital link to some of our community stores, which are obviously accessed via that road. We also welcome the proposal to dual the A9, which will certainly help, and the trial of the increased speed limit on the A9. As with the feedback that the Road Haulage Association presented to the committee last month, we are seeing benefits in that: for example, we can get fresh produce up to Caithness half an hour earlier. The structure of the supply chain in Scotland means that the Newhouse distribution centre is often at the end of a supply chain that starts in the English midlands, so the faster we can get fresh produce from Newhouse on to the shelf in Caithness so that

customers can get it first thing in the morning, the better it is for us.

We therefore welcome the road improvements that I have described, but we would like to see a review of what is happening south of the border in terms of increased speed limits for large goods vehicles to see whether Scotland could do something similar. We appreciate that a cautious approach has been taken on the A9 because road safety is key, but I think that there have been some significant improvements there.

In terms of rail infrastructure, we currently bring product from Coventry in the English midlands to Mossend and to Grangemouth on slow-moving ambient lines for grocery transport, and we use W H Malcolm to do that. That service has been really good in terms of reliability. However, we would like to see provision of a full seven-day service. That is one of the things that are critical and I do not think that it has come up in previous evidence to the committee.

There has been a lot of evidence about rail, but one of the key issues for United Kingdom freight routes—as opposed to just those in Scotland—is that there is no provision for Saturday night services on key routes. I understand that that is mostly to do with engineering. However, if there was a move to make alternative and diversionary routes available on Saturday nights—if we could get more of a 24/7 operation—we would have more opportunity to move volume on to rail and away from road. We can run for six days and that is fine. The problem is the Saturday evenings.

Lead times are very important in the grocery industry, so if we can reduce lead times between the system placing orders for stores and the products being on the shelves, the accuracy of the orders will be improved and the availability to the end customer will be as good as it can be.

The Convener: We can put that point to Network Rail when it comes to the committee in the near future.

10:15

Mike MacKenzie (Highlands and Islands) (SNP): When representatives of Forth Ports gave evidence they suggested to us—in the face of a bit of mild criticism—that we should speak to their customers, who according to Forth Ports are over the moon with the services that it supplies. I am therefore very interested to hear that that may not be exactly the case. Could Mr Barker and Mr van Est be a wee bit more specific about what would improve things? You mentioned the need for another ro-ro berth—perhaps Mr Barker could be a bit more specific on that. Forth Ports was at pains to point out to us its investment programme

and what it is seeking to achieve, but I wonder whether that programme will meet your needs.

With your indulgence, convener, I would also like to ask about something that Mr Kirkhope touched on, and which Parliament talked about yesterday in a debate on the dairy sector. I refer you to the speech of my colleague Graeme Dey, in which he talked about Scotland's dairy producers encountering great difficulty in getting their products into the supply chain in Scotland. That is relevant to our discussion this morning because you mentioned that most of your fresh produce comes from far south. Could you alleviate the problems by sourcing from within Scotland?

Justin Kirkhope: That is a very good question. Sourcing is not my area of expertise; we source milk and butter from within Scotland, but I am not familiar with where other fresh lines come from because that is not my area. I can take that question away with me and we can send you a submission about from where fresh produce for Scotland is sourced.

Mike MacKenzie: In the sense that sourcing in Scotland would shorten the supply chain—the transport route—that seems to make sense in the context of this morning's discussion, because that would perhaps alleviate some of the problems that you have touched on. However, that is an aside to the discussion. I am keen to hear about the ports, and about Forth Ports in particular.

Stein van Est: I watched the meeting that Mr Hammond attended and heard the questions that Mike MacKenzie raised. When I first visited the port of Rosyth, I had the same feeling as you had when you made your site visit: I was ashamed of the port facilities there. If you compare them to any of the terminals that we operate in in the rest of Europe, the facilities at Rosyth are extremely poor. There are potholes everywhere, health and safety issues are arising and it is fair to say that there is a lack of investment in the facilities that Forth Ports operates. I cannot talk about the other facilities that it operates but, for us and our customers, there is a need for further investment in Rosyth just to service the area, for example. In addition, there is a lack of investment in the equipment that is used to operate the ferry service. There is a lack of DockMasters and reach stackers: they tend to break down quite frequently, which leads to delays.

As I have explained, we have a very tight schedule with a four-hour turnaround time. We keep statistics on that: we hardly ever achieve that four-hour turnaround time. By contrast, at the port of Zeebrugge, at the other side of the operation, they always manage the turnaround within four hours. That is clear evidence that there is a lack of investment and operational awareness at Forth Ports. However, as I said, there is no alternative

for us. If there were an alternative, we would easily switch to someone else straight away.

The Convener: Can you supply the committee with some more detail on the lack of turnaround within four hours?

Stein van Est: Yes. It is a roll-on, roll-off operation, so we need tug masters to operate the service—

The Convener: I am sorry; I meant written evidence.

Stein van Est: Yes, of course. We keep statistics on every departure, so we can provide that information.

The Convener: That will be great. Thank you.

Paul Barker: I agree with Stein van Est that the level of investment is relative to the appetite of Forth Ports to meet demand. Competition is non-existent.

We are in very much the same situation as DFDS. I always say that we are just running a marine bus service: if the ferries are late, everyone gets a bit stressed and it all gets a bit difficult.

We see the level of investment not being comparable with investment in other terminals. I do not know whether that is driven by the appetite of Forth Ports to invest or by the conditions from which it is coming. We certainly see that our market in Scotland can grow. At this point in time, we are weighing the provision of more capacity on our vessels against a longer turnaround time, and we cannot sacrifice the turnaround time.

I also agree with Stein van Est that the equipment is—dare I say it?—of a somewhat older vintage than the equipment at the other terminals that we visit. I am being polite in saying that.

David Stewart (Highlands and Islands) (Lab): Mr Kirkhope, I was interested in your point about the trialling of an increase in the speed limit for heavy goods vehicles on the A9. You may or may not know that I was actively involved in leading the campaign for HGV drivers to get that increase, and I was pleased that the Scottish Government looked at the issue.

You made the point that, this month, England and Wales will increase speed limits for HGVs on single carriageways and dual carriageways to 50mph and 60mph respectively. We will, therefore, have an almost ludicrous cross-border war breaking out in which vehicles have to reduce speed when they cross the border. What is your view on making speeds consistent with those in England and Wales?

Do you share the view of the haulage industry that vehicles produce lower emissions when they are driven at 50mph, because they are in a higher

gear? Ironically and counterintuitively, increasing the speed from 40mph to 50mph seems to reduce emissions, so the increase is good for climate change and for road safety. It is ludicrous that our speed limits will differ from those in England and Wales.

Justin Kirkhope: I agree. Our large goods vehicles have a speed limiter set at 52mph. We have done trials in which we ran our vehicles at 56mph, which is the legal permissible maximum, but 52mph is seen as the sweet spot.

Once the vehicles get into the highest gear, 50mph is definitely seen as an advantage over 40mph. The difference in fuel consumption between 40mph and 50mph is negligible, so we would certainly support that change. In addition, I support what you say about cross-border vehicles having to change their speed, and drivers having to be aware that, when they cross the border on the A1 at Berwick, they need to reduce their speed.

We would definitely support an increase to 50mph throughout the A-road network. I understand why the A9 situation was handled in the way that it was, because safety is the highest priority, but we can take on board some of the learning from that. Once the English speed limit has a few months under its belt, we can get evidence on whether the number of accidents or safety issues has increased.

The Convener: We cannot look at the freight transport industry in Scotland in isolation. Given the European and global reach of your businesses, Mr Barker and Mr van Est, are you aware of any trends in the wider industry that are impacting on Scottish freight transport?

Paul Barker: If anything, we are seeing a growth in the volumes coming into and out of Scotland. We have more exports from than imports into Scotland, so we position empty equipment in Scotland to load product and move it out.

We are active in searching out imports into Scotland, and we are seeing a slight increase in them. I would not say that it is huge, but it is starting to come. In our northern European network, we mainly cover a sweep from Rotterdam to the Baltics, St Petersburg and the rest of that area and, as I said, we are starting to see a slight increase in imports, which is a good sign. Apart from that, there is from my perspective nothing significant to tell the committee.

Stein van Est: Like other operators that have container or ro-ro operations, we carry only a small proportion of import and export activity into and out of Scotland. Unfortunately, the majority of the traffic goes to southern ports and even down to the Channel; for example, our sister company

DFDS Logistics transports salmon all the way down south and takes it to France via the Channel tunnel. Given that such transport is going into and out of Scotland, one might wonder whether there are more sustainable or environmentally friendly alternatives to driving fish sourced in Scotland down to France via the UK's entire road network. That is an example of how a lot of cargo and goods are available in Scotland but are not being moved in the most environmentally friendly way, and it all relates to price.

Paul Barker: I agree.

The Convener: Excellent. Alex Johnstone has a number of questions.

Alex Johnstone (North East Scotland) (Con): My questions are for Mr Kirkhope. What features of the retail distribution network impact on the use of road freight in Scotland?

Justin Kirkhope: Are you talking about how we use the road network?

Alex Johnstone: Yes.

Justin Kirkhope: We run a lot of traffic between the central belt and Inverness. That is a key route for us but, because we have stores in almost every postal area in Scotland, we also use a lot of local roads. As a result, the trunk road network's reliability is very important. I mentioned the previous landslides on the A83, and we are pleased with the work that has been done over the past few years on improving resilience and with the opening up of the old military road as an alternative diversionary route.

What is also quite important is the last mile to the stores, which relates to how local authorities keep up local road networks. Problems with local roads, congestion and parking can be just as frustrating, and we face particular challenges in city centres with parked vehicles and access to stores.

Many of our stores are in quite historic buildings and, because they have been trading for more than 100 years, they were designed for horses and carts. I highlight the centre of Glasgow as an example of that. We would therefore welcome opportunities for, say, more night-time deliveries, which were trialled to a small but quite successful extent during the Commonwealth games. We had good discussions with local authorities at that time, and we were able to deliver to a handful of stores during the night. Unfortunately, however, those stores have since gone back to daytime delivery.

In London, we have been working with local authorities to reinstitute some of the night-time deliveries that we made during the London Olympics. If we can make those deliveries considerably and quietly without upsetting neighbours and residents, we will be able to take

vehicles off the road at peak times as well as reuse our vehicle fleet, which would make things more efficient. That would in effect be a win-win, because we would be doubly utilising the resource and reducing congestion on the roads at their busiest times.

James Dornan (Glasgow Cathcart) (SNP): I have a quick supplementary, convener. We visited the Binnenstadservice or consolidation centre in Nijmegen, which is doing a lot of the stuff that you have talked about. However, to go back to the example of the Glasgow Commonwealth games that you mentioned, have you followed up with the council the issue of night-time deliveries or has it made positive noises about considering that very successful approach?

10:30

Justin Kirkhope: That is one of the things on our to-do list. We have focused on London, where we have had some good, positive discussions. We are talking about rolling that back out. It is definitely something that we should do, and we will be doing it.

James Dornan: Will you keep us informed of any successful negotiations?

Justin Kirkhope: Yes.

James Dornan: Thank you.

Alex Johnstone: In your written evidence, you mention some of the challenges with increasing the use of rail freight between Daventry and Mossend and using the Highland main line to deliver freight to Inverness and beyond. Will you tell us about those challenges and how they might be overcome?

Justin Kirkhope: The challenges are partly to do with the seven-day railway, which I mentioned briefly. We have had some success with the products that we source from our distribution centre at Coventry, which are our slow-moving ambient lines. We trialled that in 2010 by starting with one container a day to dip our toe in the water. That was extremely successful from a reliability point of view, and although we were not expecting it to be cheaper than road—we use double-deck road trailers, which are very efficient as we get really good fill on them—it was not significantly more expensive. Following the success of the trial, we decided to extend that operation, and we now move 25 per cent of the volume from the midlands to Scotland via rail. The reliability is generally very good.

The barriers to further expanding that relate to the need to have a consistent service across seven days. We have a wide dispatch window. In Scotland, Newhouse's dispatch window is significantly wider than that of any other

distribution centre in the UK. That means that, if we are dispatching to shops in Glasgow and Coatbridge, for example, we are also dispatching to stores in Shetland via ferries, so there is a huge dispatch window for a product that is dated on a certain day. Ideally, we would have products arriving in a staggered fashion. With road, we can have a trailer arriving every two hours, and that will suit the outbound dispatch. With rail, in general, everything arrives at once.

We are moving the products that we choose to move by rail successfully. To expand rail use, we would need to move to two services running at different times of the day. One of the significant barriers is what we would do on a Saturday evening, because we cannot run trains at the same time.

We run seven days. We run trains on a Sunday in the late morning or early afternoon, but they are for different products. We cannot choose the same products day in, day out. One of the issues in grocery distribution is to get some consistency so that operators can run something that makes sense day in, day out.

Alex Johnstone: Your written submission mentions that you would like to reduce your freight traffic on the A77 by using rail to get products to Cairnryan, from where they are transported to Northern Ireland. You mention that that would involve reopening some rail lines. Have you studied whether that would be viable?

Justin Kirkhope: We have not done a study.

Alex Johnstone: So it would be up to the Parliament and the Government to consider the broader possibilities and take that forward.

Justin Kirkhope: Sometimes such things are led by industry and rail operators, but in that instance it would be useful to have a steer from the Scottish Government. It makes sense for us to supply Northern Ireland from Scotland—some of the ranges are shared—but that is not to say that we have not looked at the business case for supplying Northern Ireland from Heysham or Liverpool via our St Helens distribution centre. We have no plans to do that, but that is one of the things that we look at in considering the economics of supplying Northern Ireland and the ranges that we supply there.

Alex Johnstone: So there is an option that could be achieved as part of a broader policy.

Justin Kirkhope: Yes.

Mike MacKenzie: My questions are probably directed mainly to Mr Kirkhope. The committee has had the opportunity to visit some railheads during the course of its inquiry. Do you feel that the industry has enough terminals to allow full access to rail services? That is actually a broader

question, and the other two gentlemen may have some insights to share, but I invite Mr Kirkhope to start.

Justin Kirkhope: We face a different challenge from that which is faced by some of the larger retailers. Tesco runs a number of trains up to Inverness, and its facility at Inverness is probably best described as a concrete base with lifting equipment. Because of its store profile, Tesco has the luxury of being able to take a container, load it on to a train in the central belt, load it on to a flat-bed skeletal trailer at Inverness, using the facility there, and then deliver it direct to the store as a full load. Most of Tesco's stores have what we call dock-level access, which means that there is a purpose-built dock.

Our store network is predominantly convenience stores, with a lot of older stores, so a lot of the access is at ground level and we use almost exclusively vehicles that are fitted with tail lifts. We also have access issues, so we use smaller vehicles to deliver to stores. Whereas the likes of Tesco can deliver a 45-foot container direct to the store, many fewer of our stores can be delivered to using a trailer of that size and we have to look at innovations in getting products consolidated. Do not get me wrong—we have a cross-stock centre in Inverness that does exactly that, but it does that using road and double-deckers, and we consolidate on to smaller delivery vehicles.

It might take a number of retailers getting together to reach a critical mass, but if we were to move that volume to rail that would make the economics a little better. At the moment, the lowest-cost option for us is to move products to Inverness using double-deck trailers, because we can get the fill and the economics are right.

Mike MacKenzie: In the work that Mr Barker and Mr van Est do, is there a blockage because of a lack of rail freight terminals?

Stein van Est: There is a need for road, rail and ferry services to be combined but, unfortunately, in Scotland at the moment we do not have the opportunity to combine our ferry services with a direct rail connection. That is not ideal not only from a competitive point of view but from an environmental point of view.

There is a need for rail connections at ferry terminals such as we have at most of the ports that we operate ourselves. For example, I am responsible for our terminal at Ghent in Belgium, where we are looking at a train service from the southern part of France connecting to the port at Ghent and thereby connecting directly to the Scandinavian countries. You can sell a very strong product if you combine a ferry service with a rail connection, especially if the trade is characterised

by a lot of container movements such as we see on the Rosyth service.

Paul Barker: I agree. A lot of the terminals that we operate in Europe are what I would call truly multimodal or able to accommodate modal shift so that there are road, rail and sea options all combined at one terminal. In the UK, we have a unique model—I say this having previously worked for PD Ports, which is a ports authority—in which the ports are privately owned and beholden to a shareholder rather than a statute for the good of the community. We do, though, still have trust ports in the UK, which have more involvement.

In the UK, therefore, port terminals are privately owned, and elements of the rail are privately owned, too. To be blunt, the issue is how to get two private businesses that are vying for the same end user to co-operate a little. That is the challenge for us all, including the Government.

Mike MacKenzie: A number of suggestions for road improvements are included in the written submissions to the committee. How might they impact on your business? What improvements would you hope to see?

Paul Barker: Stein van Est and I would return to the point that we started with: our product is time driven. We have a moment in time to clear and then reload a vessel; that is our interaction with the roadside either for a delivery or for a collection. This week is a classic example. We have a holiday, so a lot of the distilleries are trying to get as many boxes to me before the vessel leaves, because if they do not make that vessel, they will have to wait another two or three days or a week for the next one.

From our passive view of the road network, we must have the major arterial routes in and out of the port and, to be blunt, in and out of the rail terminals, as free and accessible as possible, because we are all driven by time. I tell people that a vessel will leave at a set time, and the containers or the trailers must be on it before then. It is the worst thing in the world to see someone drive on to a terminal just in time for them to see the vessel leave, because that means that the action that everyone has taken has failed.

Mike MacKenzie: I have experienced the same thing as a passenger.

Justin Kirkhope: To back up what Paul Barker has said, we mentioned in our written submission the A801 between Grangemouth and Bathgate. The basis of our submission was consideration of the stores that we service in the Falkirk, Grangemouth and Bo'ness area, as well as the rail terminal at Grangemouth where our trains arrive at the weekend. A number of the big retailers also move trains into Grangemouth. It would certainly be worth while completing the A801 improvements

because that road is one of the missing links in the central belt.

We have mentioned the A83. Focus must be kept on making that as resilient as possible. We understand that Scotland has significant geographical and weather challenges, but we must ensure that all road schemes are as weatherproof as possible. Resilience is key for us.

As I say, we certainly welcome the A9 dualling. We have seen significant improvements due to the M74 extension. We hope that the M8 work and the work around the junctions linking the M73 should make traffic at those pinchpoints a lot better.

Mike MacKenzie: Mr Kirkhope mentioned road-equivalent tariffs in his submission. Have you had any discussions with the Scottish Government about road-equivalent tariff for freight?

Justin Kirkhope: We have not. We put the issue in our submission and we would welcome further discussions on it.

Road-equivalent tariff is a step in the right direction. However, if it could be applied to freight and larger goods vehicles, even on a gradual scale, we would see that as an advantage as we would be able to differentiate more accurately the ferry prices among operators and suchlike.

Mike MacKenzie: Finally, operators on the northern isles routes have had discussions with road hauliers and so on. They seem to be pretty pleased with the service that Serco provides. Would you go along with that? I think that you mentioned that you have a store in Lerwick, Shetland.

Justin Kirkhope: Yes, we have a store in Lerwick. We use a local haulier—Shetland Transport—to distribute to that store. The reliability has generally been good.

Mike MacKenzie: Thank you.

The Convener: Mr van Est has talked about the challenges in relation to a lack of investment in our port terminals and Mr Barker has talked about the barriers to achieving multimodal operations in a single terminal. Given your experience of operating across different countries and legal jurisdictions, how much do you think the private ownership of the ports is a barrier to achieving the investment and the multimodal operations that you would like?

10:45

Paul Barker: I speak with two heads here: my current one and my previous one. A private port model is markedly different from what I term a municipal one. There are benefits and curses for both models. We deal with some municipal terminals that are not astoundingly good. We call

at five terminals on the east coast of the UK and we have tried to push them to invest and move with us. I do not think that I could honestly say that a municipal model would be any quicker to invest than a private model. I am not sure whether something passes more quickly through a governmental process than it does through a boardroom process. Whichever model is concerned, it comes down to an appetite to invest because ultimately there is a return to be made.

Stein van Est: I can only agree with that. We operate at a number of terminals where the landlord is the municipality or the terminal is privately owned, as in our Immingham facility where Associated British Ports is the owner of the terminal or the land. I think that a private party would look at the business case and say "Okay, is this something that we are willing to invest in?" However, the business case is always based on assumptions. You can make a low-risk investment and say either "I need to have a business case and a customer and a plan to operate this" or "I'm willing to make an investment for the future and actually see if I can then attract cargo or customers to it."

I do not know whether there is any difference between a state-owned or municipality-owned terminal and a privately-owned one.

The Convener: What has been your experience across the different jurisdictions where you operate?

Stein van Est: It has been mixed.

The Convener: Is it not as good in the UK as in other jurisdictions?

Stein van Est: Yes. For example, the terminal where we operate in Gothenburg was owned by the municipality of Gothenburg but the container terminal was sold to a private party and the ro-ro terminal was sold to us. We then took a different look at investing in that, but we took a certain risk in doing that. In the end, as a private company, it depends on the level of risk that we are willing to take. There is a clear advantage in having a party operating the terminal that also has a direct link with the customers or is even the customer themselves, because the level of risk that they are willing to take is obviously higher.

The Convener: Do you have a view on the issue, Mr Kirkhope?

Justin Kirkhope: No.

The Convener: In that case, we will move on.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): Is the issue not the lack of competition? It was pointed out earlier that Forth Ports operates what is essentially a monopoly in

the part of Scotland that the witnesses want to use.

Paul Barker: It is very obvious that the choice is singular. Our stance is that we would welcome competition, but we would question whether the competition would be equal to, better than or less than what we have currently. It comes back to the level of investment or risk that a new player in the market would be willing to make or take. Certainly, if a new terminal came along that could give us the throughput that we benchmark against, we would consider it. However, we have no view on whether it should be private or municipal. The choice on the east coast of Scotland is singular, because there is no competition. I cannot say how good any competition would be, because I am not sure who it would be and what they would offer.

Stein van Est: From our perspective, there is a certain level of competition on the east coast but it is not in Scotland. We have been evaluating Teesport as an alternative, and we were close to moving our business there. That would have added 40,000 units on the road that would have needed to go to Scotland. The competition exists, and there is an alternative. We could not come to commercial terms with Teesport, but from a commercial point of view the terminal at Teesport is much more beneficial for us than the terminal at Rosyth.

Adam Ingram: You could argue that the Scottish Government should look at the operation that you are talking about and try to encourage improvement.

Paul Barker: If the aim is to grow the general economy and the commerce of Scotland, I would advocate consideration of a range of options. Our customers are very focused on a singular aim. They have a point of origin and a point of destination, and their choice of origin and destination are driven by two pretty brutal facts: cost and time. Their decision is based on the mode of transport that satisfies either or both of those criteria. The optimist would say that having more options in Scotland would increase trade; the pessimist would say that it might. However, I think that giving Scotland as many options to trade as possible would be a positive.

Stein van Est: I will illustrate that with a small example. We have three automotive customers on our ferry service—Mercedes, Mazda and Ford—but obviously more cars are sold in Scotland than are manufactured by those three brands. A lot of automotive customers choose to use ports down south and move the cars on the road to Scotland. Any car that you see being driven that does not belong to one of those three brands will have gone to a port further south, such as Teesport, Immingham or anywhere on the Humber. That adds a lot of freight miles on the road network.

David Stewart: I have some more specific questions on ports. You are probably aware that the committee has visited a number of ports during its inquiry, including Aberdeen, Rotterdam and Grangemouth—James Dornan and I visited Rotterdam just last week. As you will know, at one time it was the largest port in the world, but it is now the eighth largest and is the largest port in Europe. If I were being pedantic, I would argue that the seven Chinese ports that are above it in the league table have different criteria and involve inland port activity as well, but perhaps that is being too pedantic even for me. Do you believe that the ports in Scotland are sufficient both in number and quality?

When we asked people in Rotterdam why the port is so successful, they said that 99 per cent of the reason for its success is its location at the centre of Europe. They also made the key point that the development of infrastructure—for example, the specific freight railway that has been developed there—is vital. They said that boats steam past Italy to get to Rotterdam in order to deliver goods by rail from Rotterdam to Italy because it is more efficient to do it that way. So, it is not just about providing a port; it is about all the infrastructure in the port's hinterland. Do you agree with that analysis?

Paul Barker: I will put my old hat on. When I worked for a ports authority I used to say to people that the greatest strength of the ports authority, as well as its biggest weakness, is that it will never move—it is fixed. The Co-op can see its customer trend move and it can rejig its network and move, but the port is all about the location.

When I worked in the sector, I argued that there is an obligation on the port to work with the region as an enabler of commerce. More competition is not always better, but it is certainly better than a monopoly. At the moment, it is a one-horse race, and because the choice is singular, things are constrained by the operator's appetite for taking risks. For example, my biggest frustration with Grangemouth is its historical working pattern, in which people do not work between a certain time on Saturday evening and a certain time on Sunday morning. In other words, Grangemouth is 24/7 but only on six and three quarters of the days.

David Stewart: This might be a sensitive question, but are the people meant to be working?

Paul Barker: We have this great situation at Grangemouth where they say, "We're a 24/7 port", and we say, "Well, you're not, because you have this gap. Why can't you fill it?" We do a lot of business into and out of Rotterdam, which has provided the infrastructure in the knowledge that it will be a natural magnet for trade. Because the UK ports are private, they are more circumspect with their investment. It is as if they are saying, "You'll

have to prove to me that I'm going to get this return before I'll do what you want." As I always say, the British ports sector does not follow the Kevin Costner school of "Build it and they will come", as in the film "Field of Dreams".

David Stewart: You just took the words right out of my mouth.

Although ports, by definition, do not move, what I found interesting about the port of Rotterdam, which, although it is owned by the city, has great independence, is that the infrastructure around it—the cranes and so on—and its size have undergone phenomenal development. Of course, the freight-only railway line is a phenomenal example of how infrastructure should be built.

Paul Barker: I am going to be critical of the UK port secretaries here, but I have to say that the UK ports have not been developed as port communities, which are a combination of the municipality and the freight, manufacturing and service sectors. In my time with PD Ports, we managed to achieve what one could reasonably describe as a first in the industry, which was to get retailers to build a facility on the port. As a result, the first point of intervention was at the port itself. To be brutally honest, however, I have to say that that was done on the basis of whether Asda and Tesco were going to pay us enough to build the facility. If they had said, "If you build it, we might use it", we would have said no. It is all about the appetite to invest and to create a community. In Rotterdam, they take a cross-modal approach in which they are as comfortable with sea as they are with road and rail; unfortunately, the model that we have is based on three competing disciplines that will always be uneasy bedfellows.

David Stewart: I think that you are right. When we took evidence from representatives from the ports, I certainly got the feeling, when we asked about rail, that they view it, in effect, as competition rather than as part of a wider package. Do you agree?

Paul Barker: Yes. The relationship is adversarial rather than co-operative.

Stein van Est: Rotterdam provides an interesting example. I am from the Netherlands myself—

David Stewart: I guessed.

Stein van Est: Yes. I have worked in the port of Rotterdam. Going back to our previous discussion about private and public ownership of ports, I think that, again, it all comes down to the level of risk that people are willing to take. In Rotterdam, stakeholders have taken a significant—indeed, enormous—risk in developing the second Maasvlakte, which is a huge facility. One might argue that it is not the best risk that could have

been taken, given that some of the land is still available for a commercial party to operate, but at the same time the port has been able to attract a lot of customers through that investment. You need a combination of two things: a close partnership with the commercial parties that operate services into the port and willingness to take some risk in making such investments.

Justin Kirkhope: The Co-operative Group does not really have a major view on the matter. We tend to handle imports from, say, the far east through our distribution centre in Coventry, where we have the facilities to destuff containers that are filled from floor to ceiling to maximise fill. However, we very much leave it up to our suppliers to choose which ports to take their imports through, given the volume of, for example, non-food versus food produce that we are bringing in.

11:00

David Stewart: I am conscious of time, so I will make a couple of quick points. Is there a case or demand for a deep-water port in Scotland?

Paul Barker: Again, I use my previous experience in Teesport. When I worked for PD Ports, our model was to be a direct-call port. The vessels got ever bigger, and that continues to happen—particularly in the container sector. Therefore, either you build something that is oversized for the largest vessel now or run the risk of marginalising yourselves in a particular sector.

You might say that I would say this but, from my perspective, Scotland needs strong feeder ports that can pick up from Hamburg and Rotterdam. It would be good if Scotland could have good facilities that could feed off Hamburg, Rotterdam and Felixstowe—we move a huge amount of cargo from Felixstowe into Grangemouth and vice versa.

My answer to your question is deep but not massively deep. Stick to the feeder ports. Scotland needs a branch line as opposed to a main line, if I may mix my metaphors. A good branch line would be better than a main line.

Stein van Est: I agree. If you were to copy the model of Teesport and put it somewhere on the east coast of Scotland, you would come close to something that is suitable for Scottish trade. Teesport is a feeder port: it has container operations and ro-ro facilities. That would be suitable for Scotland.

Justin Kirkhope: We do not have a major view about the ports. If there is a benefit to the local community and to our local customers and members in terms of reduced carbon emissions and reduced travel time from the ports to the end destination, that is obviously positive all round.

David Stewart: How well does the ferry service from Rosyth to the mainland of Europe operate?

Stein van Est: There are different ways of looking at that. From a financial point of view, the service does not operate well. As you are aware, we have signed a memorandum of understanding with the Scottish Government and Forth Ports, in which we primarily considered the finances of the route. The route is loss making: if that continues, DFDS will have no interest in continuing to operate it purely from a financial point of view. In the memorandum of understanding with the Scottish Government and Forth Ports, we tried to find a solution to that. A number of different scenarios are on the table, including the purchase of a new-build vessel that would be financed by the Scottish Government.

We are eager to find a solution. From our financial perspective, we do not at this point see a long future for the route if it continues to make a loss. We are a commercial company; eventually, our shareholders will start to ask why we are operating a service that is continuously loss making and has been since 2008, when we started to operate it.

David Stewart: How can it be improved?

Stein van Est: I cannot provide all the details of the memorandum of understanding because it is a confidential document and this is a public meeting. However, we agreed with Forth Ports a number of infrastructure adjustments, which need to be effected. This is similar to the discussion that we had previously. Forth Ports argued for one of the clauses in the MOU to be that the board needs to give approval for the adjustments, so obviously Forth Ports considers the business case and wants a commitment from us and the Scottish Government that the service will be there in the long term. That is understandable to a certain extent, but at the same time, what we agreed in the MOU has not materialised, which would enable the current vessel to have double-stack containers on the weather deck, which would provide additional volume on the route.

We also need to consider a more sustainable solution for the service and for the ferry itself. As you know, we face the new sulphur regulations, which since 1 January this year have required us to burn a different type of fuel. That has added a lot of cost to our service. Our fuel accounts for approximately 40 per cent of our total cost base. The change in bunker prices has resulted in an increase from \$600 to \$900—in other words, our bunker prices have increased by 50 per cent. We have not been able to retrieve that increase in costs from our customer base. Therefore, the financial situation that I described earlier is even more difficult now.

We need to find a solution. Within the fleet in our network, we have a number of different solutions. For example, we are considering potential investment in a scrubber installation that washes the sulphur out of the emissions. That is one of the scenarios that we are investigating together with Transport Scotland.

David Stewart: Thank you. That was helpful.

Would the other witnesses like to comment?

Paul Barker: I believe that, in addition to the service that we offer, there needs to be another offering. I will step back and look at the situation from the point of view of the Scottish economy and its ability to get cargo in and out. As I said earlier, our clients are the same as DFDS's in that they are looking for an end-to-end solution. Within that, they will have a price and a time in mind, and I can offer only one price and one time. I would prefer to have a strong competitor who can offer a counterplay to what we do so that—to be blunt—the flows continue and prosper instead of withering on the vine because there is just one player.

To use the example of Forth Ports, I do not think that our being the only player on the east coast into Grangemouth is a good thing. It might seem to be strange for me to say that, but it is a fact. Unifeeder and DFDS are customers of each other: we share terminals. and we carry DFDS's cargo and it carries ours. There is a need for that synergy. We would like to have a very strong competitor in Scotland, because that is good for all of us.

James Dornan: Some of my questions have already been answered. Mr van Est talked about the impact of the sulphur emission control area regulations. Mr Barker, do you have anything to add to what Mr van Est said?

Paul Barker: My position is exactly the same. The vessels that we operate are very similar to the DFDS vessel on the Rosyth to Zeebrugge route. The sulphur regulations have hit us hard and customers are asking why they should pay for us to meet those regulations. They are saying that they do not want to pay for us to do that and that they do not recognise it as something that they should have to pay for. It is a difficult battle. We took the simple view that we did not have a choice about whether to meet the regulations, because they were imposed on us—albeit, one would argue, for valid reasons.

I go back to the point that I made about time and cost. The SECA regulations impact significantly on cost. People are looking at their freight routes and thinking that, if a particular cargo has to arrive by a particular time and it is cheaper to use a trailer to bring it up by road from Felixstowe or Immingham, they will do that. In some ways, the regulations are

counterproductive, because they are not a clear tax on everybody. They are seen as a tax on the marine sector in isolation.

James Dornan: Has the drop in the price of oil made up for the effect of the SECA regulations in any way?

Paul Barker: It has done so a little, but the regulations are still having a significant impact on us.

James Dornan: How do you think the situation will develop over the coming months and years?

Paul Barker: At the moment, it is a battle.

James Dornan: Try to be a bit happier than that.

Paul Barker: It is a difficult battle, because we are going to customers and saying, "Hey, guys—this wasn't us. We have nowhere to go with this." It is a long road.

This is a personal view rather than the view of Unifeeder but, in hindsight, I would have preferred it if, at the point at which the SECA regulations came in, a mechanism had already been established on the basis of which any movement could be calculated. At the moment, we are getting compared with road, and road diesel is cheaper and they have the Platts average or whatever. As I say with hindsight, had the regulations been brought in with a method of measurement—either up or down—that would have been slightly better.

James Dornan: Is any discussion going on with the European Union about that?

Paul Barker: There is not, that we are aware of. Basically, the regulations are in force—the genie is out of the bottle. We are—how shall I say it?—having vigorous discussions with our customers.

Stein van Est: The European Union is not the right place to address the issue, because the International Maritime Organization brought in the SECA regulations. All the IMO's members need to rectify the situation. Countries such as Mexico would also have to accept that we would not implement it.

Since 2009, DFDS has taken the stance that such regulation would happen. At that time, we started to investigate the scrubber installation that I described. We did some tests, which have been successful. That is one way to counteract some of the additional costs. However, significant investment is needed. Scrubber installation on board a vessel costs between €4 million and €7 million. Obviously, that cost must be paid back by the customer base. One way or the other, costs will be added. That being said, the SECA regulations are there for reasons of public health, and we can all agree that they are valid.

A lot of things can be said about the SECA regulations. The downside for the Scottish industry is that, with the trade on the continent, we are in a peripheral situation in which the Scottish route is impacted the most. As I have explained, the turnaround time is short and the time at sea is long. Most of our time is spent burning fuel, so out of all the short-sea routes in Europe, we are hit the hardest. That is the unfortunate consequence of the new regulations.

James Dornan: Mr Kirkhope, do you have any comments?

Justin Kirkhope: No.

James Dornan: Are there any other regulatory or policy obstacles to free flow of sea freight in Scotland? I see that all the witnesses are shaking their heads, so I will take that as a no.

Is there anything that other European countries do to encourage and sustain sea freight which might be replicable in Scotland, particularly to encourage freight into Scotland rather than using the ports down south?

Paul Barker: That is about engendering cohesion and a "port community" approach. I find it amusing that, at my time at PD Ports, when I talked to local industries in and around the Tees they asked whether I was based in the Kremlin—my office was in an old Victorian port building, which was red, so it was known locally as the Kremlin. That painted a picture of the relationship—we were seen as an authority rather than as a partner. The big thing that we try to do with all our terminals—and even our competitors in terminals—is engender that partner approach.

We have an answer to a certain set of problems, but we do not have all the answers. You might, but how do we get that to work? That is one thing—dare I say it?—that may be a bit lacking in Forth Ports.

Stein van Est: We have discussed the infrastructure changes that the Government could be involved in. The direct funding or subsidising of services is difficult. We know that from the MOU that we have signed. We have applied for de minimis funding, which is basically all that we can get. There are good reasons for that. We would not want to have unfair competition when compared with our counterparts that operate, for example, the Teesport service.

If the Scottish Government can do anything, it would be on the infrastructure side and to facilitate that for the commercial companies to operate services.

I have explained that much more cargo is flowing than we jointly carry in and out of Scotland. There is clearly a case for other companies to

operate services and to use a maritime service rather than the roads, for example.

11:15

James Dornan: If all that extra business is out there, why is more of it not coming to the east coast, for example?

Stein van Est: Unfortunately, it is cost related. As my colleague Paul Barker explained, the two factors are cost and time. Time-wise, we can definitely compete with self-drives using the Channel tunnel, so the reason is cost. We do not need to delve into the subject of eastern European drivers driving all the way up to Scotland, but that is happening. At present, it is very cheap to have a truck driving all the way from France—Boulogne-sur-Mer, for example—to Scotland instead of using a maritime link.

Paul Barker: Also, there is finite capacity on marine solutions. We get into a chicken-and-egg situation. You might ask, "If you put on more capacity, would you get more cargo?" The answer is that I am not sure. It is about getting people to make the transition when they need goods to get there in six days.

Our situation is obvious. If we have something going into northern Germany and it misses the service, the next time will be a week from now. If a shipper can hit the service, that is great. If he cannot, he will send it by truck to Immingham and put it on DFDS to go to Cuxhaven, because in that way he will get back into his timeframe. That is the balance.

If there was an option out of Scotland that gave more frequency and certainty, there would be a natural take-up, because it would be easier. No one thinks that it is great fun to say, "Right, I'm going to load this in Glasgow and, by the way, I'm going to send it to Dover to make its transit to Europe." Nobody sets out with that intention, but unfortunately that is their choice. It is a cost and time calculation, and their option to choose other services is limited, as it is for us.

James Dornan: Thank you.

Adam Ingram: Mr Kirkhope, in your written submission, you point out that you have been successful in shifting freight from road to rail. You say that more than 10,000 tonnes of freight have been moved off the road network, and you flag up that that is partly because you have been able to access the mode shift revenue support scheme. Was that easy to achieve?

Justin Kirkhope: For that traffic, yes, because the grant was administered through the W H Malcolm group—it claimed back the MSRS on our behalf, and we got the benefit of the rate. There was no need for direct discussion between us and

the Government, because Malcolm's was able to make the claim.

Adam Ingram: However, you have made approaches to the Scottish Government to access grants for other developments and you have not been so successful. Will you explain what is going on there?

Justin Kirkhope: Yes. I will clarify the point. We state in our written submission that there were some issues. We were looking at moving some Inverness traffic, which currently uses the A9, on to rail. We approached the Russell Group and, again on our behalf, it looked at the possibilities of moving some of that freight on to rail. Russell's approached the Scottish Government on our behalf for both MSRS and freight facilities grant, but it came back to us and indicated that the Scottish Government was not minded to give further grants on that particular route—the central belt to Inverness. We mention that in our written submission, but I clarify that we expressed that interest through Russell's.

Adam Ingram: Okay. The response that came back was no, but would you recommend that particular scheme as being a good one?

Justin Kirkhope: I think so. We welcome anything that can make rail economical. We want to do the right thing and move freight on to rail but not at any expense, so anything that makes the playing field a little bit more level for road and rail must be welcomed. That may be facilities, but the definition of facilities is slightly too narrow, as it does not allow us to invest in things such as specialised containers and flat-bed skeletal trailers. The definition of facilities is a bit narrower than we would like.

Adam Ingram: You would recommend that we reviewed that area.

Justin Kirkhope: That would be good.

David Stewart: I have a quick supplementary question. I was a bit surprised to find that no freight facilities grant applications had been successful since 2011, although applications for waterborne freight grants had been. I cannot understand the view that we do not want any more applications to take freight off road and on to rail, as there are huge problems on the A9. Your submission identifies that there are height restrictions on that rail route and that two thirds of the route is single track, which may give rise to some concerns, but I still do not understand the view that, although the freight facilities grant exists, we do not want any more applications for that crucial route. The A9 gets congested and we require a change not least because of climate change.

Justin Kirkhope: I totally agree. I do not know the politics around the negative response because it was not to an approach that we made directly. I think that there is an opportunity in the Inverness area for not just the sort of concrete pad that the likes of Tesco are using but some sort of facility to consolidate inbound orders from the Highlands and the central belt. There are opportunities there.

David Stewart: We are very interested in consolidation centres, but I will let James Dornan take the glory for that.

James Dornan: Thank you. As a politician, I am always happy to take the glory for anything, although I am not convinced that it was all my doing.

My question touches on what David Stewart just said. We had hauliers in front of us who said that there is no issue with applying for the grants and that part of the reason why the money was not given out is that people had not applied for the grants or they had applied for them inappropriately. They did not seem to think that there is an issue with getting the grants.

Justin Kirkhope: I can only cite the feedback that we got from the Russell Group on that approach; we made that comment on the basis of that one experience. Perhaps there is a lesson all round about the need for us to have direct contact with the Scottish Government through two-way communication, which we would welcome.

The Convener: I thank Adam Ingram for his indulgence.

Adam Ingram: Have the shipping lines seen any evidence of freight grant schemes helping to shift freight away from road to rail or sea? If you have, how might those schemes be further developed?

Paul Barker: We have not had any approaches in Scotland, but I will give an example of something that we have done in England. We are now working with one of the major retailers that traditionally brought deep-sea exports into Felixstowe to be delivered to the north of England and moved those exports from Felixstowe by road up into the north-east. We now move them from Felixstowe to Teesport by sea, and we are actively pushing our customers to consider moving their products in the same way to Grangemouth and Immingham. That is driven by doggedness on our part rather than by any access to grants. I must admit that my ignorance of the availability of grants is huge—I know nothing on that front, certainly in Scotland.

Stein van Est: I know a little bit more about it. DFDS applied for and was successful in receiving funding from the trans-European network transport programme in connection with the scrubber

installations that we have on board a number of our vessels. The TEN-T programme is characterised by requiring infrastructure investments at both ends, so ideally in a way that influences port operation. We also had the waterborne freight grant for the Rosyth service in—I believe—2009, and we have now received de minimis funding.

In the MOU that has been referred to, we identified a marketing match fund that could be applied to our marketing spend on the Rosyth service. Other than that, the majority of the funds available come through the European institutions—in the past, the motorway of the seas and Marco Polo programmes, and now the TEN-T programme. That obviously requires us to be able to apply for a route or routes into Scotland that are within a certain corridor that the European institutions have identified.

Adam Ingram: Do the witnesses think that access to those kinds of scheme could affect your business and help trade?

Paul Barker: Anything like that would help. I go back to my time and cost point, because anything that impacts on either of those positively will be taken up in a structured, positive way.

Stein van Est: One of the important things that we have seen from the motorways of the seas programme is that a lot of routes that started through that funding ceased operation after the funding ran out. From our perspective, we would operate a ferry service for a longer period than the period of the motorways of the seas funding. My personal view is that it is not very healthy to subsidise ferry routes across Europe. If certain infrastructure investments need to be undertaken to achieve modal shift, it is of course interesting to consider them. However, in general, ferry services need to be able to sustain themselves for the long term and not just for a funding period.

Paul Barker: That is certainly the model that we use across Unifeeder in northern and southern Europe. We will base our decision about a service on its sustainability as a stand-alone rather than say, "Hey, we can have a crutch for six months and we'll hope and pray that we can wean ourselves off that."

Adam Ingram: But Mr Kirkhope's experience was that he did manage to make a sustainable shift from road to rail via grant funding and in the longer run can do without any subsidy.

Justin Kirkhope: The subsidy that we received for the product coming from the midlands to the central belt in Scotland helped make the business case viable. Obviously, we are always looking at ways of improving the cost and efficiency of what we do. We were running on double-deck road trailers, so the bit of grant that we got made a

difference and made the business case worthwhile. As I said, we knew that it was not going to be any cheaper to move product by rail, but it is definitely the right thing to do from an environmental point of view.

As a business, we cannot afford to invest unlimited amounts of money in moving to a different mode of transport, because at the end of the day we need to be a successful business first and foremost. However, the MSRS funding that was claimed on our behalf by W H Malcolm made the difference in making moving product by rail a viable operation that is not too costly for us.

Adam Ingram: Just to clarify, did that funding subsidise the transition or is it an ongoing subsidy?

Justin Kirkhope: I believe that it is an ongoing subsidy that is reflected in the container rate that we pay.

The Convener: Mr Kirkhope, I understand that 25 per cent of your freight in respect of the Scottish market is transported by rail from the Daventry international rail freight terminal to Mossend. You have talked about the grant schemes that are available, but what specific measures would you want the committee to recommend to the Scottish Government that would help to increase that figure of 25 per cent?

11:30

Justin Kirkhope: Just to clarify, I should point out that that 25 per cent relates to what we call slow-moving grocery. Our national distribution centre in Coventry supplies a percentage of our ambient grocery offer; we have our local offer, some of which is region specific, which is held at local distribution centres such as Newhouse, as well as our slower-moving lines, which come up from Coventry. The 25 per cent does not relate to all product coming from England.

As for increasing that percentage, having the seven-days-a-week railway that I have already mentioned will be critical in making the next step at the current rates, because it is important that we can move similar stores and volumes 24/7. Apart from the grant, we also need things that can help to bring down costs, such as longer trains, which bring down individual container costs. In fact, W H Malcolm, with which we work closely, has recently been trialling a longer, 15m container—we were the first food retailer to utilise it—but it had to overcome a number of hurdles put up by the Department for Transport in England, which initially had not given permission for the longer flat trailer that was required. The container is now up and running, and we have used it successfully on a trial basis.

Such innovations are certainly useful and helpful, and anything that can bring down the unit cost makes the case for rail more compelling. That said, I realise that having longer trains also requires investment in longer sidings and longer passing loops on the key routes on the west coast and, presumably, the east coast, because of the need to divert trains when lines are closed and that sort of thing.

The Convener: You have certainly given us plenty of things to ask Network Rail about when it appears before us.

We move on to questions from Mary Fee.

Mary Fee (West Scotland) (Lab): I want to ask about efficiency and carbon emissions. The Scottish Government has set quite challenging emissions reduction targets, and the freight industry can obviously play a significant role in that regard. Can you identify any technology—in relation to, say, vehicles, transport information or logistics—that can play a part in that and which will make freight more sustainable and more emissions friendly?

Justin Kirkhope: One of the big themes in our ethics and social goals is to improve the level of carbon and other greenhouse gas emissions. Indeed, we have been measuring our environmental impact since 2006 and have made significant improvements in fuel efficiency, for example. Some of that has been about delivering the right stores from the right depots through the network review that we have been carrying out for the past several years, but vehicle technology also helps, and we have been investing in aerodynamic kits even for smaller vehicles. When we carried out trials, we found that our smaller, rigid vehicles were suited to certain types of aerodynamic kits, and they have given us a payback in the form of better fuel efficiency, which is good.

We are also working on dynamic route scheduling. Previously, we would have had a bus stop-type route schedule for store deliveries, but we have now moved to a dynamic daily routing schedule that is optimised through software and which helps us to reduce mileage and optimise our vehicle deliveries on a daily basis.

When Chris MacRae from the FTA gave evidence to you in February, he mentioned the association's logistics carbon reduction scheme, which we have been members of since last year. We like to understand best practice in the industry, and we are very much involved in discussions with regard to the scheme and the measures that the wider industry is taking that we can look at and employ ourselves.

Stein van Est: I very much appreciate the view of the Co-operative Group on the matter because, in the end, it is driving reduced emissions for

transport companies and shipping lines. The issue is high on the agenda, and has been for a number of years already.

Our impact on emissions in Scotland is relatively limited, as we do not spend much time in Scottish waters. At the same time, as I said, if there were a rail connection that connected our services directly to rail hubs in Scotland, instead of road being used as the main transport mode, that would reduce emissions.

Paul Barker: We have followed similar routes to those that Stein van Est mentioned. We have examined our vessels with a view to making efficiencies, particularly in relation to SECAs, but also in relation to other areas. We also spend quite a lot of time doing what we term eco-steaming. Because we have the good old bus route, we build in enough time so that, wherever possible, we can eco-sail.

We have also done quite a lot of work with customers. The container market is traditionally dominated by the deep-sea sector, which has two weapons of choice: 20ft and 40ft containers. It has not even gone metric. We—not us exclusively, but the industry—have introduced 45ft containers. We are working closely with carriers to see whether they can move to 45ft containers, particularly on intra-European movements, such as some of the drinks industry shipments that we take from Scotland into Russia or the Baltic states. That gets more capacity in.

If we could plug into rail or more efficient road, that would be the first choice for us. Many of the big manufacturers in Europe directly and indirectly measure our carbon footprint as part of their supply chain. Companies such as Mars want to know how we handle the cargo in our small link in the chain so that they can give an overall carbon footprint from the point of origin to the destination.

Mary Fee: Are there any new developments or strategies on the horizon that the freight industry could adapt or use to help to reduce its emissions?

Paul Barker: In the marine sector, people are considering liquefied natural gas—LNG—vessels. However—and Stein van Est put this well—they are a big investment. It is not like buying a car; it is like buying a house. You are in it for much longer time.

Mary Fee: It is long term.

Paul Barker: We have all got used to being able to buy a car on lease for three years and, when we are finished with it, giving it back. We do not do that with a house. An LNG investment on the marine side is more akin to investment in a house rather than a car. People are more aware that it will be there for a much longer period.

Mary Fee: Are there any innovations that our neighbours abroad use that we could use but are not taking advantage of?

Paul Barker: The only one that I would mention is the need to make best use of the options for modal shift. We need to play the right suit of cards for the right type of movement. We could all do a little bit better at that. There is still a degree of adversarial behaviour, as opposed to collaboration, between sectors. I am not sure how we change that.

Mary Fee: You do not have the answer for us.

Paul Barker: No.

Stein van Est: One suggestion relates to something that committee members might have seen when they visited the port of Rotterdam. During the development of Maasvlakte 2, a target was set for how the cargo that arrives there needs to be moved to the hinterland. I cannot remember the percentage offhand, but I think that something like 35 per cent of it needs to be moved by rail. If the Scottish Government or somebody else wanted to make a certain infrastructural investment, I would suggest that that should include the setting of certain targets for how the cargo needs to be moved to the hinterland.

Justin Kirkhope: I support modal shift, but for us it represents only a small reduction in emissions. We will always have to deliver to the likes of Lochgilphead, and we will never have a rail option to get there. We have worked on maximising vehicle fill, consolidating product within the vehicle and having multitemperature vehicles rather than sending separate vehicles for groceries and fresh products.

At present, we are doing a lot of trials on how we can fit more products in the roll cages that we use for delivery and storage without damaging products or creating cages that are too heavy for drivers to wheel into stores or for store staff to handle. There is a fine line in making sure that things are safe while maximising vehicle fill so that we are not transporting fresh air, for example.

I think that the Road Haulage Association mentioned a statistic on the amount of empty running that takes place. On return legs, it is up to 30 per cent—that is an industry figure. We now backhaul segregated waste from our stores so that we can recycle it at our distribution centre, and we do quite a lot of supplier backhauling. For example, we have backhauled Campbeltown cheese for a number of years, which means that the vehicle is filled on the way back as well as on the way out.

Mary Fee: Can you identify any integration or collaboration processes—whether they involve consolidation centres, the sharing of containers

between operators or the combining of flows—that make freight transport more sustainable? How can different sectors within industry be encouraged to do such things more?

Paul Barker: Particularly for the container operator sector, that is a challenge. We would probably be the enabler of a consolidation centre. People would come to us and say, “We’ve consolidated this cube of cargo. Can you provide us with a container?” We are primarily involved in the movement of full containers. If we could plug into that kind of network, it would certainly be of interest to us. How it can be driven is a much more difficult question, but we would certainly support it. It is a sector that I cannot even get into at the moment. To me, it is predominantly a road freight weapon of choice rather than anything for us.

Mary Fee: What is the main difficulty? Is it logistics and organisation, or is it resistance among organisations and companies in the sector?

Paul Barker: If someone is thinking about moving something, whether it is small or large, the default is road, because we are all comfortable with it. Our second choice—rail—has come a long way. For a while, it was a blind spot for everyone. The difficulty for the container sector or the maritime sector is that we are even more of a blind spot. Everyone’s idea of a voyage is that people go away for years. People do not correlate these things.

Unifeeder is trying to break that down a little bit. We have proved that we can move product from Felixstowe to Teesport in the same time that it takes to move it by road, and we are not restricted because we do not need another truck for every container. We can get much more on one vessel.

Education is probably not the right word to use in that respect; rather, it is about having an awareness of the options, including marine and rail. We find that the challenge is getting people to think a little bit, because the default position is road.

Mary Fee: Dare I say that they should think outside the box?

Paul Barker: Yes, exactly. I will write that one down.

Mary Fee: I could not resist—I am sorry.

11:45

Stein van Est: On the continental side in Zeebrugge—the other side of the route—our main customers, ECS European Containers, C2C and 2XL, have consolidation centres in the port. They bring in a lot of supermarket products, for example, from France, Belgium and the

Netherlands. The products are consolidated in the port, with a full box moving from Zeebrugge to Rosyth.

As far as I am aware, similar infrastructure is not necessarily in place on the Scottish side. Cargo could be consolidated at a single consolidation point and full boxes moved from Rosyth to Zeebrugge. There is an imbalance in the trade. We carry more empty units from Scotland to Belgium than the other way around. That is unfortunate. A consolidation point where the companies could jointly track volumes would be beneficial.

Paul Barker: In contrast, I do the exact opposite—I bring in more empties than I haul out.

Justin Kirkhope: There is certainly merit in looking at consolidation. It is probably about having an honest broker for the big retailers. If there was a shared service, which could be a train or a facility, and Mr Tesco’s volume increased by 50 per cent, what would be the priority? Perhaps that would be about working with the British Retail Consortium or the Freight Transport Association, or companies such as W H Malcolm or Russell’s, which deal with a number of different retailers. I do not know what the solution would be, to be fair.

We may be forced, or encouraged, to look at consolidation when we start looking at urban deliveries in London, for example, where there is significant talk of reducing diesel particulate emissions.

Mary Fee: I will move on to Government support. It has been suggested to us in evidence that it is time that the Government updated its freight policy. Do you share that view? If so, what do you want to be changed in the policy?

Stein van Est: That question is difficult to answer because I am not familiar with the detail of the policy. However, if we are to continue the DFDS operation that I have highlighted, a certain level of interest from the Government is required. We do not require subsidies to run the service. We want the service to be sustainable for the next 30 years. Indeed, if we look at purchasing a new energy-efficient vessel, that will be an investment over a 30-year period. I would urge that, as we agreed in the MOU, the Government makes a strategic decision to support ferry services and says so in the policy.

Paul Barker: I agree. It is a question of gaining people’s collaboration. A difficulty that we have found is that everyone is driven by their own time and cost requirements. If an option was to pull together the interested parties and ask them what we could do if we could think outside the box, that would go a long way towards dragging people kicking and screaming to sit around a table like

this, when we could then discuss the art of the possible.

We can all individually have a small influence, but we need to get people to join up. I again return to the discussion that we had in Felixstowe, where we were moving cargo for a retailer. We managed to get together the retailer, which was the cargo owner, and its third-party logistics provider—or 3PL—which was doing the road transport. All three of us agreed on a better way to operate.

That was a great step forward, because the 3PL was giving away work, but it still gained because, in effect, we were working for it. We broke down the traditional barrier of not speaking to a competitor or someone who is perceived to be a competitor. If the Government or anyone else could do one thing, it would be to bring people together and get them to agree either that they can achieve nothing or that there are, say, five points that they can look at. I think that you would find that the industries are all willing; it is just that there is a need for an enabler.

Getting an honest broker to act in that capacity is the right approach. If I were to do it, DFDS would ask why I was doing it—and vice versa—whereas if an honest broker collected information and put it all together, that would create a different picture that made more sense. People would probably accept that picture or at least look at it.

Mary Fee: You have almost answered my next question, Mr Barker. I will come to Mr Kirkhope in a moment. It almost seems as if the time is right for the Government to introduce a freight strategy to pull all those strands together—to be more focused, to set long-term goals and to get everyone together. Do you share that view?

Paul Barker: I do. The strange thing about the logistics industry is that, although it is huge, many of the people in it know many of the other people in it. In some ways, it is a contradiction. If anyone produced a strategy that said that we were going to move from one position to another within a particular period, I would use that internally with my board as a weapon in the argument for putting a bigger vessel on the Grangemouth service. I would be able to say, “This is a strategy—this is going to happen.” We would be able to believe in it.

A strategy would act as a stake in the ground and would give people a direction. Mathematics is a wonderful thing—it is absolute, but people can make it say what they want. If we had a strategy that said that freight tonnes were going to increase by such-and-such an amount in X years, we could buy into it and use it as a basis for our commercial discussions.

Unifeeder and DFDS cannot drive such increases, because we are not cargo owners—we

are purely service providers. Unfortunately, we are the petrol that no one wants to buy but which they have to buy because it makes the thing work.

Justin Kirkhope: I think that I agree. If such a forum had the right stakeholders in it, it would be extremely useful in helping to provide an understanding of a joined-up approach going forward. In some of the communities that we serve in Scotland, the issue is not the competition—quite often, the Co-op is the only store on an island or in a town. It is not always a case of being afraid of what Tesco and the other retailers are doing. We would certainly support any strategy that brought together the overall Scottish framework.

Stein van Est: I can only agree. If there is an overall strategy that says that the cargo that goes into and out of Scotland needs to travel in a certain way—a way that reduces carbon emissions, for example—commercial parties will buy into that. They will be able to present the strategy to the board and to say where the Scottish Government wants to be in 10, 15 or 20 years.

As I mentioned, when a business case is made, certain assumptions are included. If we can derive those assumptions from the strategy that the Government develops, that will definitely reduce the risk that is associated with a business case, which will result in private companies being more interested in being involved in the process that the strategy puts forward.

Mary Fee: Are you aware of any infrastructure schemes in Europe that highlight the best use of Government intervention and funding that could be transferred to Scotland?

Stein van Est: We have the TEN-T programme, which I mentioned. That is a Europe-wide programme; I believe that the call for proposals under it has been oversubscribed by many billions of euros. That seems to be a suitable measure. I think that Scotland falls within that programme or that applications could be made under it.

Paul Barker: I do not know of programmes other than the TEN-T programme. I work for a Danish organisation and, on a more provocative note, the Danish Government looks very favourably on shipping companies in lots of ways. However, that is a much wider perspective. Different regimes look differently at how to drive their commerce. It is a slightly flawed example at the moment, but the Russian economy was for a while very supportive of the shipping sector. That has gone a bit awry because of a certain gentleman's decisions.

Mary Fee: Yes. Mr Kirkhope?

Justin Kirkhope: I have been asked to contribute to a few European Union workstreams.

The most recent one that I talked to was the weastflows project, which looked at port locations and sustainable logistics. Organisations feed into that sort of workflow. For example, the south-east of Scotland transport partnership, which is responsible for looking after local transport in Edinburgh and the Lothians, was heavily involved in the weastflows project.

The Convener: Do the witnesses have a take-home message to leave with us? Do you want the committee to ask the Government about something specific?

Stein van Est: Among the things that have been discussed, there are three key take-away messages. First, on the ports situation, there needs to be a clear view from the Government about how Forth Ports can operate a number of ports on the east coast of Scotland without any competition. Secondly, multimodal transport and potentially infrastructure investment within that should be looked at. Thirdly, the MOU that we signed with Transport Scotland and the Scottish Government will eventually conclude, and we will then produce a joint proposal about the Rosyth service's future. Whatever the committee takes away from the evidence sessions, my request is that that proposal is evaluated so that there is a sustainable future for the Rosyth route.

The Convener: Thank you for giving us three points and for being concise.

Justin Kirkhope: Infrastructure is probably the area that is least visible to our customers, but it is the lifeblood for getting the product on to the shelf and made available for customers. Anything that highlights the importance of that is valuable. It is good that the committee is discussing infrastructure, because it is vital to bring it to the fore—we welcome that.

We must ensure that we have robust connections in the key trunk routes of the A9 and the A83. The key message is that we need to weatherproof those and ensure that they are fit for purpose. Finally, I invite the committee to visit our multitemperature site at Newhouse. If committee members would like to come, they would be more than welcome.

The Convener: Thank you for that invitation.

Paul Barker: We should not lose sight of the fact that Scotland needs options for maritime connections. In my view, it would not be a major step forward if DFDS stepped out of the market. That would not help me and I would not gain from it.

To add to Stein van Est's view about Forth Ports, we currently service the ports of Tyne and Tees, which are 50 miles apart but both do reasonably well. My message is: do not be

frightened of the future and do not fear competition. Perhaps through a freight strategy, Scotland could be made an easy and progressive place to deal with.

I had the most questions from my colleagues in the rest of Unifeeder when the independence vote campaign was going on, because all of a sudden everybody understood that Scotland was a separate place and had a different dynamic. For example, Danish colleagues asked, "When I go to Grangemouth, will I need my passport?" The referendum campaign heightened people's perception that there is another economy here. Generally, to stake a claim to that economy and say, "This is what we want to do with it," would not be a bad thing.

The Convener: Members have no further questions, so I thank each of our witnesses for making their experience and expertise available to the committee. We are extremely grateful to you.

12:00

Meeting continued in private until 12:15.

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