Rail Freight Growth Target: A Call for Evidence on designing and delivering rail freight target options for the rail network

September 2022

Summary of Logistics UK's Position

Logistics UK supports a rail freight growth target to triple rail freight by 2050. However, to reach this target Great British Railways (GBR) will need to ensure a level playing field for freight, the right pricing in competition with road freight and targeted investment in the network to support freight growth.

Commitment to rail freight growth will require a step change from GBR and the Government. Logistics UK is calling for the four 'Cs' to support a rail freight growth target:

1. **Clarity on priority routes for rail freight:** The HS2 business plan commits to release capacity for freight but it doesn't say where, when or how. We need a national network for rail freight.

2. **Clarity on pricing:** The National Infrastructure Commission is preparing the next five year National Infrastructure Assessment. They have committed to look at road pricing but they must commit to look at rail pricing as well as fair pricing is the only way to fully incentivise rail freight and make best use of the transport network.

3. **Commitment now to electrification of key freight paths:** We need to optimise the mainlines for freight success and electrification is the only power source with the capability to do this. Electrification also solves air quality concerns.

4. **Clarity on hydrogen and fuels**: Should global investors take UK hydrogen rail and biofuels seriously or are we prioritising hydrogen for heat and zero carbon fuels for aviation? Further clarity and certainty is needed for business confidence.

About Logistics UK

Logistics UK is one of Britain's largest business groups and the only one providing a voice for the entirety of the UK's logistics sector. Our role, on behalf of over 19,000 members, is to enhance the safety, efficiency and sustainability of freight movement throughout the supply chain, across all transport modes. Logistics UK members operate over 200,000 goods vehicles - almost half the UK fleet - and some one million liveried vans. In addition, they consign over 90 per cent of the freight moved by rail and over 70 per cent of sea and air freight.

Overview

Logistics UK supports best use of the transport network for logistics, including modal shift as a sustainable way forward for the logistics sector. Road will always remain the dominant mode of logistics transport but there are opportunities to move more goods by rail and water. Modal shift has immediate environmental benefits, and long-term, can help reduce congestion, support economic growth across the regions (for example through new job opportunities), and reduce pressure on the road network.

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We would like to take this opportunity to re-iterate and reinforce the position for both rail freight growth specifically and Great British Railways (GBR) in general.

Incentivise rail freight growth
Freight and passenger services should be given equal treatment. GBR should have a core duty to facilitate the delivery of high-quality, reliable freight services and be accountable to freight operators for the level of service they provide.

GBR should work collaboratively and transparently with the freight and logistics sector. GBR governance should include a freight lead director on the national, regional and system operator Boards.

Protect rail freight interests
The core duties in the GBR licence should include a requirement to provide a level playing field for both private and public sector interests – this should be reflected in the approach to data sharing and access, for example.

GBR will have significant market power. Any new Office of Road and Rail duty should seek to secure the regulator's independence and simplify their current duties as far as possible. A new overarching ORR duty to further the interests of public and private funders and users of rail services, may be one way of achieving this.

Given the significance of proposed changes to rail freight performance, growth and investment, rail freight stakeholders should be statutory consultees for all proposals which have the potential to affect their interests, including business planning and access reforms. Rail freight protections such as schedule 4 and 8 compensation regimes should not be removed without appropriate replacement to protect rail freight commercial interests.

Deliver the benefits of rail freight
GBR and ORR access plans should take account of the proposed rail freight growth target, Government's legally binding net zero commitments and DfT proposals for a National Freight Network and Energy Forum.
The 30 year plan should include delivery plans for both the proposed freight growth target and legally binding net zero commitments. In advance of introducing new legislation, Government should ensure that the High Level Output Statement includes a freight growth target for Control Period 7 (2024-29).

Response to consultation questions

Q: On a scale of 1 (low importance) to 5 (high importance), how important is rail freight growth to you or your organisation?

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Q: On a scale of 1 (highly ineffective) to 5 (highly effective), how effective do you think a growth target will be in incentivising rail freight growth?

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Q: How do you think a target can incentivise rail freight growth?

A target itself alone cannot incentivise rail freight growth from the sector. There are key market considerations such as the cost of rail freight over road freight and ease of access to rail freight. Network considerations include releasing of capacity, unlocking blockages and improving rail freight reliability. Rail needs to be able to compete with road in order to maintain and grow market share. The opportunities, challenges, benefits and disbenefits are broken down below.

Opportunities

Markets: The opportunities that an increase in rail freight can create are considerable. Rail freight growth can provide a bigger market for new and exisiting operators to expand into.

Figure 1 below shows the changes in goods moved since 2000. Over this period, overall goods moved have reduced and the different commodities have fluctuated. The chart illustrates that, other than coal, there is scope for growth in all market areas as each market has changed over time.

Not all market areas can grow at the same rate and this should be taken into consideration when GBR designs the strategy for reaching the rail frieght growth target.

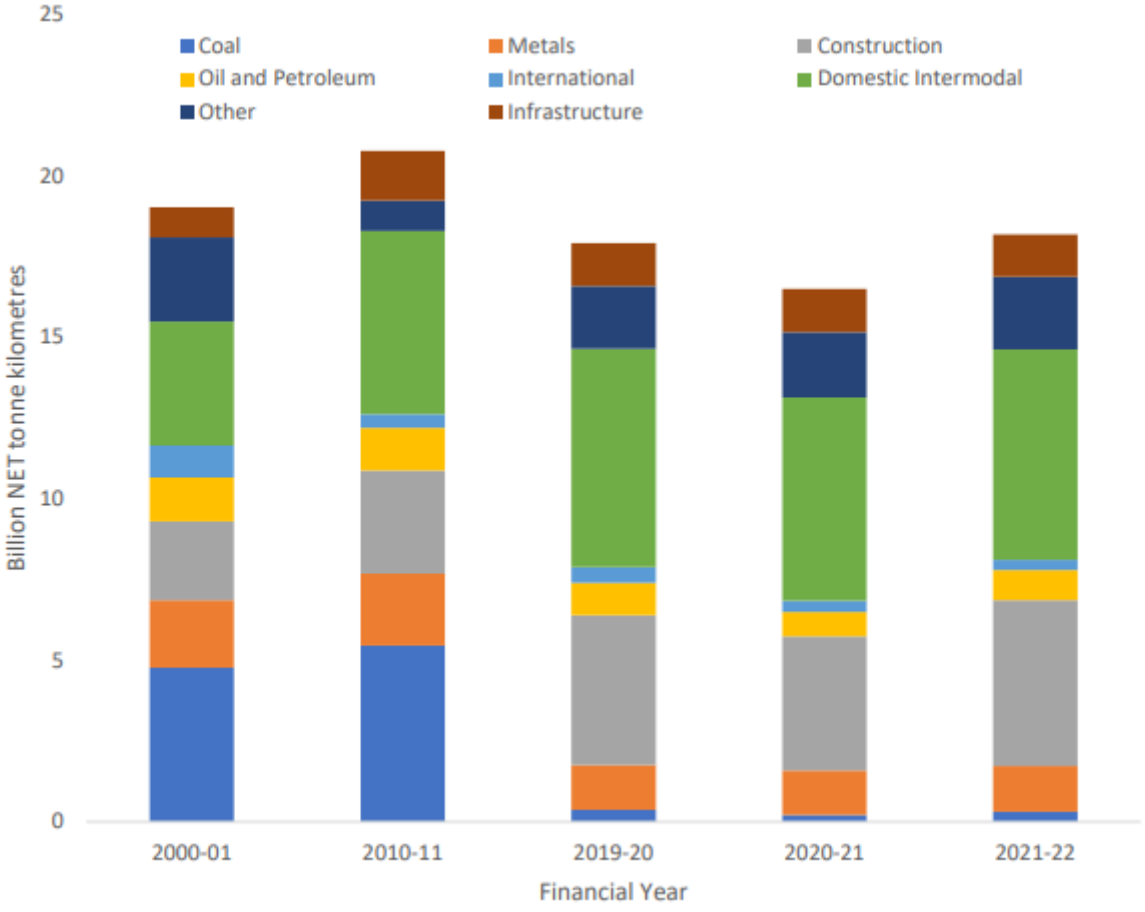

Figure 1 Goods moved by rail

Challenges

Infrastructure: One of the biggest challenges to growth of rail freight is suitable infrastructure and intermodal connectivity. Before freight can be increased significantly, GBR must show how and where capacity can be increased. One of the four Cs Logistics UK is calling for is:

> **Clarity on priority routes for rail freight:** The HS2 business plan commits to release capacity for freight but it doesn't say where, when or how. We need a national network for rail freight.

We need decisions to be made on key freight paths such as East West Rail, HS1/London and north London. The TransPennine upgrades, which will support freight, are welcome but we need other rotues to replicate this focus and investment.

Access to rail freight: Another challenge is the lack of simple access to rail freight. For example, there is currently no designated system for finding available space on a freight train. We need a simple access to market to make it easier for businesses, such as freight forwarders and sellers, to put freight onto rail.

Economy: The current economic climate could cause a slow down of freight across all modes due to consumer behaviour and economic stresses, such as the cost of living crisis.

Similarly, industrial activity across all modes is impacting freight movements and reputation. Recent rail strikes and port strikes have caused a downturn in rail freight activity. These will continue until agreements are made, but there is potential for future strikes in successive years.

Electrification: Electrification of the network is a big challenge. To fully realise environmental benefits, it is imperative that electrification of the network is prioritised. One of Logistics UK's four Cs is:

> **Commitment** now to electrification of key freight paths - we need optimise the mainlines for freight success and electrification is the only power source with the capability to do this. Electrification also solves air quality concerns.

Emissions and fuel: Figure 2 below shows the rail freight emissions by electricity and diesel. Both are decreasing but diesel remains prominent.

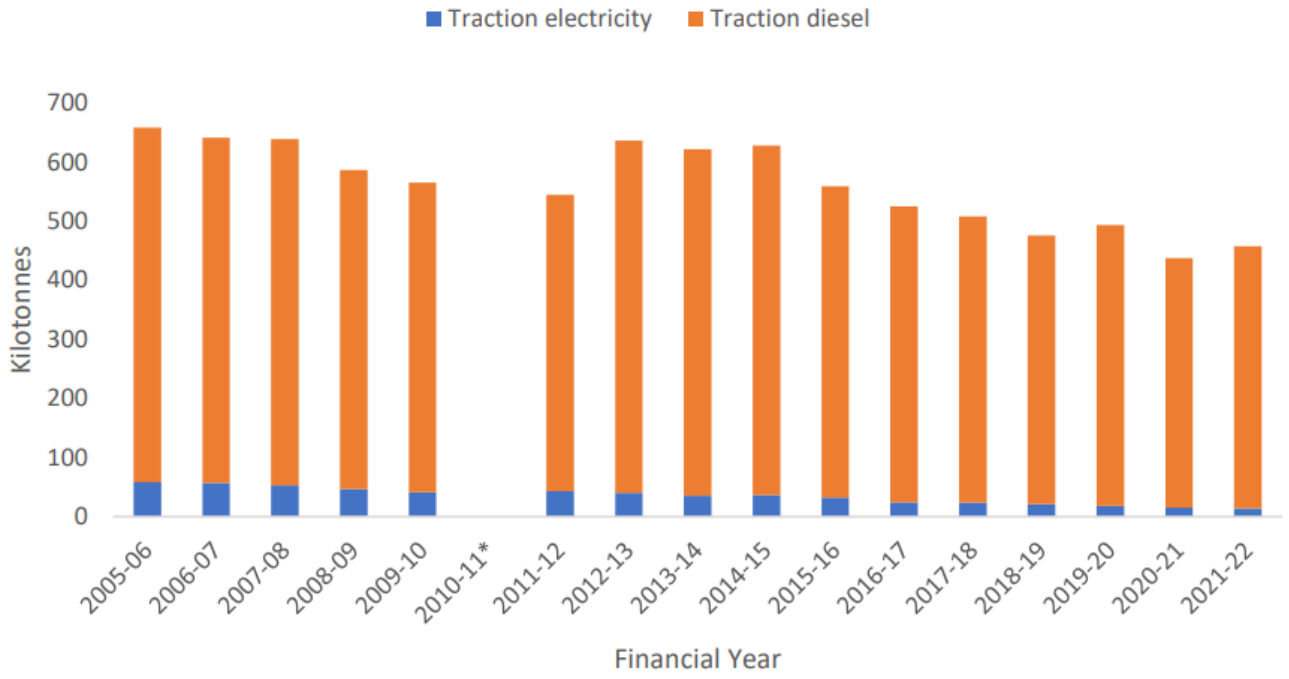

Figure 2 Rail Freight Emissions (CO_2 equivalent)

Logistics UK is calling for clarity on fuels in our four Cs.

> **Clarity on hydrogen and fuels**: Should global investors take UK hydrogen rail and biofuels seriously or are we prioritising hydrogen for heat and zero carbon fuels for aviation? Further clarity and certainty is needed for business confidence.

To support investment and innovation, which will lead to reduced emissions, clarity is needed on future fuels and energy sources for the railways. Without this, rail operators will be reulctant to invest in new rolling stock and other assets.

Benefits

Environmental: The immediate benefits of rail freight are improvements to decarbonisation and air quality. GBR's own statistics report there is up to 76% reduced greenhouse gases and up to 16% improvement in air quality using rail frieght over road[1].

Congestion: One of the immediate and long term benefits of modal shift to rail is congestion reduction. A freight train can move the equivalent of up to 76 HGVs[2], making road space available on our road network.

Economy: Investment in rail infrastrucutre will create new jobs, and can support the Government's levelling up agenda. More freight trains will also require more drivers and engineers, providing more work in this sector. If passenger numbers continue to decline, there is also scope for qualified personnel to move from passenger to freight services, mitigating potential unemployment or loss of skilled workers from the sector.

Disbenefits

Impact: What will the cost and consequences be for other modes, particularly road freight?

We need to consider intermodal connectivity and when other modes, such as coastal shipping or inland waterways may be a better alternative. We must ensure the right mode is used for the right goods and journey.

Costs: Road is currently a cheaper and simpler mode to move goods than rail. To move to rail freight, this disparity needs to be addressed. Logistics UK's four Cs include:

> **Clarity on pricing:** The National Infrastructure Commission is preparing the next five year National Infrastructure Assessment. They have committed to look at road pricing but they should commit to look at rail pricing as well as fair pricing is the only way to fully incentivise rail freight and make best use of the transport network.

Rail cannot be expected to compete with road if costs remain unbalanced. Road and rail costs are not directly comparable, rail has operating and infrastrucutre costs to consider. This must be taken into consideration when pricing is looked at.

Net zero: As we move towards net zero road transport, the benefits associated with decarbonisation and air quality when using rail freight will be reduced. There is a need to ensure electrification of the network is prioritised to support greener movement of goods on the rail network. If road freight becomes more environmentally friendly than rail freight then the arguments for modal shift will become harder to win.

Q: Of the options described in Table 1, what do you think is the best metric for measuring a future growth target?

- Economic value
- Modal transfer
- Carbon reduction
- Freight moved

[1] Logistics UK, 'Decarbonising Logistics', 2022
[2] Logistics UK, 'Decarbonising Logistics', 2022.

- Freight lifted
- Freight distance travelled
- Total freight trains operated

Logistics UK does not consider one single metric to be ideal but recommends using a basket of measures to inform understanding of the rail freight market and to avoid perverse incentives. Modal transfer is not an end in its own right – outcome benefits such as reduced congestion, carbon and air quality benefits should be measured.

Q: Are there any other metrics that you would suggest for measuring a future rail freight growth target?

The freight target in Scotland uses goods moved, which we would also recommend. However, to also consider the changes in goods and commodities, further measures including carbon reduction and freight trains operated could also be incorporated. It may be of more benefit to consider how many freight wagons have been operated compared to trains as they can vary in length and capacity.

It is important to consider the environmental impact of using rail. As we move towards net zero, without a fully electrified rail network, it could become more environmentally friendly to use road freight over rail. We cannot expect the current carbon emissions savings to be the same in the next 10-20 years. Using a measure to show the benefits of rail freight should also be considered.

Q: Over what timeframe should the growth target be set?

- End state to 2050 (with intermediate targets)

Q: If you chose an answer with an end state (with or without intermediate targets), please specify what you think the end state should be and why.

Logistics UK members consider a target in the region of 150-200% to be achievable. This corresponds with forecast data that a trebling of rail freight is possible by 2050. It is vital that a target is not over ambitious or considered unachievable. This could have unintended consequences, including disincentivising rail freight.

However, a target will not be enough to incentivise freight. Growth will only come along with upgrades and improvements to the network as reference in this response. This includes the right access pricing new infrastructure, release of capacity, ensuring freight is on an equal footing with passengers, and electrification of the network.

Different markets will have different opportunities for growth and different needs to achieve it. GBR should work towards market specific targets, which overall combine to an average growth target. This could be similar to how the targets were considered and set in Scotland.

The end state should be to meet or exceed the target. If intermediate targets are above target, it may be that the final target should also be increased to drive further incentives to move more by rail.

To compare the UK's ambition, the EU's rail freight target is to double rail freight traffic by 2050, including a target to move 30% of road journeys over 300km to rail by 2030. EU rail already has a higher proportion of dedicated rail, electrification and digitalisation of rail than the UK network. EU policy also includes financial incentives such as prioritisation of TEN T (strategic transport network) infrastructure funding for rail including targets for further electrification and digitalisation of the TEN T network.

In Scotland, the target is set by control periods (CPs) at 7.5% per CP. While this is not as ambitious as 150%, it is achievable. Our members are keen that the target achieves the right balance between ambitious and achievable to ensure the right outcomes.

Q: Across what geography should the rail freight growth target apply?

- Separate target for the regional divisions of GBR.

This should include regional priorities based on rail freight strengths. Any requirement on local/planning authorities in designated areas to meet a modal shift target needs to include a credible delivery and funding plan.

Q: Should the rail freight growth target be designed to cover all market sectors, or should there be several market-specific targets?

- Several market-specific targets

To reiterate our earlier answer, different markets will have different opportunities for growth and therefore recognising this with market specific targets will be more appropriate.

Q: How can the public and private sectors work closer together to ensure a future growth target is delivered?

The rail sector has a good relationship between private and public sectors already. This should continue with investments in key infrastructure projects based on Government commitments, including this rail freight target.

As previously mentioned, clarity is needed to incentivise use of rail freight. GBR must provide a clear plan for how the target will be achieved, including what investments will be made. The private sector alone cannot invest in infrastructure. It is also imperative that any private sector investments are supported by public sector actions and planning, such as ensuring signalling is in place on new pathways.

Government may want to consider how infrastructure investment could be supported via Freight Facilities Grants or other funding sources to the private sector.

In Scotland, Transport Scotland, the Scottish Ministers and Network Rail supported the sector to increase rail freight by providing guidance as well as investment in infrastructure. A similar support network for this freight target would be of benefit to the private sector.
GBR must respond and react quickly, providing direction and support as needed throughout the entire process from now.

Planning authorities will have a part to play in making planning decisions to support growth in rail freight. GBR should liaise with the Department for Levelling Up, Housing and Communities (DLUHC) to promote the rail freight growth target.

Q: What is needed from the supply side of the rail industry (commercial operators, GBR and Government) to support the growth of rail freight? Please outline any concepts or actions that are needed and include the associated benefits and costs.

GBR and the Department for Transport must prioritise rail freight and give it equal consideration to passenger rail, as per the Government's promise to put passengers and freight first.

Timetable planning needs to include specific plans for rail freight growth and investors must be confident they will get the paths they pay for.

Q: Do you have any other comments you would like to add to support your response to Part Two?

Over the past decade, coal freight on the railways has reduced significantly. Figure 3 below shows goods moved by rail over the past 30 years. It is clear that rail freight has reduced over time, and most recently has stagnated. Non-coal movements have increased and there is a huge opportunity to further fill the capacity left by coal movements.

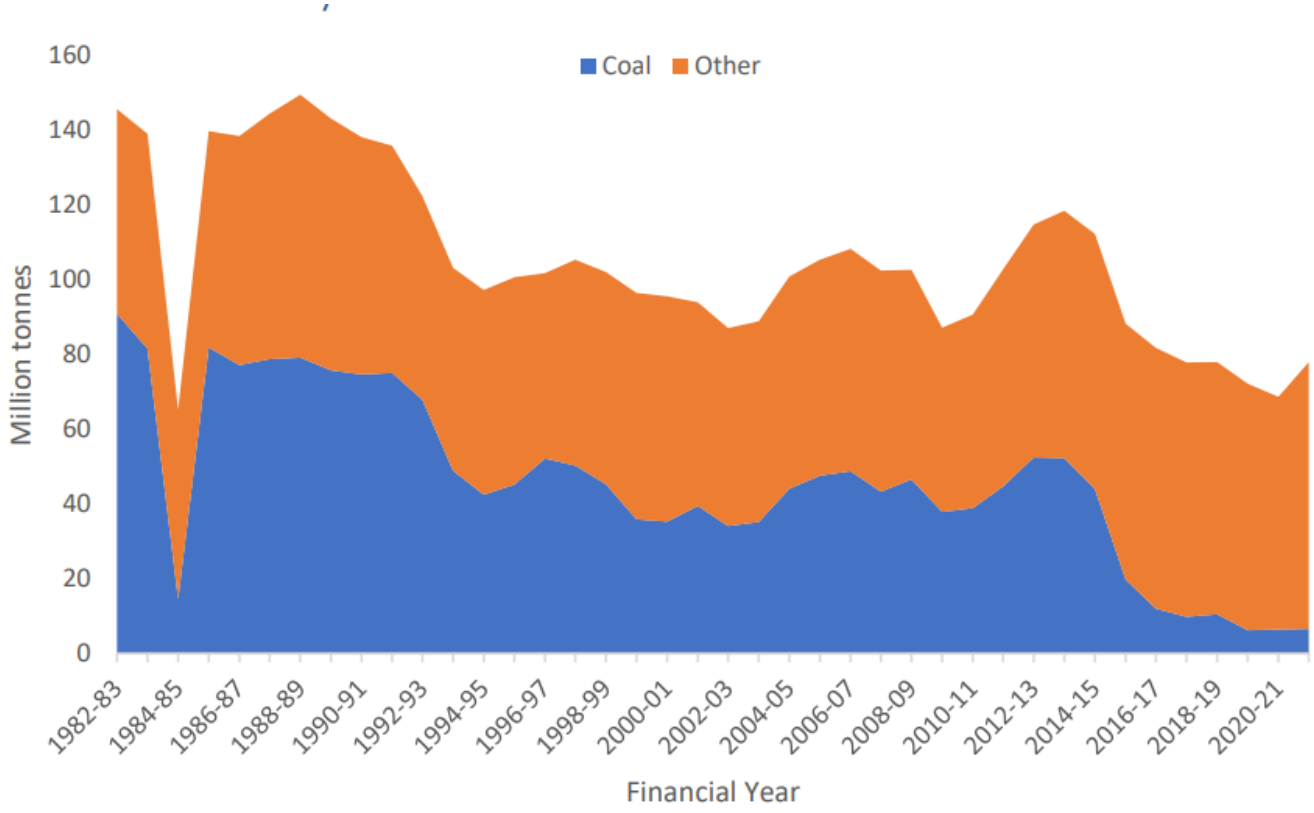

Figure 3 Goods Lifted By Rail

This provides opportunities, illustrating that there is already spare capacity on the network as it is now, and, subject to balancing demand with passenger needs also provides a market opportunity for other goods and commodities to fill the space.

It must not be forgotten that the first rule of growth is not to shrink, and the immediate focus of the target should include mitigation to prevent further shrinkage.

The current economic climate and changing consumer habits are both risks to growth in rail freight.

Rail freight is predominately more expensive than road freight. The call for evidence has not addressed this directly. Logistics UK would like to know how GBR proposes to support rail freight while still making it competitive with other modes.

Labour market

Addressing labour and skills shortages in the logistics sector is a priority issue. Although there is not currently a shortage of skilled personnel such as train drivers, it would be remiss not to mention the impact a rail freight target may have on skills. There may be need to consideration to whether there is sufficient capacity to train new qualified personnel and if there is need to attract new cohorts of workers directly into these roles.

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