The Agenda for More Freight by Rail

• May 2014

The voice of the industry for 125 years

FREIGHT TRANSPORT ASSOCIATION

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Introduction

One of FTA's key objectives is to optimise the performance of all modes of freight transport. In 2010 FTA was asked by the Department for Transport to take on its activities for rail promotion along with wider responsibilities for mode shift. FTA has responded to that challenge. It subsequently launched its Mode Shift Centre to give advice to industry about opportunities for mode shift. In addition, in conjunction with Mike Penning, the former Transport Minister, FTA has worked with the UK's major retailers within FTA membership to give greater visibility to their current use of rail freight. Our *On Track* publication provided a series of illuminating case studies showing the extent to which retailers were using rail freight, including the CO_2 savings associated with this. This work has now been taken a step further.

The same retailers have provided FTA with data giving details of their flows over 200 miles, providing the opportunities for load matching and even greater potential to use rail freight. At the same time, the UK's leading retailers have identified 14 key areas where progress is needed if rail freight is to fully realise its potential. We are calling this the 'Agenda for More'. These 14 areas identified for improvement have been broken down into four key themes – costs and competiveness, service availability and flexibility, network access and international services – and have now been endorsed by FTA's British Shippers' Council, which includes a much wider range of shippers from other sectors of the economy who are eager to move more freight by rail if the conditions are right.

In its recent *Delivery Plan*, Network Rail states that it needs to cater for an additional 30 per cent increase in freight by 2019. That's a tall order, and if this is to be achieved Britain's leading retailers and shippers, on whom that growth depends, are calling for major changes and improvements in the delivery and performance of rail freight services in Britain.

FTA is launching *Agenda for More* on 30 April at the 2014 Multimodal Show. The aim is to engage in a wide-ranging inclusive debate with the rail freight industry, rail freight logistics interests, regulators and Government to help take forward and implement *Agenda for More*; the agenda developed by existing and potential customers who state categorically must be delivered if the 30 per cent estimated growth is to be realistically achieved.

If you wish to take part in that debate please contact:

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Foreword

Retailer shippers contributing to the *On Track* report identified a familiar but solvable list of factors that will help continue the growth in domestic inter-modal freight services. These are grouped under four headings.

- Costs and competitiveness
- Service availability and flexibility
- Network access
- International services

Specifically the factors under these are:

Costs and competitiveness

- Continuous improvement to reduce costs and maintain competitiveness
- Improved visibility of costs to assist partnership working
- Continued Government funding and grant support
- Consistent measure of environmental benefits of rail

Service availability and flexibility

- Increased service frequency to match product lead times
- More flexible timetables and service versatility
- The ability to expand train capacity when needed
- Pooling of loads to create viable train loads
- Faster processing of new train paths

Network access

- Seven-day-a-week service to avoid spot road freight costs at weekends
- More rail connected freight terminals
- Temperature controlled containers, particularly for frozen food

International services

- Reduced Channel Tunnel freight train access charges to facilitate more international rail freight to and from UK
- Effective European rail freight market liberalisation to increase service quality, reliability and shipper choice

FTA is working with shippers to develop the above into a list of outputs necessary for increased retailer and shipper use of rail freight. This forms the agenda for FTA's policy work on rail going forwards; to start a conversation with all parties to the rail freight supply chain to manage the transition and transformation necessary to realise this potential traffic and deliver the growth rates and cost reductions embedded in the Network Rail *Long Term Planning Process: Freight Market Study*.

What shippers need to use rail freight more – the operational requirements and challenges

The following is a list of operational requirements that shippers have for use of rail freight, and also the challenges that exist in making rail freight work, particularly for retail traffic. Each is then followed by a statement of the objectives required and by which parties necessary to address these.

Costs and competitiveness

- ***Continuous improvement to reduce costs and maintain competitiveness***
  - This is the number one issue for shippers in expanding or retaining rail freight volumes
  - This is the biggest issue for retailers as regards use of rail freight: rail is less than 10 per cent of retailer freight volume and significant ambient double-deck trailer investment by retailers has meant that while it is less fuel efficient it doubles volumes: and road cost per pallet to the retailer has come down with double-deckers in the average 12 years since many existing Anglo-Scottish rail flows were first set up, at the time with a rail cost advantage over road. Rail cannot currently compete on these costs, as the cost per pallet of ambient freight by road has come down in real terms. Rail containers cannot deliver this volume

On track! is available at:

www.modeshiftcentre.org.uk/export/sites/modeshiftcentre/.content/public_downloads/On_Track.pdf

Rail freight challenges

- When rail works, it works well and is generally reliable. However, rail only accounts for 10 per cent of retail traffic and is less economically viable on journeys under 150 miles (which distance is 85-90 per cent of retail traffic)
- Rail is attractive for its environmental benefits: but it must be cost neutral compared with road freight
- For rail to gain traffic and remain competitive on existing, and especially retail, traffic the main issues that need to be addressed by Government, regulators, rail freight operators, logistics service providers, and infrastructure providers and operators are
  - cost
  - reliability
  - **seven day service**

(26 as opposed to 30 pallets by road) and cost within the current loading gauge envelope
- There is a need to redefine rail performance metrics, as retailers need different on-time delivery metrics by product range: such metrics need to meet retailer rather than Freight Operating Companies (FOC)/Logistics Service Providers (LSP) metrics

Objectives: *FOCs, Network Rail , ORR, DfT and Scottish Government (via their HLOSs and SoFAs processes) need to work to bring rail freight costs down to compete with road freight. Investment is needed in a high-cube loading gauge route to the north round London to connect with mainland Europe.*

- ***Improved visibility of costs to assist partnership working***
  - While retailers are working in partnership with LSPs, there is a need for co-operation between LSPs to bring costs down
  - Road in-house costs for retailers can be benchmarked against third party logistics providers: this does not happen on rail and there is a need for rail cost transparency
  - Retailers are looking to manage haulier loads with suppliers to maximise road back load for total end to end cost minimisation: rail freight has to fit as a component of this, fitting supply chain vertical integration. Retail rail freight is 70 per cent loaded north but only 30 per cent south so is challenging

Objectives: *LSPs need to engage in more partnership working to help retailers manage total supply chain cost and see where rail can fit in. Shippers need to ask for this information when going to tender.*

- ***Continued Government funding and grant support***
  - This is an issue for 3PLs and FOCs: grant support to help a service start is important but it must be viable in its own right after that
  - Scottish Government has funded capital expenditure on skeletal trailers and containers; the Department for Transport (DfT) (England) would not historically. This is important as rail needs three trailers per movement – one in transit, one each for either end road shunt. By contrast road only needs two trailers for the equivalent move
  - Given the real terms reduction in road freight cost per pallet to retailers due to double-deck trailers, removal of grant would take many retail flows to the wrong side of the line of financial viability

Objectives: *Government needs to maintain the mode shift grants regime. There also needs to be a consistent approach between DfT and the devolved administrations.*

- ***Consistent measure of environmental benefits of rail***
  - The value per litre of road freight fuel CO2 is a standard measure. The equivalent is needed for rail freight: this is important in borderline road – rail modal switch business cases if there can be proven environmental benefits that can be publicised
  - There needs to be a simple communicable measure of the environmental benefits of using rail for retail and other freight, eg number of hgvs removed from road

Objectives: *The rail industry needs to develop consistent measures for rail freight carbon generation consistent with road freight and also develop a standard environmental benefit measure.*

Service availability and flexibility

- ***Increased service frequency to match product lead times***
  - While Midlands – Scotland services are not day one (load) for day one (deliver), a seven day service availability is required. Rail is used on day one load for day three deliver services, but there is pressure for more evening day two deliveries on slow moving lines. However, rail is viewed as not suitable for chilled goods
  - Orders received at 04:00 day one that need to be in shops 08:00 day two are currently just too challenging to allow use of rail
  - Rail needs to emulate road in its service flexibility and journey times

  Objectives: *LSPs, FOCs and Network Rail need to work together to cut freight journey times as this affects the total cost of asset ownership.*

- ***More flexible timetables and service versatility***
  - This is something for rail FOCs and LSPs to deliver: rail is generally used for overnight trunking, with goods picked then trunked overnight to the out-picking site
  - Afternoon loading for 14:00 day two delivery currently has to be by road as it is too early in the day for viable train paths
  - Network Rail does not contact retailers direct
  - Service guarantees are required irrespective of shipper volume

  Objectives: *LSPs, FOCs and Network Rail need to work together to cut freight journey times, and offer more flexible timetabling. Network Rail needs to develop more direct contact with retailers and shippers to better understand their needs for rail freight and how these can be picked up in network improvement plans.*

- ***The ability to expand train capacity when needed***
  - This is important for smaller volumes, rather than where a retailer takes the majority of a train's capacity.

  Objectives: *Charges need to be reflective of risk taken by FOCs and LSPs*

- ***Pooling of loads to create viable train loads***
  - Retailer shippers are happy to provide load matching data but the logistics requirements of the different retailers are different
  - Even the larger retailers have only a few core routes where they can fill trains. Some retail trains are already shared
  - With most average stem mileage less than 50 miles from depot to shop, this would have to fit with rail's capabilities. Rail freight works best with retailers who operate fast/medium/slow lines with much Distribution Centre (DC) to store direct rather than National DC to DCs to stores. Also road freight offers logistics triangulation opportunities now via double-deck trailers
  - For other than full train loads (that work for FOCs and LSPs) that may operate over two core routes, there could be eight or nine more routes, but that would depend on LSPs/FOCs creating a better spot market for retail traffic on shared trains with visibility of train capacity to share between retailers: the rail industry is not proactive enough on this, but LSPs can do this on road
  - Visibility of spare spaces on trains is required: this is especially important for smaller retailers who could never fill a whole train on their own
  - FOCs and LSPs need to create freight solutions for retail customers
  - There is a need for one agent to take control of different supplier trunking on one train (as per road vehicles) for delivery to retailers
  - Suppliers want to use retailer trains to deliver their goods to customers, therefore they want retailers to share capacity on trains
  - Retail rail freight will be threatened by its ability to meet the challenge of the developing move to smaller shops and home deliveries, with more volume overall moving but in smaller individual quantities and more often

  Objectives: *LSPs and FOCs need to create freight solutions for retail customers and their suppliers.*

- ***Faster processing of new train paths***
  - The process takes too long: it can be up to three years to get a new train path: this is uncompetitive with road freight and business need
  - There needs to be ability to flex delivery times especially on AM arrivals in Scotland, currently these are too late for retail use
  - Access to rail freight terminals can be an issue
  - Retailers would consider switch of volumes to rail on trunk routes if this is cost neutral and as efficient as road freight
  - West of Bristol is a particular challenge: road shunt costs make retail rail freight unviable; rail cannot compete on cost with double-deck trailers
  - Development of high speed passenger services on main lines (WCML/ECML) threaten freight pathing – a particular concern is with HS2 connecting services to/from Scotland as HS2 is only being built London to Midlands/North of England, not Scotland so will threaten retail rail freight pathing

  Objectives: *Network Rail and the Office of Rail Regulation (ORR) need to speed up the train path allocation and transfer process to make rail more competitive with road and responsive to business needs of customers. DfT needs to ensure the needs of freight are protected in the implementation of HS2.*

Network access

- ***Seven-day-a-week service to avoid spot road freight costs at weekends***
  - Weekends are a real issue for retail traffic by rail: a six day service is acceptable if network maintenance is done during the week

– However, seven day services are required for seasonal traffics

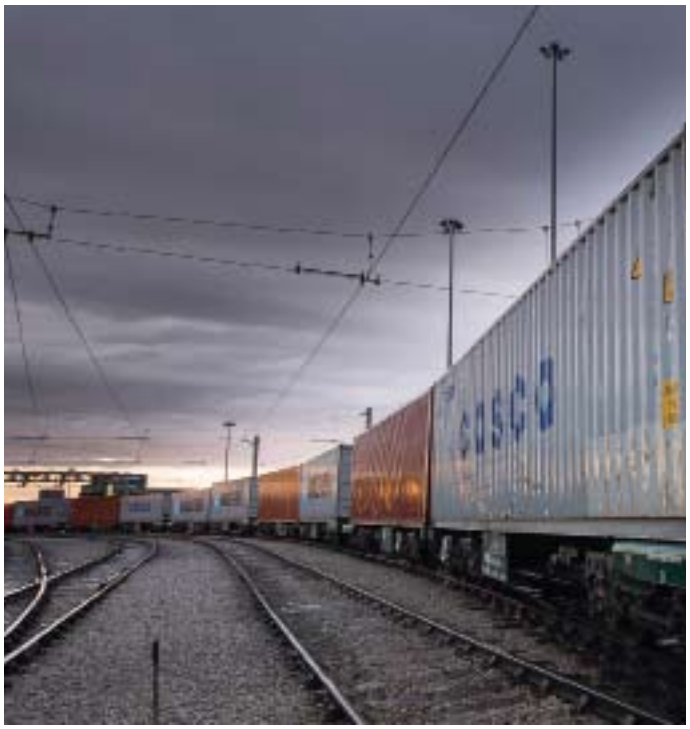
Objectives: *Network Rail needs to work to ensure routine weekend network availability for retail and other rail freight.*

- ***More rail connected freight terminals***
  - Planning process is too slow for terminal development
  - Most retailer depots are within large conurbations near trunk routes and not far from rail terminals. The ideal distance between retailer depot and rail terminal is between five and 15 miles: 35 miles is too costly to be economically viable
  - West of Bristol is a particular challenge: road shunt costs make rail traffic there unviable; and rail cannot compete on cost with double-deck trailers, as the terminal is too far away (and in the wrong direction) from DCs
  - It is not necessarily always the case that more terminals are required but they need to be in better locations to enable retail traffic (eg Livingstone would be a better location due to proximity to retail DCs instead of Mossend)

Objectives: *Planning authorities and developers need to work to develop terminals in more optimal locations with retailers.*

- ***Temperature controlled containers, particularly for frozen food***
  - Road is currently cheaper for transport of chilled goods. Chilled traffic is 40 per cent of retailer business but viewed as too challenging for rail, particularly traffic from Scotland central belt to Inverness/Aberdeen/Far North
  - Train pathing issues with the Network Rail Working Time Table make perishables traffic difficult by rail: a FOC might have a path but the retailer is asked to commit to 30 containers – that is seldom viable for one retailer
  - Capital expenditure on containers, and who takes the cost risk on them, is a real issue

Objectives: *Network Rail needs to improve train pathing in Working Time Table process and FOCs need to improve train costing options for end customers.*



International services

- ***Reduced Channel Tunnel freight train access charges to facilitate more international rail freight to and from UK***
  - The Channel Tunnel remains underutilised for rail freight. A report by MDS Transmodal commissioned for FTA showed that the level of charges was the main deterrent to increased use
  - Retailers want to use the Channel Tunnel for retail rail freight services from Italy and France to the UK

Objectives: *UK Government and the IGC (Inter Governmental Commission that regulates the Channel Tunnel) need to work to reduce freight train access charges to a level that makes rail freight competitive. Effective EU European rail freight market liberalisation is required to increase service quality, reliability and shipper choice.*

Bulk and other rail freight

While this document focuses upon retail rail freight issues as domestic intermodal traffic is viewed as the market segment with the greatest growth potential, other larger traffic areas have their own challenges.

- Deep sea intermodal: import and export container flows to and from the southern gateway ports of the UK for international trade lanes face many similar challenges. Deep sea intermodal is now the largest rail freight volume market in Britain and the investment in the Strategic Freight Network (England) and Scottish Freight Fund are designed to optimise the network for this as well as other traffics
- Bulk rail freight (coal, biomass, aggregates, steel etc) faces its own challenges and needs from the rail industry if it is to grow more volume on rail. These include heavier axle weight loadings and longer trains. FTA has produced a guide *Managing Rail Freight – Operational Performance for Bulk Shippers* on the issues. Manufacturing and petrochemical (industrial) sectors face similar challenges

To take part further in FTA's policy work in these areas please contact FTA as shown below.

About FTA

Freight Transport Association represents the transport interests of companies moving goods by rail, road, sea and air. Its members consign over 90 per cent of the freight moved by rail and over 70 per cent of sea and air freight. They also operate over 220,000 goods vehicles on road – almost half the UK fleet. The main rail freight operating companies belong to FTA as do the major global logistics service providers operating in the European and UK market.

FTA's Rail Freight Council includes all parties to the rail freight supply chain, including rail freight operating companies, Network Rail, wagon builders, logistics service providers and bulk, intermodal and retail shipper customers.

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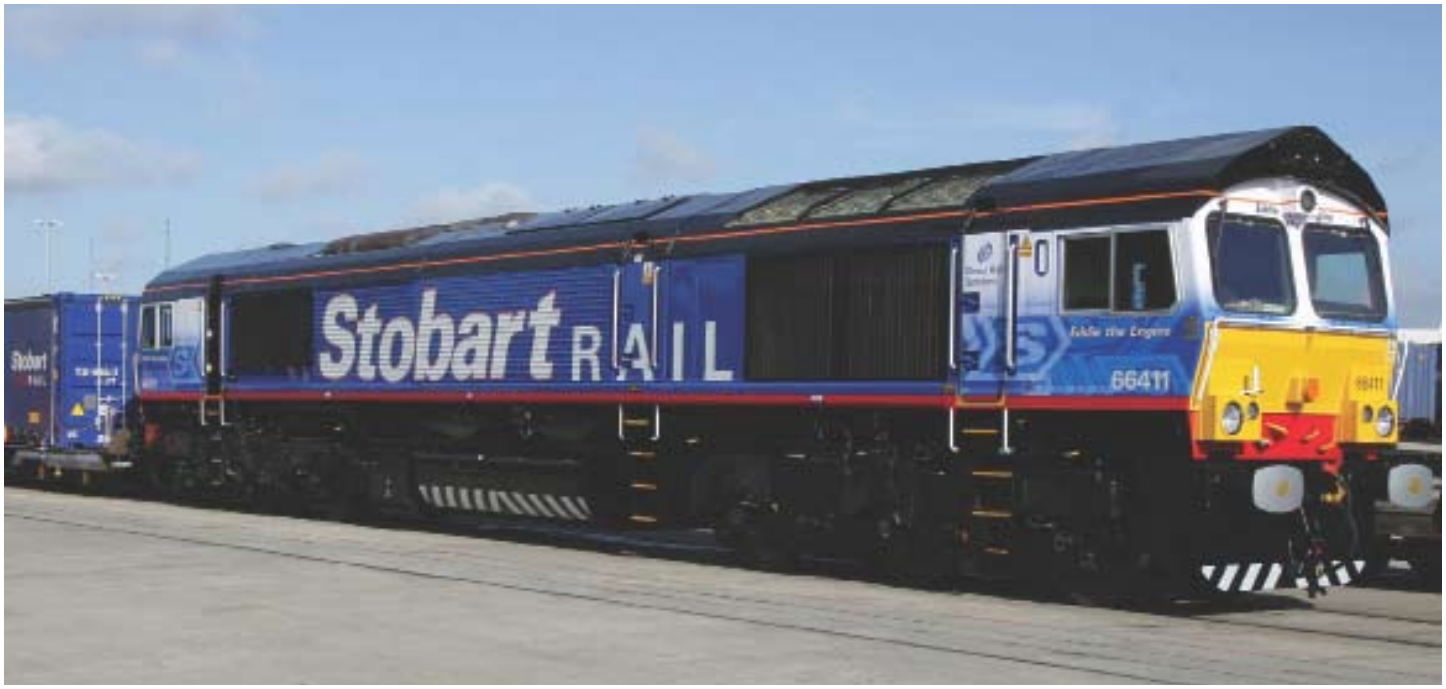

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