



## BRIEFING PAPER

Number SN151, 12 December 2016

# Rail freight

By Louise Butcher

**Contents:**

1. Background
2. UK Government policy
3. Track access charges
4. EU policy



# Contents

<b>Summary</b>	<b>3</b>
<b>1. Background</b>	<b>4</b>
1.1 Rail freight companies	4
1.2 Size of the sector	4
1.3 Benefits to UK economy	5
<b>2. UK Government policy</b>	<b>7</b>
2.1 Privatisation, 1992-97	7
2.2 Labour Government, 1997-2010	8
2.3 Conservative and Coalition Governments, 2010- Freight Network Study and Rail Freight Strategy, 2016	10
Grants and funding streams	11
HS2	13
Northern Powerhouse	13
<b>3. Track access charges</b>	<b>17</b>
<b>4. EU policy</b>	<b>19</b>

## Summary

This paper describes the rail freight policies of successive UK Governments, which have sought to drive modal shift of freight from roads to rail. It also briefly looks at the plans to drive rail freight growth with HS2 and the policy of the EU in this area. It also sets out how track access charges work for freight and the grants and funding streams that are available.

It has been the aim of successive governments to shift freight from more polluting modes such as road and air to more sustainable ones such as rail, inland waterways and short sea shipping. The rail freight industry is largely in the hands of the private sector, however it has to operate on a rail network owned and operated by Network Rail. The way in which its access to that network and the extent and quality of it are a matter for NR, the regulator and the Government.

There has been a renewed interest in rail freight in recent years as the Government has sought to drive economic growth in the regions with better logistics and more robust and sustainable supply chains as part of its Northern Powerhouse agenda and industrial strategy. The Government published a rail strategy paper in September 2016 setting out how it intends to help the industry move forwards; this followed a detailed network study published by Network Rail earlier in 2016.

Information on other rail-related matters can be found on the [Railways Topical Page](#) of the Parliament website.

# 1. Background

## 1.1 Rail freight companies

The five largest Freight Operating Companies (FOCs) in the UK are:

- [DB Cargo UK](#) is the largest FOC in the UK. It was founded in 1995 as North & South Railways. It acquired five of the six freight companies sold at privatisation (see section 2.1, below). It was sold in 1997 to English Welsh and Scottish Railway (EWS) and then to [Deutsche Bahn](#) (DB Schenker) in 2009. In March 2016 it was rebranded DB Cargo UK.
- [Freightliner](#) is the second largest FOC in the UK by revenue and the leading UK intermodal rail freight company. It is a subsidiary of US-based railroad company [Genesee & Wyoming](#), which bought the company from the Arcapita Bank of Bahrain in 2015; at privatisation Freightliner had been purchased by a management buyout.<sup>1</sup>
- [GB Railfreight](#) moves about 15% of Britain's rail freight. It is owned by EQT Partners, a Swedish private equity group, through its subsidiary holding company [Hector Rail](#). The company was not formed from parts of the old BR freight network sold off at privatisation, but was set up in 1999. It has previously been owned by First Group and Eurotunnel.
- [Colas Rail](#) is a subsidiary of the French industrial group [Bouygues](#). It was formerly known as Seco Rail and includes the former AMEC-Spie and Carillion Rail.
- [Direct Rail Services](#) is a wholly-owned subsidiary of the [Nuclear Decommissioning Authority](#), which means it is one of only two publicly-owned train companies in the UK – the other being NI Railways, which runs services in Northern Ireland.

There are a number of smaller rail freight companies that also operate within the United Kingdom. An alphabetical list of companies with freight operating licences can be found on [ORR's website](#).<sup>2</sup>

## 1.2 Size of the sector

The below<sup>3</sup> shows FOC kilometres travelled per year between 2010 and 2016 – after reaching a peak of 42 million km in 2013/14 it shrank back to 35 million km in 2015/16:

---

<sup>1</sup> in 2013 the Office of Rail and Road (ORR) began an investigation into a suspected abuse of a dominant position by Freightliner in the provision of deep sea container rail transport services between ports and key inland destinations in GB; it accepted commitments by the company in December 2015, which will remain in force until March 2019, see: ORR press notice, "[ORR accepts Freightliner commitments to strengthen competition in rail freight sector](#)", 18 December 2015

<sup>2</sup> DfT, [Rail Freight Strategy: Moving Britain Ahead](#), 13 September 2016, Annex B

<sup>3</sup> all data below taken from the [ORR data portal](#) [accessed 14 December 2016]; for a summary of the changes in the sector since privatisation, see also: "[Coming round the bend: How Britain developed a truly competitive rail freight market](#)", *The Economist*, 22 June 2013

Freight operating company	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Colas Freight	0.35	0.49	0.53	0.61	0.66	0.76
DB Cargo UK	18.52	18.73	17.57	18.34	18.94	15.99
Devon and Cornwall Railways	:	0.02	0.16	0.17	0.08	0.12
Direct Rail Services	2.15	2.39	2.57	2.87	2.42	1.96
Freightliner	8.62	9.07	8.83	8.60	8.52	8.61
Freightliner Heavy Haul	6.15	6.56	6.70	6.68	5.44	2.53
GB Railfreight	2.97	3.53	4.00	4.73	4.93	4.91
<b>Grand Total for all operators</b>	<b>38.76</b>	<b>40.79</b>	<b>40.36</b>	<b>42.00</b>	<b>41.00</b>	<b>34.88</b>

**Source(s):**

Network Rail

The amount of freight moved on the rail network (in billion net tonne kilometres) increased from 16.6 bn km in 1982/83 to 17.76 bn km in 2015/16.

Between 1998 and 2014 ORR data shows that the percentage of goods lifted by rail increased from 5.4% to 6.4% and the percentage of freight moved by rail increased from 7.7% to 12%.

Between 2004 and 2015 the Office and Rail and Road (ORR) data shows that rail freight movements avoided the equivalent of almost 100 million lorry journeys.

The performance of the rail freight sector is relatively good: ORR data shows that the percentage of freight trains arriving on time (i.e. within 15 minutes of the scheduled arrival time) increased from a moving annual average of 93.3% in Q4 of 2013/14 to 94.1% in Q2 of 2016/17. However, on the old measure (arriving within 10 minutes of the scheduled arrival time), performance is much lower: increasing from 65.4% in 2004/05 to 79.3% in 2014/15.

### 1.3 Benefits to UK economy

The Government has said that the UK freight and logistics sector is 'critically important' to the competitiveness and growth of the economy as a whole.<sup>4</sup> The Freight Transport Association estimates that the logistics sector employs about 1.62 million people, with a further 2.35 million in related occupations – about 7.6 per cent of the UK workforce.<sup>5</sup>

The Rail Freight Group (RFG) has said that the rail freight industry directly contributes £870 million to the UK economy every year, but supports an economic output of £5.9 billion; six times its direct turnover. Further, unlike road transport, rail freight covers the cost of wear and tear on the infrastructure, by paying to use it.<sup>6</sup>

A March 2015 report for the Rail Delivery Group (RDG) estimated that freight delivers productivity gains for British businesses and congestion and environmental benefits totalling over £1.6 billion annually. Further:

- Each year the five major rail freight operators transport goods worth over £30 billion, including supermarket

<sup>4</sup> op cit., [Rail Freight Strategy: Moving Britain Ahead](#), p12

<sup>5</sup> FTA, [Logistics Report 2016](#), 26 April 2016, p49

<sup>6</sup> RFG, [Facts and Statistics](#) [accessed 14 December 2016]

## 6 Rail freight

groceries, luxury cars for export and half of the fuel used to generate electricity;

- There has been a 30% rise in the movement of containers by rail since 2006, fuelled by the growing consumer goods market – one in four containers entering the country is now moved by rail;
- Train numbers have fallen by 30% since 2003, yet freight tonnes lifted has increased by 30%, resulting in an increase in tonnes per train of over 80%;
- Each train removes up to 76 lorries from Britain's roads, resulting in 1.6 billion fewer HGV kms a year;
- Each tonne transferred by rail rather than road cuts carbon emissions by up to 76%.<sup>7</sup>

---

<sup>7</sup> RDG press notice, "[Benefits of rail freight to GB economy continue to grow](#)", 16 March 2015; see also: KPMG for RDG, [Freight Britain](#), March 2015

## 2. UK Government policy

### 2.1 Privatisation, 1992-97

The privatisation of the railways under the [Railways Act 1993](#) abolished British Rail's (BR) statutory monopoly of rail freight services.

At the time of privatisation rail freight had been in decline since the end of the First World War, with road overtaking rail in the mid-1950s. BR's freight business was split into two operating units, Trainload Freight (TLF) and Railfreight Distribution (RfD). The vast majority of rail freight business - over 80% of total revenue - was concentrated in the 'trainload' markets (i.e. services dedicated to individual customers and typically operated under contract). Customers sent full trainloads of commodities, principally coal, metals, petroleum and aggregates, from private siding to private siding in a single train movement. RfD specialised in container traffic and distribution of finished products.

The Conservative Government wanted to see the long term decline in rail's share of the freight market checked and reversed and believed the keys were privatisation and liberalisation of rail freight services, freeing the way for innovative marketing and pricing strategies. The 1992 rail privatisation White Paper said:

[Rail freight] faces the twin challenges of coping with significant restructuring in its traditional core businesses such as coal and steel, and exploiting the new opportunities offered by the Channel Tunnel and the development of intermodal technologies allowing the transfer of freight between road and rail [...] Rail freight will be able to meet these challenges only if it is efficient and responsive to the demands of its customers. This is best achieved through introducing the management and financial freedom of private ownership. The Government's policy is therefore to establish a competitive and privately owned rail freight industry in the course of this Parliament.<sup>8</sup>

The Government consequently set out its detailed proposals for the privatisation of rail freight in a 1993 policy paper *Rail Freight Privatisation*. The key proposals were:

- to split BR's existing trainload businesses into three geographical companies for transfer to private ownership;
- to establish the Channel Tunnel freight business on a sound commercial footing with the aim of privatisation as soon as possible;
- to invite proposals from the private sector on the future of the Freightliner domestic and deep-sea container business; and
- to privatise Rail Express Systems, which carried Royal Mail letter traffic, as soon as was practicable.<sup>9</sup>

The Government proposed that BR restructure the **trainload operations** into three companies of comparable size based on

---

<sup>8</sup> DoT, *New opportunities for the railways: the privatisation of British Rail*, Cm 2012, July 1992, p11

<sup>9</sup> DoT, *Rail Freight Privatisation: The Government's Proposals*, 20 May 1993

geographical regions. However when it came to sell the companies, bidders preferred to buy all three as an entity (se DB Cargo UK, above).

**RfD** was the smaller of BR's two freight operating units, and had a more complex structure than the trainload businesses. It did not lend itself to the relatively straightforward approach to privatisation outlined for the domestic trainload business. The domestic trainload part of RfD (about 25% of RfD's total turnover) was merged with the trainload freight companies and sold to EWS. The remainder of RfD was split up into two parts: Freightliner and Channel Tunnel.

In 1997 the Government set out the sale price for three freight businesses, reflecting the value to the purchaser of the assets and liabilities of the company. The gross proceeds were as follows:

- Rail Express Systems Ltd.: £24.2 million;
- Loadhaul Ltd., Mainline Freight Ltd. and Transrail Freight Ltd.: £225.15 million; and
- Freightliner (1995) Ltd.: £5.39 million.

None of those sales involved subsidy, however Freightliner was receiving a track access grant of up to £75 million over five years. The sale of Railfreight Distribution had yet to be completed.<sup>10</sup>

## 2.2 Labour Government, 1997-2010

The Labour Government published its first White Paper on transport in July 1998. The Transport Minister had previously stated that encouraging more freight by rail would be a key part of the paper.<sup>11</sup> In the event, it said that the FOCs should aim to significantly increase their traffic over the following decade and that the Government would develop targets for the freight railway in order to secure the maximum overall benefit. It also indicated its intention to set up a Strategic Rail Authority (SRA) that would:

... ensure that freight is given proper consideration in the operation and planning of the network; and to the obstacles to growth ... which include loading gauge, track capacity constraints, and access to additional land.<sup>12</sup>

Further detail was given in the White Paper's daughter document, *Sustainable distribution*, published in March 1999.<sup>13</sup> The 10 year transport plan, published in July 2000, set a target for an increase in rail freight's share of the market to ten per cent by 2010, representing an increase of 80 per cent on the amount of freight carried by rail in 2000.<sup>14</sup>

The SRA, envisaged in the White Paper, was established by section 205 of the [Transport Act 2000](#).<sup>15</sup> In May 2001 the SRA published its freight

<sup>10</sup> [HC Deb 20 March 1997, c765W](#)

<sup>11</sup> [HC Deb 6 April 1998, c10W](#)

<sup>12</sup> DETR, [A new deal for transport](#), Cm 3950, July 1998, p44

<sup>13</sup> DETR, [Sustainable distribution](#), March 1999

<sup>14</sup> DETR, [Transport 2010: the 10 year plan](#), July 2000, para 6.16

<sup>15</sup> the brief history of the SRA from inception to abolition can be found in HC Library briefing paper [SN1344](#)



strategy which included plans for route upgrades from the deep sea container ports of Felixstowe and Southampton to the West Midlands, the North West and Scotland; on routes around London; and on the East Coast Main Line.<sup>16</sup> In May 2003 the SRA published a progress report on what had been achieved in the first eighteen months of the 10 year plan in relation to freight.<sup>17</sup> Under the [Railways Act 2005](#) the SRA was wound up and its rail freight responsibilities were distributed between the Department for Transport and Network Rail.

In its 2004 rail White Paper the Government indicated that there should be reform of the way in which FOCs paid access charges; improving their contribution to the substantial core costs of the network; and reforming the reserved systems of slots in the timetable, which they used only when they needed to do so, resulting in inefficiencies.<sup>18</sup> Consequently, the regulator (the Office of Rail and Road, or ORR) introduced revised contractual terms for FOCs, requiring them to relinquish access rights which were no longer required and to move slots where this would improve the efficiency of the network.

By 2005 the Government had to acknowledge that the goal it had set itself in 2000 (to increase the amount of freight carried by rail by 80 per cent by 2010) had not been achieved, though the level of freight moved by rail since 1995 had increased by 55 per cent (measured in tonnes per km). Rail's market share had increased over the same period, from 8.5 per cent to 11.5 per cent.<sup>19</sup> During the same period the Government indicated that, following the closure of the SRA, it would not assume the SRA's role in developing freight interchanges.<sup>20</sup>

In July 2007 the government published its final rail White Paper. On freight, it expressed confidence that the sector would continue to grow over the following ten years. It welcomed the long-term charging regime established by the ORR and supported the long term stability of freight access contracts. It also pointed to Network Rail's [Freight Route Utilisation Strategy](#), published in March 2007, and set it in the context of developing a Strategic Freight Network (SFN).<sup>21</sup> The SFN would both complement, and be integrated with, the existing rail network and would provide an 'enhanced core trunk network' capable of accommodating more and longer freight trains, with a selective ability to handle wagons with higher axle loads and greater loading gauge. It would be able to operate seven days a week, year-round and would allow the network to accommodate disruption more easily. It might, however, require some infrastructure enhancements, particularly in terms of gauge clearance.<sup>22</sup> Network Rail would provide £200 million in

---

<sup>16</sup> SRA, [Freight Strategy](#), May 2001

<sup>17</sup> SRA, [Freight: Progress Report 1](#), May 2003, p3

<sup>18</sup> DfT, [The Future of Rail](#), Cm 6233, July 2004, section 4.4

<sup>19</sup> [HC Deb 19 July 2005, cc71-74WS](#)

<sup>20</sup> the policy document itself is available at: SRA, [Strategic Rail Freight Interchange Policy](#), March 2004 ; for the Government's policy see: DfT, [Status of the SRA strategic rail freight interchange policy](#), 14 October 2005

<sup>21</sup> DfT, [Delivering a Sustainable Railway](#), Cm 7176, 24 July 2007, p81

<sup>22</sup> *ibid.*, paras 9.29-9.35

funding for the SFN by 2014 by adding the cost to their Regulatory Asset Base (RAB) and recovering it from users over time.<sup>23</sup>

In October 2007 the Government published its response to the [Eddington Transport Study](#) and the [Stern Report on the Economics of Climate Change](#). The command paper, *Towards A Sustainable Transport System* (TaSTS), set out plans to improve transport networks in order to increase efficiency and promote economic growth while reducing carbon emissions. It reiterated the announcements made earlier in the year about investment in the SFN.<sup>24</sup> This was followed in November 2008 by a statement on how the plans set out in TaSTS would be delivered<sup>25</sup> and in December 2008 by a separate report on the delivery of projects in the logistics and freight sector. This summarised the areas supported by the Government, such as the £150 million available via the Productivity strand of the Transport Innovation Fund (TIF)<sup>26</sup> and £200 million available for the SFN. It also highlighted two projects benefiting rail freight, funded from the Department's High Level Output Specification (HLOS) for the railway network.<sup>27</sup>

## 2.3 Conservative and Coalition Governments, 2010-

There was no mention of rail freight in either the Conservative<sup>28</sup> or Liberal Democrat manifestos going into the 2010 General Election, or in the Coalition Agreement that followed it.<sup>29</sup> The first substantial indication of the new Government's policy came in its rail reform command paper, published in March 2012. This stated that the Government recognised the 'valuable wider benefits' of rail freight and the need to give it certainty over its future. It therefore announced that, to support rail freight, it would:

- consider further investment in the Strategic Freight Network (SFN);
- provide support through the mode shift revenue support scheme to shift freight from road to rail; and
- provide a clear planning policy framework to support further private sector investment in rail freight terminals and rail-connected distribution parks, including Strategic Rail Freight Interchanges (SRFIs).<sup>30</sup>

Further, Network Rail would work with the industry to safeguard strategic freight capacity and to facilitate strategic investment in SRFIs

<sup>23</sup> *ibid.*, para 9.36

<sup>24</sup> DfT, [Towards a Sustainable Transport System](#), Cm 7226, October 2007, para 3.35

<sup>25</sup> DfT, [Delivering a Sustainable Transport System: Main Report](#), November 2008

<sup>26</sup> this was a short-lived scheme, announced in 2004 and abolished in 2010 – no significant grants were ever made, for further information see HC Library briefing paper [SN3711](#)

<sup>27</sup> DfT, [Delivering a Sustainable Transport System: the Logistics Perspective](#), December 2008, p55

<sup>28</sup> the Conservative Party's rail policy paper, published in February 2009, recognised the importance of increasing rail freight use, see: Conservative Party, [Conservative rail review: getting the best for passengers](#), February 2009, p17

<sup>29</sup> HMG, [The Coalition: Our Programme for Government](#), May 2010

<sup>30</sup> DfT, [Reforming our railways: Putting the customer first](#), Cm 8313, 8 March 2012, para 4.46

and appoint an internal Freight Director. The ORR would give early assurance over the level of access charges, by setting a cap by June 2012.<sup>31</sup> In exchange, the Government expected FOCs to continue to pursue cost savings; work with Network Rail to review which parts of the network they no longer needed to access, and establish the extent to which maintenance and renewals could be differentiated.<sup>32</sup>

## Freight Network Study and Rail Freight Strategy, 2016

In August 2016 Network Rail published its *Freight Network Study* draft for consultation.<sup>33</sup> This was developed by Network Rail in collaboration with the FOCs, the DfT and governments in the nations of the UK, the Rail Freight Group, the Rail Delivery Group, and the ORR. It set out a number of constraints to delivering forecast growth over the next 30 years and set out a range of choices to address these constraints and increase the capacity and capability of the infrastructure to enable it to support the growth of rail freight. The study identified the following key freight corridors and infrastructure constraints:<sup>34</sup>

Strategic corridor	Locations of key capacity constraints
West Coast Main Line	North of Preston to Scotland Milton Keynes, Bletchley and East West Rail interaction
East Midlands and Yorkshire	South Yorkshire Joint Line
Felixstowe to the West Midlands and the North via London or Peterborough	'Cross Country' via Ely and Leicester
Southampton to the West Midlands and the West Coast Main Line	Didcot and Oxford areas Basingstoke area
Channel Tunnel	Channel Tunnel diversionary routes
Cross London flows including Essex Thameside	Looping availability on the North London and Gospel Oak to Barking Lines
South West and Wales to the Midlands	Water Orton Area and Cross Birmingham
Northern Ports and Transpennine	Transpennine flows via Diggle, Calder Valley and Hope Valley routes Access to Ports, including Liverpool and Teesport
Midland Main Line	Bedford, Leicester area and Sheffield
Great Western Main Line	Didcot area
Anglo-Scottish and Northern regional traffic	East Coast Main Line (north of Newcastle upon Tyne) West Coast Main Line North of Crewe

The Scottish Government has published its own rail freight strategy setting out priorities for Scotland. See: [Delivering The Goods – Scotland's Rail Freight Strategy](#), March 2016.

This was followed, in September 2016, by the Conservative Government's *Rail Freight Strategy*. This set out a "vision for how rail freight can continue to grow, and how the broader logistics sector and

<sup>31</sup> *ibid.*, para 4.46

<sup>32</sup> *ibid.*, para 4.47

<sup>33</sup> this followed a 2013 market study, see: NR, [Freight Market Study](#), October 2013

<sup>34</sup> NR, [Freight Network Study](#), August 2016, Table 1, p5

## 12 Rail freight

rail industry can collaborate and innovate to help relieve pressure on the road network".<sup>35</sup> It looks at challenges facing the rail freight industry, including the way in which network capacity is used, the potential for innovation, the skills challenge and public perceptions of rail freight, and identifies ways in which government and the industry can work together to address them.

The strategy set out 26 actions and next steps, distributed across government, various agencies and industry. DfT itself specifically committed to the following:

- support industry to identify new market opportunities through **provision of information**;
- support innovation in the rail industry more widely through piloting an **innovation fund for franchises** (TPE and Northern franchisees begin to access the Innovation Fund in April 2017);
- support **Data 4 Freight**, a collaborative project between Transport Catapult and DfT which aims to use of data science techniques and closer working with multi-modal freight companies to develop a better understanding of UK freight movements (consultation due in March 2017);
- ensure that rail freight is considered as part of work on options for wider deployment of **biofuels** to decarbonise the freight sector as part of the Freight Carbon Review (due by the end of 2016);
- work closely with Network Rail and the industry to understand priorities for rail freight as part of the **CP6 planning process** (the five-yearly infrastructure investment plan for 2019-24);
- work closely with Network Rail and the industry to encourage **third party investor confidence** in the sector;
- work with Network Rail to support the development of a '**Virtual Freight Route**' and ensure it supports and enables rail freight to achieve its potential
- consider how the current and future requirements of rail freight could be more **systematically considered in the passenger franchising process**;
- work with Network Rail to consider the potential for a network of '**nodal yards**' (freight hubs that act as freight traffic staging and regulation points);
- work with Network Rail to explore the scope for introducing a more holistic approach to **timetable design** (due by 2020);
- support ORR's work to develop appropriate **track access charges** for freight from CP6, including by understanding the overall impacts on the rail freight industry of any changes (due in 2018);
- coordinate the work of the Freight Investability and Sustainability Group (FISG) to develop thinking on the potential for wider

---

<sup>35</sup> [HC Deb 13 September 2016, c21WS](#)

changes to **funding** alongside more cost-reflective track access charges for rail freight; and

- work to increase rail freight **knowledge and understanding within DfT**, including incorporating rail freight training into induction events and raising awareness of the Rail Freight Strategy.<sup>36</sup>

## Grants and funding streams

The DfT operates two schemes intended to promote the environmental and social benefits of using rail or water transport instead of road.

These are:

**Mode Shift Revenue Support (MSRS) scheme:** assists companies with the operating costs associated with running rail and inland waterway freight transport instead of road (where rail/ inland waterways are more expensive than road).

**Waterborne Freight Grant scheme (WFG):** assists companies with the operating costs, for up to three years, associated with running coastal and short sea shipping freight transport instead of road (where short sea/ coastal shipping is more expensive than road).<sup>37</sup>

Funding allocated through the MSRS for financial year 2016-17 will amount to close to £500,000. It is expected to remove up to 23,562 lorry journeys from GB roads between October 2016 and March 2017 and achieve environmental benefits in excess of 4.06:1.<sup>38</sup>

MSRS replaced the Rail Environmental Benefits Procurement Scheme (REPS).<sup>39</sup>

## HS2

The Government is seeking to increase rail freight capacity through the construction of the new High Speed 2 (HS2) line from London to the North of England, via Birmingham. One of the benefits claimed for the scheme is that it will move passenger traffic off the busy West Coast Main Line (WCML), providing more capacity for freight.

There are differing views as to exactly what sort of impact HS2 will have on the sector. In its March 2016 information paper on the interfaces between Phase 1 of HS2 (from London to the West Midlands) HS2 Ltd. stated that there were four key impacts:

- temporary impacts arising as a consequence of HS2 Phase 1 construction activities;
- changes to the classic rail infrastructure to facilitate the construction or operation of HS2 Phase 1;
- the operation of HS2 classic-compatible services on the existing rail network and the associated released capacity arising from the

Details on the HS2 scheme can be found in two HC Library briefing papers on Phase 1 ([SN316](#)) and Phase 2 ([SN7082](#)).

<sup>36</sup> op cit., *Rail Freight Strategy: Moving Britain Ahead*, section 6

<sup>37</sup> DfT, *Grant funding to support the transportation of freight by rail and water, October 2016*, 7 November 2016

<sup>38</sup> ibid.

<sup>39</sup> REPS, in turn, replaced the Company Neutral Revenue Support (CNRS) and Track Access Grant (TAG) schemes

## 14 Rail freight

operation of HS2 Phase 1 services on their dedicated high speed infrastructure; and

- the potential for rail freight operating on the new high speed infrastructure.<sup>40</sup>

On the operation of HS2 classic-compatible services on the existing rail network, HS2 Ltd. states that it anticipates that up to seven HS2 classic-compatible trains per hour (tph) in each direction would join (and leave) the classic network at Handsacre Junction during Phase 1. This would release 'significant capacity' on the WCML between Euston and Handsacre. While the use of this released capacity is unlikely to be determined until the CP7 planning process (probably 2023), it states that "it is not unreasonable to assume that between 20 and 26 additional rail freight paths per day could be made available on parts of the WCML".<sup>41</sup>

Finally, as regards freight services operating on HS2 the infrastructure itself, HS2 Ltd. states that the line "has not been designed to accommodate traditional slow/heavy rail freight services" and that a single rail freight path would require the removal of five high speed paths, or up to 5,500 seats per rail freight path. It does not preclude the operation of relatively light/high speed rail freight services operating on the line on a commercial basis outside the peak passenger hours. Such freight trains would need to be fully compatible with the infrastructure.<sup>42</sup>

The Rail Freight Group supports HS2. It has said that HS2 could take 500,000 HGV lorry journeys off the M1, M40 and M6 motorways each year leading to environmental benefits worth over £45 million per annum and saving over 65,000 tonnes of carbon dioxide emissions per annum. However, they emphasised the importance of ensuring that freight benefits are fully integrated into the planning for HS2, that a 'fair proportion' of released capacity is safeguarded for freight, and that capacity is available to meet freight's reasonable requirements on the existing network after HS2 services re-join the route.<sup>43</sup>

Some have however expressed concerns. For example, in its report on the HS2 Phase 1 Bill, the Commons HS2 Select Committee said:

Several freight operators perceived a lack of ambition and urgency in endeavours to secure benefits from the project for their industry [...] The long investment lead times that will be needed to exploit released capacity persuaded us of the need for greater engagement.<sup>44</sup>

In its December 2016 report on the Bill the Lords HS2 Select Committee discussed at some length the use of rail freight to move spoil and

---

<sup>40</sup> HS2 Ltd., *High Speed Two information paper: F3 Rail Freight Operations*, version 1.4, 21 March 2016, p3

<sup>41</sup> *ibid.*, p8

<sup>42</sup> *ibid.*, p8

<sup>43</sup> RFG, *RFG Position statement on HS2*, 16 September 2013

<sup>44</sup> Commons HS2 Bill Committee, *Second Special Report of Session 2015–16*, HC 129, 22 February 2016, para 372, p88

materials during the construction of the line. In assessing the evidence it had received the Committee concluded:

We are very strongly of the opinion that as much material as possible should be moved by rail, so as to reduce road traffic congestion and air pollution. However, we are convinced by the evidence that this aim will be significantly more difficult to achieve at Euston, as compared with most of the other projects referred to by Mr Dyer and Lord Berkeley. We are satisfied that HS2 is taking this responsibility seriously, and we are hopeful that significant progress will be made as the time comes for contractors to be appointed and become involved in the detailed planning. In the meantime we see no useful purpose to be served by attempting to set fixed targets. It would be little more than plucking aspirational figures out of the air.<sup>45</sup>

## Northern Powerhouse

The Northern Powerhouse is an initiative developed by the 2010-15 Coalition Government, in partnership with local authorities in the North of England, to address a constellation of issues surrounding economic growth and productivity in that part of the country. One of the key aspects of the Northern Powerhouse agenda is creating better connections between all of the North's economic centres, so that they can function as a single economic unit. In addition, the North no longer has the spare transport capacity to accommodate growth; rail journey times are slow and the road network is becoming increasingly congested. As such, much Northern Powerhouse policy focuses on transport and, in particular, transport between the main metropolitan areas

In terms of freight, in September 2016 Transport for the North (TfN) published its *Northern Freight and Logistics Report*. This stated that the North's freight and logistics sector could make a significant contribution to the overall economy with a forecast potential £35 billion worth of benefits to the Northern Powerhouse by 2060, as well as encouraging more freight on rail. Among the central recommendations of the report are:

- the development of 50 hectares of rail and/or water connected Multimodal Distribution Parks (MDPs) per year, to be located at the edge of urban centres, thus minimising the cost of onward distribution by road; and
- rail network upgrades to allow 20% longer freight trains to operate on a six day week basis so that by 2033, there would be increases in the number of off-peak paths per hour of 2.5 north of York and 7 south of Doncaster (compared with 2.5 and 4.5 respectively at present) 2.5 north of Wigan, 5.5 between Crewe and Wigan and 6 south of Crewe on the (compared with 1.5, 3 and 3.5 respectively at present) and 3 across the Pennines (compared with 2 at present).<sup>46</sup>

TfN stated that instilling sufficient confidence in the private sector to make its own investment in infrastructure and new services is crucial to

Further information on the Northern Powerhouse can be found in HC Library briefing paper [CBP 7676](#).

<sup>45</sup> Lords HS2 Bill Committee, *Special Report of Session 2016-17*, HL Paper 83, 15 December 2016, para 411, p96

<sup>46</sup> TfN, *Northern Freight and Logistics Report*, 7 September 2016, p6

the successful implementation of the recommendations. This would need to be complemented by action in the public sector, specifically:

- providing sufficient rail capacity and ensuring that an adequate loading gauge is in place along relevant routes (particularly Trans-Pennine); and
- ensuring that MDPs can be brought forward in suitable locations through the planning system, with the relevant funding required to achieve rail and water connections.<sup>47</sup>

---

<sup>47</sup> *ibid.*, pp6-7



### 3. Track access charges

Network Rail (NR) owns and manages most of the rail network in Great Britain. Anyone who wishes to operate trains on NR's network must have a track access contract with NR, for which a charge is made. Access to track is regulated under the [Railways Act 1993](#), as amended, and track access contracts have to be approved by the Office of Rail and Road (ORR). The ORR's role in overseeing access contracts provides both protection against unfair contract terms being forced on FOCs and provides protection to third parties who might be affected by the terms of a contract between a FOC and NR.

The ORR has developed [model contracts](#) that contain standard provisions and give those entering into the contract a clear understanding of how their relationship is governed. Each model contract sets out aspects of train operation such as each party's rights and obligations relating to charging and the rights to run services. The ORR's policy on the duration of access contracts is regulated by the *Railways Infrastructure (Access and Management) Regulations 2005* ([SI 2005/3049](#)), as amended.<sup>48</sup>

An important aspect of the ORR's role in track access is to protect operators from being charged unduly high prices by the infrastructure manager (NR), whilst ensuring that the access charges paid by operators are sufficient to enable NR to recover the costs of operating, maintaining and renewing its network. Variable charges are intended to provide incentives for train operators (and their funders and suppliers) to make efficient use of the network and to consider costs implied to NR when appraising choices and design of rolling stock.<sup>49</sup>

The Periodic Review process for Control Period 5 (2014-19) was concluded in early 2014. The ORR published its final determination in October 2013. This estimated that average total freight charges would increase by 21% from the last year of CP4 to the last year of CP5, in real terms and with consistent levels of traffic and electricity prices. This equated to an increase in charges of 4% per year, in real terms, in each year of the period. For commodities not affected by the Freight Specific Charge (FSC), the corresponding increase was 1% a year on average. ORR said that in order to give businesses more time to adjust, the increase to the Variable Usage Charge (VUC) and the FSC would be phased in from April 2016, reaching the full capped level only in 2018-19.<sup>50</sup>

In November 2015 the Rail Delivery Group (RDG) completed a review of access charges and set out how it thought the regime should change

---

<sup>48</sup> these regulations implemented the relevant parts of the First European Railway Package (see below)

<sup>49</sup> full details can be found in: ORR, [Criteria and procedures for the approval of track access contracts](#), December 2011

<sup>50</sup> ORR, [Periodic Review 2013: final determinations](#), 31 October 2013, chapter 16; for full price lists can be found at: ORR/NR, [CP5 price lists and related documentation](#), December 2013

for the following control period.<sup>51</sup> The ORR will set out its thoughts as part of Periodic Review 2018.

---

<sup>51</sup> RDG, [Review of Charges: Summary Report](#), 26 November 2015

## 4. EU policy

The EU has been intimately involved in railway development since 1985 when the White Paper of that year, on completing the internal market, set out the guidelines for the common European transport policy. The aim of the five waves of legislation that followed (an initial Communication and four railway ‘packages’) has been to promote the efficiency and competitiveness of European railways through gradual liberalisation.

Specifically as regards rail freight, the implementation of successive rail packages has opened up the entire trans-European rail freight network and the EU freight transport market across Europe. This includes cabotage, i.e. the right of a freight company from Country X being able to transport goods from Country Y to Country Z.

In recent years the main developments have been around Rail Freight Corridors (RFCs). [Regulation \(EU\) 913/2010](#) concerning a European Rail Network for Competitive Freight (Rail Freight Regulation) entered into force in November 2010. The Regulation requested Member States to establish international market-oriented RFCs to meet three main challenges:

- strengthening co-operation between Infrastructure Managers on key aspects such as allocation of paths, deployment of interoperable systems and infrastructure development;
- finding the right balance between freight and passenger traffic along the RFCs, giving adequate capacity for freight in line with market needs and ensuring that common punctuality targets for freight trains are met; and
- promoting intermodality between rail and other transport modes by integrating terminals into the corridor management process.<sup>52</sup>

In 2012 Network Rail consulted on the UK’s approach to RFCs and concluded that the UK would be a part of the London-Channel Tunnel-Lille RFC but that services beyond London within the UK would not at that stage be a part of the corridor.<sup>53</sup> In December 2015 the Government said that it would work with its RFC North Sea–Mediterranean partners to implement the extension of the British element of RFC to Glasgow, Edinburgh, Felixstowe and Southampton by 2018. These extensions would be based on market studies and would take into consideration existing passenger and freight operations on those routes.<sup>54</sup>

In May 2016 the European Court of Auditors published a report which found that despite the European Commission’s objective of shifting

Information on EU rail policy more generally can be found in HC Library briefing paper [SN184](#).

<sup>52</sup> RailNet Europe, [Rail Freight Corridors \(RFCs\)](#) [accessed 15 December 2016]

<sup>53</sup> NR, [European rail freight corridor consultation - summary and next steps](#), 12 November 2012, pp2-3

<sup>54</sup> [Railways: Freight: Written question - HL4200](#), 16 December 215

freight from road to rail, rail's share of EU freight had actually declined slightly since 2011.<sup>55</sup>

As regards **Brexit**, it is as yet unclear what impact the UK's decision to leave the EU will have on rail freight – for example, any restrictions on cross-border trade would likely have an impact on the sector. The Transport Minister, Andrew Jones, said in November 2016 that the Government “recognise that rail freight is an important” issue and that representatives of the rail freight industry had participated at round-table discussions held with the rail industry by the Secretary of State for Transport, Chris Grayling.<sup>56</sup>

---

<sup>55</sup> ECA press notice, “[EU rail freight: “still not on the right track”](#)”, 24 May 2016

<sup>56</sup> [HC Deb 23 November 2016, c998](#)

### About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publicly available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email [papers@parliament.uk](mailto:papers@parliament.uk). Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email [hcenquiries@parliament.uk](mailto:hcenquiries@parliament.uk).

### Disclaimer

This information is provided to Members of Parliament in support of their parliamentary duties. It is a general briefing only and should not be relied on as a substitute for specific advice. The House of Commons or the author(s) shall not be liable for any errors or omissions, or for any loss or damage of any kind arising from its use, and may remove, vary or amend any information at any time without prior notice.

The House of Commons accepts no responsibility for any references or links to, or the content of, information maintained by third parties. This information is provided subject to the [conditions of the Open Parliament Licence](#).