



Transport Committee

Oral evidence: [Investing in the railway](#), HC 257

Monday 1 December 2014

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Written evidence from witnesses:

- [Freightliner Group](#)
- [Rail Freight Group](#)
- [GB Railfreight](#)

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Members present: Mrs Louise Ellman (Chair); Sarah Champion; Jim Fitzpatrick; Karl McCartney; Graham Stringer.

Questions 386-429

Witnesses: **Maggie Simpson**, Executive Director, Rail Freight Group, **Lindsay Durham**, Head of Rail Strategy, Freightliner Group, and **John Smith**, Managing Director, GB Railfreight, gave evidence.

Q386 **Chair:** Good afternoon, everyone. Welcome to the Transport Select Committee. Could you tell us your name and organisation?

Lindsay Durham: I am Lindsay Durham from Freightliner.

John Smith: I am John Smith from GB Railfreight.

Maggie Simpson: I am Maggie Simpson from the Rail Freight Group.

Q387 **Chair:** Thank you very much. Would you say that there is a coherent Government policy for rail freight?

Lindsay Durham: There is support from the Government for rail freight. That is demonstrated by the investment that the Government have made in infrastructure for rail freight over the last seven or eight years and the money that they have committed in CP5. It is fairly low-key support. The Government recognise—and the previous Government recognised—the benefits that rail freight brings to the country. The benefits that fall outside the railway balance sheet were recently estimated as being £1.5 billion. However, logistics—whether it is road or rail—does not vote; it is not something voters tend to think

about. That is one of the reasons why it is perhaps more low profile. We would like to see some more positive policy around logistics—particularly considering all of logistics, road and rail—and a more formal strategy.

Q388 Chair: You are being quite careful, but you said that support was low key and that you would like to see a more formal strategy. What is missing? Is there a problem on cross-modal change?

Lindsay Durham: Yes. At the moment there is no cross-modal strategy at all, so road and rail are considered quite separately. Of course, our business is competing completely head-on with the road industry. For example, there has been a policy—we understand why—on freezing fuel duty, which is the main charge that road hauliers pay. However, since fuel duty has been frozen, rail freight charges have increased by 17%. Those are RPI increases that we pay every year. In the setting of charges, we would like to see more of a policy that considers road and rail together.

Q389 Chair: Ms Simpson, what is your view on this?

Maggie Simpson: I agree that over the last five to 10 years the Government have consistently invested capital in the rail network in support of rail freight. That has been hugely welcome and is delivering good benefits. More money is promised for the next control period, which is very welcome.

At DFT, there is high-level support in principle, but there is very little commitment or resource within the organisation for rail freight. The people that it has are very good, but they are few and far between. As Lindsay said, that tends to lead to policy decisions that are focused on the passenger railway, in which freight is sometimes seen as an inconvenient side-effect. When you look at the policy decisions that are made in terms of road versus rail with regard to freight—HGVs, rail freight and such like—there is not an awful lot of cohesion in the way in which those are put together. There is no overarching strategy for freight and logistics movement in the UK.

Q390 Chair: Today, there has been an announcement on major investment in roads. Do you feel that there is any connection between those proposals, freight issues and investment in freight?

John Smith: There ought to be, but we are not sure that one exists. An integrated strategy between the two modes is definitely necessary. I echo my two colleagues' view: rail freight is encouraged wholeheartedly, certainly from a political point of view. That is reflected in some of the investment that Network Rail has put into the network, which generates capacity that we can exploit. However, a clearer understanding of how you get modal transfer—of how road and rail policy is integrated in order to encourage transfer off road and on to rail, where it is deemed to be a good idea—is lacking, unfortunately. More intelligence needs to be applied to some of the key economic controls, such as our access

charges, to encourage growth in our market and the transfer that the Government certainly reflect verbally when they talk about encouraging rail freight.

Q391 Karl McCartney: Mr Smith, you have answered my question, which—picking up on what both Lindsay and Maggie have said—was going to be about how much integration is taking place currently. All three of you have said that there is not much integration, but is there any integration of at all? Obviously, an awful lot of freight comes in through the Channel tunnel on rail but immediately transfers to road. What if you had a rail system that could take it further north than London, because most of it is going around London and further north? Is that talked about within the industry by anybody or is the view just that it has not happened yet and it is not going to happen in our lifetime?

John Smith: It is talked about. The underlying economics of why it does not happen need to be appreciated, and adjustments need to be made to those economics in order to encourage it. The Channel tunnel owns GB Railfreight. Recently, we introduced a tariff through the tunnel that encourages the growth of rail freight, to try to maintain freight on the rail, but there are other controlling measures that need to be adjusted. At the ports where we are transferring freight—Felixstowe, Immingham and other locations—both how you encourage freight on to rail and the economics of how that works need to be considered, as well as where the capital investment goes to create infrastructure that can then support the freight travelling on trains. There needs to be a connected policy on how that takes place.

Q392 Karl McCartney: With HS2, will it be possible to take the same type of transporters you stick rollers on through the Channel tunnel up to Birmingham and then on to Manchester or Leeds, or has that not even been thought about?

John Smith: I do not think it is policy for freight to travel on HS2. We would encourage it, but at the moment it is not policy. Effectively, the railway is built to the size that is required to operate services such as you describe, but at the moment that is not the intention.

Q393 Karl McCartney: So at the moment you get as far as Felixstowe or Dover and that is it.

John Smith: From the Channel tunnel, you can get to Barking and that type of area on HS1. You cannot get much further with the larger equipment that comes through there.

Lindsay Durham: With regard to HS2, at the moment, the plans are that there will not be a link between HS1 and HS2, so obviously you will not be able to transit. I believe that HS2 is going to look at that again, but that could be some way away. Technically, it is quite difficult. It is quite challenging anyway to mix very high-speed trains and freight trains on the same line. You can do it only overnight, which gives you a very small window. We would like to concentrate on seeing released capacity from HS2 on the west coast main line, which is the key corridor for freight. Over 95% of the intermodal trains already use

that route at some point. Our emphasis is on trying to make sure that we get more access to that line.

Maggie Simpson: We would certainly like to see High Speed 2 built capable of taking freight trains, not just in terms of its physical size—which, as John said, is required in the standards—but in terms of gradients and access. It would seem to us to be a bit naive to spend £40 billion on transport infrastructure and not to allow it to take freight, but there are some very real constraints in terms of access to it, particularly without a connection to High Speed 1.

As Lindsay said, the real prize is what we get in terms of released capacity on the main network. There are a few challenges ahead for us in making sure that we can secure that. At the moment, there is no really coherent dialogue on how we get it. As you know, we have a petition in against the Bill, not because we do not support the route—we do—but in order to find a mechanism to protect that capacity. We have some way to go on that yet.

Q394 Chair: Some of you have expressed quite strong concerns about the lack of planning for more freight on capacity on the existing line released by the new high-speed line. Ms Simpson, you said that you thought something might be changing on that. Do you feel that High Speed 2 is looking more favourably on that? Is there any real change?

Maggie Simpson: There is no real change. Some early work is beginning to be undertaken, we believe. It is hard to get a lot of access to that work, partly because of where the process is. Our concerns are probably in two parts. One relates to how the capacity that is released will be allocated, particularly in phase 1, south of Birmingham. The other relates to what happens between phases 1 and 2 and after phase 2, north of Birmingham and Crewe respectively. What does it mean for the capacity of the existing network when high-speed trains come off the high-speed line and co-share the existing network with any residual passenger services—of which, I believe, there will be many—and freight? There are probably some very difficult problems facing us in respect of that.

Q395 Chair: Ms Durham, do you want to add to that?

Lindsay Durham: Yes. HS2 will be a once-in-a-generation opportunity to create some more opportunity for freight on the west coast main line. We are worried that there will be quite a lot of pressure from particular towns and cities to make sure that they get the same service that they get now. Care needs to be taken that all of the capacity is not allocated and freight is not pushed off the end. We would like to see a transparent process that measures economic benefits and things like that. At the moment, that work has not really been done. We have petitioned, so we will be appearing in front of the Select Committee unless something changes.

Q396 Chair: Mr Smith, do you share those concerns?

John Smith: Yes, I do. HS2 is a huge opportunity. It should release capacity. Although that is some time ahead, it reflects the problems that we face these days in just making sure that capacity is reserved for freight. Clearly, there is competition with passenger services. On some core routes in the UK, we have seen capacity consumed by increased passenger usage. When HS2 is created, it should free up capacity on the west coast, but demand and the number of people will have increased. We will have the same debate then about our securing the capacity that we think we should have on the west coast.

Q397 Jim Fitzpatrick: Good afternoon. You have just been talking about HS2 and your apprehension about being squeezed there. There has been continuous concern about being squeezed normally, because of the pressure from passenger trains. The briefings that you have supplied indicate that there is room for greater productivity and there are advantages in terms of reducing congestion and environmental damage, but the key question for transporters is competitiveness. What is the baseline comparison between a customer choosing to go by road and one going by rail? Taking out the advantages with regard to the environment and congestion, are you competitive enough? You must be very close or you would not get any business, but does it have to start at the ports to get the volumes to make it economic for you?

Lindsay Durham: Unfortunately, none of our customers will choose to use rail freight just for the environmental benefits. They welcome those benefits, but they always say that you have at least to match—and normally to be better than—road on price and to be as good as road on service. That is a prerequisite. Price is the main factor.

One thing about moving from a port is that containers are loaded on to the train at the port and you do not usually have a lorry leg there. You then have only one lorry leg at the end. Rail can just about compete, but for services to the west midlands, for example, we are still reliant on the mode shift revenue support grant, which has been happening for the last 20 years. That has gone down gradually, but it is a really important factor. It is very hard for us to compete. All of the freight operators have been trying to run longer trains so that we move more goods on every train. Since privatisation, each train has 50% more goods on it, which makes us more efficient and more competitive with road and makes better use of network capacity. That is still a key driver going forward.

John Smith: The dynamics of rail freight are different for different commodities. It needs to be understood that we deal with bulk commodities, such as aggregates, coal and biomass, as well as the container market. Different stories apply to each of the commodities. However, the key underlying premise—certainly of the business that we run—is that we work off a very high fixed cost base. Our fixed costs are normally 60% to 70% of our total cost of operating a train, so it is very difficult to adjust the price. You have to be very efficient.

Normally, efficient trains are about keeping the wheels turning—as there would be an aircraft in the air—and keeping the drivers driving. Those are the two main adjustments that you have. Once you have those, you have to fill your trains. Intermodal is particularly sensitive to your ability to do that because of the fixed cost base. If you get below 70% full, you start to blow your brains out from a cost-effectiveness point of view. We can be

very competitive, but in intermodal, in particular, it is often difficult, because of all sorts of circumstances, to fill your train to 100%.

In the markets where we can do that—where we have single customers, such as the aggregates market—you are still competing quite heavily with road. Normally, distance comes into play then. You are more efficient if you are going more than 100 to 150 miles. Very different things affect elements of the train. Basically, you have to sell the whole train, because of your fixed-cost base, so it is important that you fill it—either completely with stone, aggregate or whatever it might be, or with containers. That is the art.

Maggie Simpson: Customers are looking for a range of things. Price is absolutely critical. The environmental considerations do matter to people but, as Lindsay said, they are not often inclined to pay for them. Service quality matters an increasing amount. They need to understand the relationship that they have with their operator. Road haulage is a very transparent business, so we must make sure that they have those good relationships. The ability to compete on their haulage is increasingly important in the competitive market that we now have in rail freight.

There are challenges. The retail sector, for example, is very price competitive but also wants to run at the weekends, so that it can replenish stores on Monday. That can be difficult. Different customers are looking to exploit different aspects of their business. Automotives need particular handling; biomass, which John knows a lot about, needs different handling from coal. Customers have a lot of exacting requirements, but price is the pretty fundamental one.

Jim Fitzpatrick: That is really helpful. Thank you.

Q398 Graham Stringer: Are the access charges for freight fair?

Lindsay Durham: The challenge for us is more that they are not very certain. They are set for five-year periods. The last period started earlier this year. There was quite a lot of uncertainty before it began as to what the charges were going to be. We were potentially going to have very volatile changes, which makes it very difficult for us, our customers and the other parts of the supply chain to plan our business.

Charges need to be set at levels that enable us to compete with road, but those may not be exactly the same for each commodity. On some commodities, such as intermodal, we are competing directly against road, while in other markets, such as coal, we are competing against one another. There are differences, but uncertainty does not help. The operators and other parts of the supply chain need to invest to be more efficient and to keep up with our road competitors. Rail assets tend to last for about 30 years, compared with a lorry that may last about seven years, but our charges are set for only five years. That makes it quite hard to invest.

We would really welcome a bit more long-term certainty on charges going forward. For example, we are not sure what the charges will be in 2019. We are not necessarily asking for a reduction, but if they could be set earlier it would give us certainty, and then the whole supply chain could invest and customers could be more confident about using rail

freight. We would really welcome an early decision on charges and charges being set over a longer period so that we did not have volatile changes.

Maggie Simpson: It is worth remembering that on the road a road haulier pays a VED charge, which is a fixed amount a year, and fuel duty, which, as we have been told, is frozen. That is the limit of what they pay, essentially. Even the Dartford crossing is toll free as of today, I believe.

On rail, the spreadsheet of track access charges has 4,000 entries for freight. It is a hugely complicated beast. If you think that we are probably 8% of the rail market in terms of train mileage, the amount of effort and energy that goes into calculating and extracting from the operators those 4,000 line elements of charge is quite significant for the scale of business that we are. Because the passenger operators are insulated from any changes, through their franchise agreements, huge amounts of energy and effort go into the calculation and establishment of new mechanisms that simply do not bite on 92% of the business in any way, shape or form.

“Are they fair?” is a question at two levels. First, is the actual level fair? We now have a reasonable settlement for CP5. Secondly, are the mechanism and the approach of charging in totality fair? I would argue that we are probably subject to an overly onerous system of charging.

John Smith: We pay the variable cost of the damage that we do to track through our track access charges. The argument is always about what that cost is. We were very surprised by the regulator’s decision all of a sudden to propose a huge increase in CP5. After five control periods, you would assume that we were getting very close to establishing what the cost of the damage that we do to the track is, so it was very unhelpful suddenly to have a big variation like that. As Maggie said, we spent a long time lobbying against that, consuming time when we could have been selling more capacity on the rail freight infrastructure. As Lindsay has mentioned, having certainty around that going forward is hugely important to us, because it means that we can sell into the future.

Q399 Graham Stringer: You talk about a 20% or 21% increase in access charges. Is that an average for the different kinds of freight or are you starting from a baseline and increasing each one by 20%?

Lindsay Durham: That is the average.

Q400 Graham Stringer: So it is an average.

Lindsay Durham: Yes—an average for the whole commodity mix. Some commodities have not gone up that much and some have gone up a lot more.

Q401 Graham Stringer: For which commodity has there been the highest percentage increase?

Lindsay Durham: The highest one is nearer to 50%. That would be on coal.

Q402 Graham Stringer: That is directly related to damage to the track.

Lindsay Durham: No. On coal, we pay some additional charges. We pay what is called a freight-specific charge, which is effectively a contribution to the fixed costs of the rail network. We also pay for coal spillage and freight-only lines. There are various different charges.

Q403 Graham Stringer: What has been the impact on the rail freight business of moving from power stations burning coal to power stations burning trees? You use three times as much wood as you do coal to produce the same amount of energy. What impact has that had on freight?

John Smith: Coal is hugely important to us as a commodity that is carried by rail freight, so its diminishing is an elephant in the room. It is something we need to address.

Q404 Graham Stringer: Can you be clear on that? I do not want to interrupt, but are you saying that you make less money out of wood?

John Smith: No, we do not. However, because coal is such a large amount of what all the rail freight operators do, the fact that in five or six years' time it will cease to be a commodity that will be carried means that its replacement is hugely important.

Biomass replacing it is helpful for rail freight, because that still requires freight trains to carry it. There are only a few power stations that are converting to biomass. At the moment there are only two power stations—Drax and Ironbridge—that burn biomass. For Ironbridge, we carry biomass from Liverpool docks. For Drax, we carry biomass from Tyne. It looks like the other power stations are now unlikely to convert. It is as profitable and is useful because it replaces coal, so we know that we have a long-term commodity that we can carry, but the level of replacement has been somewhat lower than we had anticipated and is likely to remain so. That still leaves us with the problem that a lot of coal that all of us carry at the moment will cease to be transported.

Q405 Graham Stringer: When we had Network Rail before us—from memory, it may have been about two years ago—there was talk of access charges going up by 100%. You said that you lobbied heavily on this. Can you give the Committee some insight into how you managed to move from that figure down to only 20%?

Maggie Simpson: I think it was by trench warfare.

John Smith: Emotion.

Maggie Simpson: There was a mixture of things. First, one has to challenge every line of data that comes out to see whether you believe it to be accurate, whether there is other research that cuts across it, whether you think that there are things missing and how it lines up with what they said last time. There are elements of the charge, therefore, that you challenge.

There is the inverse of the benefits assessment, in terms of trying to assess what damage that level of increase would do to the different commodity markets. For us as a membership organisation, it is about making sure that the customers on whom that will have a negative impact are properly briefed and can raise their concerns. The last time around, the specific impact on Scottish coal generators and producers was hugely important in that discussion, as was the input from those people who were moving biomass or looking to do so—the ports, the power stations and so on. It was about getting them a voice in the room with the regulator. We involved DECC on biomass, to try to get some sort of coherent thinking between the regulator, DFT and the bit of government that was doing energy policy. We begged, pleaded and wrote letters. Ultimately, sense prevailed and a reasonable outcome was achieved.

John Smith: One reason we failed to see coming what they originally proposed was that the regulator had been very supportive of rail freight. They are required to encourage growth in rail freight on the network. For the previous control periods, that had always been the case. We found ourselves in a very economic debate with them about what we should pay and the market seemed to get ignored. A lot of what Maggie has described concerning how we lobbied was around the fact that we just could not sustain what they were proposing. It was small money on the scale—there was lower-hanging fruit in terms of Network Rail efficiencies and various other things where challenge needed to be put in—and consequently we were listened to eventually. However, it was quite—

Q406 Chair: Are you confident that this approach will bring you success in the future?

Lindsay Durham: Our concern is that we want to avoid the same sort of crisis happening, where there was this proposal to double charges, we all lobbied collectively and eventually our message was heard, because that does not help anyone to make investments or give customers confidence to switch their traffic to rail, which often means investments for them. A lot of other parts of the supply chain, such as ports, also want to make big investments to enable rail freight.

The approach that we are taking now is to try to get an earlier settlement on charges—even if it is a higher-level settlement, not down to the absolute detail—to enable that investment. The key is that the road freight industry does not have to do this. It does not have the pain of a five-year cycle hanging over it because it is paying fuel duty, which is set much more widely, often for reasons other than the logistics industry. What is really important for us is to try to get more stability and a longer-term settlement. That will bring more of a shift to rail and more investment.

Q407 Graham Stringer: I have one last question. You have been very clear: you want early decisions, a less complicated structure and decisions that last longer. Is there anything else that Network Rail could do to bring its charges down?

Maggie Simpson: For me, the efficiency targets in Network Rail that the rail regulator sets are set at a level that means that Network Rail has to reduce its own costs, but it does not look at how we might drive efficiency in the rail freight sector. If we could reduce the net costs of the rail freight sector, arguably we would pay less and there would be more growth. I am no engineer, but it might be rational to spend more money on building higher-quality track that freight does not damage, which would mean that the track costs that we pay would be lower, and therefore there might be a whole-system benefit for everybody in doing that. The current mechanism, which just drives Network Rail to spend less and less, does not do that. For me, the missing piece is how we drive rail freight efficiency across the piece, working with Network Rail, the operators and the end customers to do that.

Q408 Chair: Do the other witnesses want to make any different points?

Lindsay Durham: There are things apart from track access charges. Earlier, John mentioned that we are businesses with a very high fixed cost base. If we could speed up our paths and not stop in loops so much, for example, that would increase our efficiency and help us to run longer trains. Network Rail is already doing that, but we want more of that and to develop it across the network. If we can make our businesses more efficient, we will be more competitive against road.

John Smith: I have a slightly convoluted point. Network Rail is the biggest customer of rail freight in the UK. It buys trains from us to do its renewals, so it needs us to be successful. How we work together to become more efficient is hugely important.

Q409 Sarah Champion: Apologies to the Committee and to witnesses for coming late. If I duplicate a question, please stop me. My first question leads on from Mr Stringer's point and your answers. Do you think that the Government understand rail freight and that their actions are trying to promote and encourage it?

Maggie Simpson: As we indicated at the beginning, there is a lack of a coherent strategy for freight generally, whether that is road, rail or sea freight. There is good support for rail freight in terms of the rhetoric and the capital funding that is going in, but there is not always a full understanding of the commercial imperatives of the market, particularly in organisations that are principally around passenger rail. There is some good intention, but the lack of a joined-up approach between road and rail freight is material.

John Smith: An example of that is the Felixstowe-Nuneaton route, which is probably the best known for investment in Network Rail's infrastructure. That corridor has the fifth largest container port in Europe—the largest in Britain by a long way. The A14 is a parallel issue with that. A common strategy around how you get from Felixstowe to the midlands, where most of the distribution centres are, is hugely important from a Government point of view. While we have seen quite a lot of investment in that route, you

still get the sense that no one knows what it will be when it is finished. It is done on a very piecemeal basis because of the way in which funding works. So be it—money is short—but at the end of the day you do not get the sense that someone has a high-level view of what it will look like when it is finished in CP7 or whenever it may be.

That is what we are lobbying for more generally, beyond Felixstowe-Nuneaton, which is almost the best example of where the Government know what they want to do. There are other core corridors, such as that from the aggregates quarries into London, on the midland main line. We are doing a lot of work from Liverpool across the Pennines at the moment. Areas like that are way behind in terms of what people think an integrated rail freight route should look like. The rhetoric is certainly there, but the intelligent, pragmatic understanding of what is then needed is sadly lacking.

Lindsay Durham: There is one thing that would be helpful following the investments that are made through the strategic freight network or other investments in rail freight. Felixstowe to Nuneaton is a good example. They make the investment, but at the moment there is no way of holding that capacity for freight, which was the purpose of making the investment. Because there is a lot of pressure from passenger growth, there is a risk that that capacity is then used for passenger growth. This is quite a small thing, but a mechanism to ensure that, once investment has been made, paths are kept for freight growth, would be helpful. One of the challenges for us is that we do not announce our timetable on a certain date in December and just start running new trains. We start running new trains when we have developed contracts with customers and have built up a case, so it can be at any time of the year. Obviously, businesses' requirements change.

John Smith: This is an opinion. You sense, certainly with the passenger franchising process that was announced on the east coast main line recently, that there is always a political need to say, "We are going somewhere else. We are running more trains here, there and everywhere." You sense the DFT almost writing timetables that the infrastructure cannot support. I worry about that link. We are normally the ones who get marginalised in such circumstances. The passenger trains have to run because that is what the franchise has been sold on. All of a sudden, we find our capacity constrained. I feel that the DFT is slightly uncoupled in relation to the infrastructure that is required for the services that it is looking to run on the existing network.

Q410 Sarah Champion: Thank you for all of that. It is interesting that you raised Felixstowe, because the Committee made a visit there. In Felixstowe, they were coming up with some very innovative approaches—putting passengers in taxis, which they would pay for, so they could have more freight capacity. Do you think that those innovative ideas are being adopted, understood and taken forward, or are they falling on deaf ears?

John Smith: When it comes to affecting the existing passenger services, it becomes very difficult. There have been discussions about that small bit on the Felixstowe line for a long time. Fifteen years ago, I was heavily involved in running that railway for a passenger operator. Whenever we have discussed thinning out the passenger service during the off-peak period, which would create as much capacity as £30 million of infrastructure investment would, that has always seemed a step too far politically.

Q411 Sarah Champion: I have two more small points. Mr Smith, you mentioned getting goods on the train that you can actually carry. Again, this came out of Felixstowe. I did not realise how many empty cargo containers we were exporting. Could BIS do more to encourage small businesses or more people to make use of the freight capacity?

John Smith: It could, but encouraging small businesses to use us again boils down to price, particularly with the container market. We carry a number of containers at the moment that I am sure have products for small businesses in them. Often, we do not know what is in the containers that we carry, because we deal with the shippers or the forwarders. It boils down just to the economics and, particularly in intermodal, hard competition with road in terms of what we can offer.

Q412 Sarah Champion: My final question is on ports. Who do you think should pay for the improvements to the rail connections from the ports?

John Smith: You will always lever some money out of an infrastructure owner via the 106 process. You have to be careful what extremes you take that to, on occasion. I know that Felixstowe feels aggrieved that that went a little beyond what it would have expected in order to receive planning approval for its programme.

Lindsay Durham: Again, the key there is for road and rail policy to be consistent and considered together. Both infrastructure networks, road and rail, should be treated the same in that regard.

Maggie Simpson: We are seeing a symbiotic relationship between the investment that is being made in the network by Network Rail and Government and the money that the end customers in the ports and the terminals are prepared to invest in their own facilities. Staying with Felixstowe, you will have seen the investment that it has put into its north rail terminal. It has done that because it understands that the investment that has been made in the network will allow longer trains to run end to end. When we get the same investment in the network, funded centrally by Government, as the roads get, we see that people are prepared to make investments, at their own risk, in their own facilities to match the provision that has been made.

Q413 Jim Fitzpatrick: Ms Simpson, in response to a question from Mr Stringer about how you managed to keep charges down, your response was, “Trench warfare,” which got a little chuckle from your colleagues. Who is engaged in the trench warfare? You mentioned a whole number of players. Ms Champion has just mentioned BIS, but you mentioned Network Rail, the regulator, DECC and DFT. Do you have allies in among those players, or is it yourselves trying to get people to see the issue? One would have thought that DECC would have understood the environmental stuff more and BIS would have understood the business case. One would expect DFT to be your champion, notwithstanding Mr Smith’s comment about its being “decoupled”, which is a very nice rail analogy; the rest of us say “disconnected”. Do you have any allies in this fight, or is it yourselves against the world?

Maggie Simpson: I was being slightly facetious about what the CP5 process felt like. Many people are allies and supporters across the piece. DECC was particularly supportive of the case for biomass on rail. We do some good work with BIS, which now has a small rail team, looking particularly at exports and SMEs. I am trying to get our membership engaged in that process, which is part of its industrial strategy work streams. We have some very strong allies. Hopefully, the process for access charges will be a bit more straightforward next time. I am not entirely sure that I am confident of that, but let us hope that it is.

Lindsay Durham: There is one thing that we are trying to do positively. Since the formation of the Rail Delivery Group, there is a Rail Delivery Group freight group, so the competing freight operators and Network Rail are trying to work together to get efficiencies and things like that. For the very first time, we have done some work, using KPMG, to calculate the value of rail freight to the UK economy, which has never been done before in that holistic way. The Department for Transport has a method of calculating congestion benefits, safety benefits and carbon benefits, but never before has work been done on the economic benefits. That came out in the summer. We hope that it gives a clearer backdrop to enable policy decisions.

John Smith: In key areas, we lost some of our allies at a particularly crucial point in time. That is why the holistic approach that has been described has become important. It has brought us closer together, which is a good thing, as competing rail freight businesses.

Q414 Jim Fitzpatrick: It sounds like there is a clear parallel with what the shipping industry did when it got Oxford Economics to produce its economic arguments to put to the Treasury—because the Treasury is obviously pulling strings in all Departments—to persuade it of the economic benefits, as well as the add-ons for the environment, congestion, health, road safety and so on. It sounds like a very positive development.

Lindsay Durham: Yes. The work has come out and shows that the rail freight industry brings £1.5 billion in benefit per year. Hopefully, that will help to convince people of our case.

Q415 Chair: Mode shift revenue support grant finishes at the end of March. What should replace it?

Lindsay Durham: Our understanding is that the Department for Transport has applied to the European Union for a replacement scheme for five years, which we very much welcome. It has not been approved yet—it is in the process—but a similar scheme that particularly supports the shorter-distance movements, without which those movements, particularly to the west midlands, may potentially transfer back to road, is really important. Over the years, the value for money from the scheme has become very high; it is now about 5:1. The budget has decreased very slowly. We are looking for it not suddenly to drop away, because if it does customers will lose confidence, the prices will go up and there will be modal shift back to road.

Q416 Chair: Are you all satisfied with the proposal for a replacement scheme, as you understand it?

Maggie Simpson: I think so. As Lindsay has indicated, we would all like the market to be in a place where, progressively over time, it does not need to have this support, by becoming more efficient and gaining ground on road, in essence, in terms of costs, but that is not where we are at the moment. It is important to have a smooth transition from one state-aid clearance to the next and, in the budget that DFT provides for it when we get into next year's spending round, to make sure that it is not bumpy. It is important to note that not just the business from the ports but also the domestic traffic that runs for people like Tesco and Stobart up and down the country benefits from this.

Q417 Chair: Mr Smith, do you wish to add anything?

John Smith: I agree with what has been said. I understand that these types of support have to diminish over the years. I sometimes think that, if it were looked at intelligently, it could be used as one of the economic tools to try to encourage growth in rail freight, if that is what the politicians are looking for. I am not sure that it has always looked like that. Normally, when the case is taken to the European Union it is on a state-aid basis, just to try to keep what we already have or to diminish it slightly. I wonder whether it could be used to encourage growth as well.

Lindsay Durham: A small increase might produce quite a lot of modal shift, just for a few million pounds. I do not think it is really considered in that light at the moment.

Q418 Chair: How important is more electrification to encourage modal shift? Do you have any views on the current plans for electrification and which routes are involved?

John Smith: I support intelligent electrification. The majority of electrification that Network Rail is progressing in the UK at the moment is to support the passenger network. There are certain elements of what we do—particularly the intermodal market—that would suit electric haulage. Some of the terminals that are inland are already electrified, so there are a number of facilities that have electric lines into them. Elements of the electric spine are very good for rail freight, but not all of it is necessarily good for us.

Q419 Chair: Which parts are not good for you?

John Smith: This is a very personal opinion, but I see little point in electrifying to Southampton. There are parts that are missed, particularly between Nuneaton and Birmingham: that should be electrified. If you look at the service that we run from Felixstowe to Birmingham, other than 10 miles at the start, between Felixstowe and Ipswich, and 10 miles at the end, between Nuneaton and a place called Water Orton, near Birmingham, all of it is electrified and we could haul electrically. What we do practically is arrive at each end and put on a diesel locomotive or run it diesel throughout, which is

the common approach. There are some small parts of electrification that would suit rail freight.

The difficulty is that we have all invested in diesel locomotives, which have a 30-year life, so we have the need to use those for that period of time. Most of those locos are now between five and 15 years old, so they still have considerable life left in them. Encouraging us to invest in electric traction is quite a difficult model to create. We have some locomotives, as does Freightliner, but new ones are very expensive to buy. Justifying that is often difficult when you have a diesel base that still has 15 or 20 years' life left in it.

Q420 Chair: There is a problem with a shortage of electric locomotives, isn't there?

Lindsay Durham: Yes. There is not—

Q421 Chair: Could you tell us what challenges you see?

Lindsay Durham: We need a long-term strategy that will move over a couple of decades, possibly, to more electrified freight. You can see that in the longer term there are some benefits on the busier routes, such as the core routes from the ports, from moving to electrification, but it needs to be done holistically. You need to consider things like diversionary routes. Increasingly, our customers want to move to six or seven-day-a-week services. It is no use to us having a line that is open five days a week if the alternative is diesel, because that means that you have to buy two locomotives; the economics do not work. We also need a network that connects to all of the terminals—or a key number of terminals—in the UK.

We need an holistic plan. John mentioned that our diesel fleet is still relatively young, but if you roll forward 15 years or so, when we will have electrified a core part of the network, it will be time for the operators to start thinking about purchasing new electric fleets. Today, there is no high-powered electric loco that you can buy off the shelf—there is an electric loco that you can buy, because Direct Rail Services is buying one—but we do not see that as something that will ultimately stop it happening. It is just that, at the minute, there is not one being demanded.

Q422 Chair: Ms Simpson, do you have any comments to make on electrification in relation to freight?

Maggie Simpson: A long-term strategy is absolutely essential. If you take a long-term perspective, you cannot carry on with diesel haulage indefinitely. The environmental demands of that compared with a road haulage sector that is making ever fewer emissions will mean that we need to keep up, but it is a difficult chicken-and-egg situation. It is about getting the network equipped for electric freight before the operators are in a position to invest in locomotives.

It will require some coherent thought by Network Rail and Government about how they plan to electrify the network. There is talk of cost overruns on the existing schemes that

are under way and funded today, so the prospect of rail freight electrification in CP6 is beginning to look a little more distant, as we see scheme after scheme in the current programme probably being delayed from CP5 into CP6. Even where we thought that there might be opportunities in the next five-year period, I am not so sure that we are consciously aware that they will happen.

Q423 Chair: Mr Smith, you spoke before about there being a big difference between the rhetoric and what you thought was actually happening. One proposal you refer to is the plan or proposal to improve east-west connectivity—High Speed 3, although I do not think that is a very accurate description of the whole proposal. How do you think the freight sector should be involved in that? Is it involved at all now? I think you implied that it was not involved.

John Smith: We should be involved. It is about capacity and what capacity we have. On the east-west corridor, for instance, we are looking for capacity as we speak, long before HS3 will come to fruition. It is very difficult. The infrastructure as it stands, with the frequency of passenger operations that is now proposed on the three main routes across the Pennines, means that capacity is hugely limited. We have really struggled to find physical paths we can operate our new freight trains on.

You solve that going forward by having a pragmatic approach to capacity. It is about where the investment is needed on specific routes. That comes back to how joined up the DFT is in terms of what it is specifying in its passenger proposals versus what capacity is left for freight trains. We lobby for strategic freight capacity to be held, almost in a clearing house, so that we can exploit it at a later date, but there is huge pressure on us to release that for more passenger use if we are not using it.

We are involved with Network Rail. Via the new freight director, Network Rail is beginning to get some of what we are saying. It certainly lobbies hard on our behalf, but money is short and some of the investment is necessary now, not just when HS3 comes about.

Q424 Chair: Are there any other comments on how the freight sector is involved now or how it should be done differently?

Lindsay Durham: We have not yet been involved specifically on HS3, but Network Rail leads a long-term planning process that works quite well and looks at the next 30 or 40 years. It looks at the forecasts and demands and tries to identify where the gaps on the network are, what investments are needed or what could be done. That is a good process. The challenge for us is to turn that into reality and to get those paths.

Q425 Chair: Ms Simpson, do you want add something?

Maggie Simpson: There are a lot of bodies involved in the discussions around High Speed 3 and regional devolution. There is good interest from those bodies. Rail North has done some work. It estimated that rail freight was supporting £862 million per annum of output

across the north of England. Again, the rhetoric is there. As those bodies are established, potentially, as regional transport bodies, we would like to see some specific requirements on them to consider rail freight, because having a duty to do something generally causes people to do it, in reality as well as in rhetoric. There is certainly interest. They understand the link to jobs and economic growth.

Q426 Jim Fitzpatrick: What is the cost of an off-the-shelf electric locomotive? How does it compare with a diesel one, given that you can use diesel anywhere but with the electric ones you will be a bit limited until such time as electrification is well kicked in?

John Smith: As we speak, it is roughly £3.5 million for an electric one and £2.5 million for a diesel.

Q427 Jim Fitzpatrick: The life expectancy of normal carriages is 30 years. How does that of a locomotive compare with the seven-year turnover for HGVs?

John Smith: One of our problems with the diesel locomotive fleet is that the emissions regulations now make what we have bought normally illegal from the end of this year. Because you only ever buy 10, 20 or, maybe, 100 diesel locomotives, the development of the diesel engine in locomotives is not as quick as it is in high-turnover lorries, which have a seven-year life. That is an issue. More generally, we are now looking at where we can get motive power, be it electric or diesel, going forward, as the market begins to grow. It is clear that the price will be a lot higher than it was. Without question, our ability to compete in the market as it stands is therefore difficult.

Q428 Chair: Could freight run on high-speed lines?

Maggie Simpson: It does.

John Smith: It does.

Maggie Simpson: It does so very successfully on High Speed 1 to Barking.

John Smith: At the moment, we operate two trains on High Speed 1 to Barking.

Q429 Chair: Do you think it could operate on High Speed 2 or a high-speed Manchester-Leeds line?

Maggie Simpson: With High Speed 2, the difficulty as it stands today is the lack of connection to High Speed 1, because the natural market you would want to tap into would be through-traffic from continental Europe via the Channel tunnel and up the country to the north-west. High Speed 3 is interesting. It would depend on the scale of the product that you wanted to construct under High Speed 3. The M62 corridor is fraught. Running lorries through the Peak District national park is fraught. It is very difficult to build

infrastructure and there are lots of people wishing to see goods off the roads. High Speed 3, were it to be a new build, could offer some interesting opportunities. If what we are seeing is just a few more paths woven in around an enhanced passenger service, that is a different beast altogether.

Chair: Thank you very much.