

Cynulliad Cenedlaethol Cymru	National Assembly for Wales
Y Pwyllgor Menter a Busnes	Enterprise and Business Committee
Ymchwiliad i'r Blaenoriaethau ar gyfer dyfodol Seilwaith y Rheilffyrdd yng Nghymru	Inquiry into the Priorities for the future of Welsh Rail Infrastructure
WRI 17	WRI 17
DB Schenker Rail (UK)	DB Schenker Rail (UK)

1. This is the response of DB Schenker Rail (UK) Limited (DB Schenker) to the Inquiry into the priorities for the future of Welsh Rail Infrastructure announced by the Enterprise and Business Committee of the National Assembly for Wales in December 2015.
2. DB Schenker is the largest rail freight operator in the UK and is a wholly owned subsidiary of Deutsche Bahn, the second largest mobility and logistics company in the world. DB Schenker operates over 5000 trains per month in the UK conveying everything from cereals to coal, consumer products to biomass and petroleum to steel. DB Schenker employs over 3300 people in the UK providing freight, infrastructure, rail support and charter passenger services within the UK and freight services to and from continental Europe via the Channel Tunnel.
3. DB Schenker, in common with other rail freight operators, is a wholly private sector activity receiving no material direct government support. In a heavily-capital intensive industry, DB Schenker owns and operates its own assets, including depots and rolling stock, and has invested heavily in new locomotives, wagons and facilities since UK privatisation.

The Value of Rail Freight

4. Rail freight generates over £1.5bn of economic benefits for UK plc every year through a combination of improved productivity, reduced congestion and wider environmental benefits. It is vital for the competitiveness of the UK economy and is an intrinsic part of everyday life in the UK.
5. Rail freight transports goods worth over £30bn pa, moving over 25% of the containers entering the UK and underpinning industrial sectors such as steel, power generation and construction. Rail is also a key supplier to UK manufacturing sectors such as the automotive industry and a major supplier to Network Rail.
6. Rail freight has transformed itself since privatisation in the mid-1990s into a competitive and vibrant industry, recognised by the CEO of the Office of Rail & Road as "the most transformed sector in the rail industry since privatisation". Total volumes increased by over 80% from 13.5bn ntkms in 1995 to 24.4bn ntkms in 2013-14.
7. The sector is changing as the UK economic base itself shifts, with reductions in traditional rail freight markets such as moving coal to power stations - where Government environment and other policy choices are driving conversion to biomass, renewables and other forms of electricity generation. Alongside this is an increase in the volume of containers moved for the growing retail/consumer sectors. Continued rail freight growth will increasingly focus on the retail, construction and international sectors reflecting the general change in patterns of the UK economy.
8. This will have geographical as well as sectorial implications, with the areas where the UK's population is concentrated become increasingly significant for rail freight. These areas are usually where demand for passenger rail services is highest, so ensuring sufficient usable rail capacity is available to allow rail to compete with road will be more complex than ever over the next decade.

9. Rail freight is an intensely competitive industry – both within the mode and with road transport in particular. This strong competition has driven efficiencies, lowered prices to customers and reduced the costs of operation. The drive for longer and heavier freight trains is one example of how this has been achieved. In the decade after 2002/3 the number of freight trains on the network reduced by over 33%, whilst volumes increased by 17% - this meant (taking distance into account) that each freight train increased its cargo carried by over 50%.

These competitive pressures will continue and the sectors offering the most volume potential for future rail growth are also those with the strongest price and service competition with road transport.

10. Intrinsic to continued rail freight growth and development will be continued private sector investment. Investment in rolling stock and facilities by freight operating companies such as DB Schenker is clearly understood - over £2bn has been invested by Freight Operating Companies since privatisation.

In addition over £500m was invested by Governments (including EU funding) in CP4 on freight specific rail network enhancements and a further £230m has been planned for CP5 freight specific network enhancements by the UK Government and Transport Scotland. Since 2009, successive Governments have based their rail freight policy on the development of a Strategic Rail Freight Network (SFN) and the underlying principles of the SFN should continue to be supported.

Freight customers and suppliers - including ports and terminal operators have also invested heavily in rail freight facilities - over £250m in the last decade on port-related rail infrastructure alone. Investment in new rail-connected warehousing and terminals is critical for future freight growth.

Ensuring the private sector has the confidence to continue to invest to support rail freight - and rail freight growth in particular – remains vital.

11. Rail freight can move freight in greater volumes, more safely and reliably than road transport. Each freight train removes up to 75 HGVs from the UK's roads – without rail freight over 7.5m additional road journeys would have been needed. Transporting freight by road reduces CO2 emissions by 76% compared to road.

Characteristics of Rail Freight

12. As already stated, freight is a wholly private sector activity determined by customer and market needs. In this respect it is different to passenger rail and rail freight has a very different, less direct, relationship with Governments, funders and other devolved bodies as a result.

A practical example of this is that freight operators such as DB Schenker do not enjoy the degree of protection to services that results from the Franchise Specification process and are much more dependent on the nature of Track Access Rights.

13. Rail freight operates in *response* to specific customer demand - a key distinction from passenger where services are planned in *anticipation* of demand. Many trains are customer-specific rather than multi-customer - so if a customer does not require a service on a particular day or week it will neither be scheduled nor run. Rail freight's use of capacity is therefore often very different to that of passenger operators.
14. Rail freight is a nationwide, international business. It does not correspond neatly to railway administrative boundaries (that are generally based around passenger needs) and it can be easy to misunderstand the complexity and difficulty this can cause national operators such as freight.

15. Most rail freight services operate at least two, and often more, railway administrative boundaries; for example a freight train from Southampton to Cardiff traverses three Network Rail routes. Unless carefully managed, there can be planning and operational downsides to this complexity.
16. Freight is often not seen as a priority within the rail industry – for example, with rail freight accounting for only 4% of train numbers and 8% of all train miles, rail freight is often not seen as a priority by Network Rail. It can be hard for Network Rail’s Route Managing Directors, under pressure from their lead passenger operators, to make time for freight at all.
17. There is also little natural alignment between rail freight activity and the emerging politically devolved regional and transport units and it is important this is more widely realised.
18. Common to both railway and political devolution is how an appropriate balance will be made between local/regional and national requirements/priorities in ways that best support both regional and national economic activity and growth.

Any further structural changes for the railway have to be clear as to how this will be managed and optimised.

19. Previous attempts to devolve rail freight activity to railway routes or zones have not been successful. Network Rail’s response in 2011 was to recreate a central freight team (led at Director level) to manage both the external interface with FOCs, and other customers, and the internal interfaces with Routes, IP and other teams.

In general terms this structure has worked well, but one downside is that it becomes easier for Network Rail’s route management to “leave freight to the freight team”.

20. It is also hard for a national freight operator to maintain effective relationships with multiple Network Rail routes, as well as the central freight team - and the same principle applies to multiple devolved or local authorities.

Priorities for future infrastructure in Wales

21. DB Schenker supports the points made in the submission by the Rail Delivery Group, particularly in respect of strategic and cross-border issues.
22. As already set out, rail freight has an important role supporting the Welsh Government in its objective to deliver sustainable economic growth and future prosperity in terms of delivering connectivity and services to business in Wales.
23. Ensuring sufficient usable and efficient capacity for freight is essential. It is important that the needs of freight are properly taken into account in the specification and provision of both passenger services and enhancements/improvements (both major and smaller-scale). On a mixed traffic railways, suitable integration of the needs of all users is necessary to maximise financial and economic benefits.

The current planning environment

24. DB Schenker is an active participant in the rail industry’s planning environment and we endorse the points made by the Rail Delivery Group. DB Schenker is part of the Wales Rail Industry Leaders Group and both the Long Term Planning Process (LTPP) and the development of the policy framework that will lead to the anticipated production of the England and Wales High Level Output Specification (HLOS) in July 2017.

25. There is benefit from the clarity and transparency that five-year periodic reviews have brought to Network Rail's funding and output obligations. These help freight and train operators such as DB Schenker to plan their businesses with a reasonable degree of certainty and give customers and Governments a means by which to hold Network Rail to account for its performance and any shortfalls.
26. Five-year funding settlements also take the railway out of the normal government budgeting processes (and the uncertainty that shorter term funding arrangements can entail). In an industry with assets that have long lives and where investment cases are complex, these are important attributes.

Devolution

27. DB Schenker recognises that while the Railways Act 2005 devolved full funding and specification responsibilities for the network in Scotland to Scottish Ministers, this is not the current status of the railway in Wales. However given that the responsibility for the management and re-letting of the Wales and Borders franchise has transferred to the Welsh Government, and that Network Rail has established a Welsh Route, DB Schenker understands that the potential for further devolution remains an active political topic.
28. The services that DB Schenker offers customers either based in Wales, or who wish to move goods to/from Wales, are rarely wholly within Wales and have to be understood in both national (UK) and global perspectives. It is important that any moves to further devolution, whether political devolution such as Wales or railway devolution such as Network Rail, do not make the task of offering services that cross administrative boundaries harder or less efficient.

On mixed-traffic railways, it is important that potential changes (both physical and timetable) are tested for the impact on all users before decisions are made.

Relationship between the GB and Welsh networks

29. Again, DB Schenker supports the points made by the Rail Delivery Group.
30. As rail freight changes and develops across the UK, it is important that physical network developments (for example provision of W10/W12 gauge) extend to key locations within Wales in order for the rail freight sector to continue to offer efficient services to Welsh industry.
31. Failure to do so will result in operational solutions (such as expensive specialised rolling stock) being necessary and these are usually less efficient and more costly.

Planning beyond 2019

32. The industry's strategic planning for Wales been developed with input and support from both the Welsh Government and the Department for Transport. DB Schenker and the rail freight sector were heavily involved in this to ensure that rail freight's needs were covered. Priorities for CP6 are already emerging, which provides clarity as to what funders will require from the industry.
33. The nature of the economic and physical geography of Wales means that there is little, or no, current rail freight activity on either the Cambrian or North Wales routes. It is hard to see any substantive change to this in the foreseeable future and any rail freight solutions are likely to be need to be based on innovative technology and low-cost operations.

