COLAS RAIL

DB Cargo

DRS

Freightliner

GB Railfreight

Rail Partners

A Greener Track:
Making rail freight cost effective

January 2025

Rail freight performs a critical economic and environmental function for Great Britain, transporting millions of tonnes of goods and materials around the country every year

A thriving rail freight sector will support the delivery of the UK government's missions, including delivering economic growth, achieving net zero, building new houses, and creating jobs across our nations and regions.

It has significant growth potential which will require private investment in new locomotives, wagons, and facilities to grow and further decarbonise services.

Policy certainty and support for rail freight is important to give customers the confidence to move more by rail and to secure private investment from operators necessary to achieve growth.

Freight operators have invested over **£3bn** to improve productivity and performance since privatisation.

The rail freight sector contributes **£2.45bn** to the UK economy every year.

Freight operators directly employ **6,500 people** with many more roles supported in the wider logistics supply chain.

90% of the economic benefits provided by rail freight occur outside of London and the South East.

Each freight train carries enough material to build **30 houses.**

A single rail freight train can remove up to **129 HGVs** from the road network.

Rail freight produces **76%** less CO_2 per tonne than road haulage.

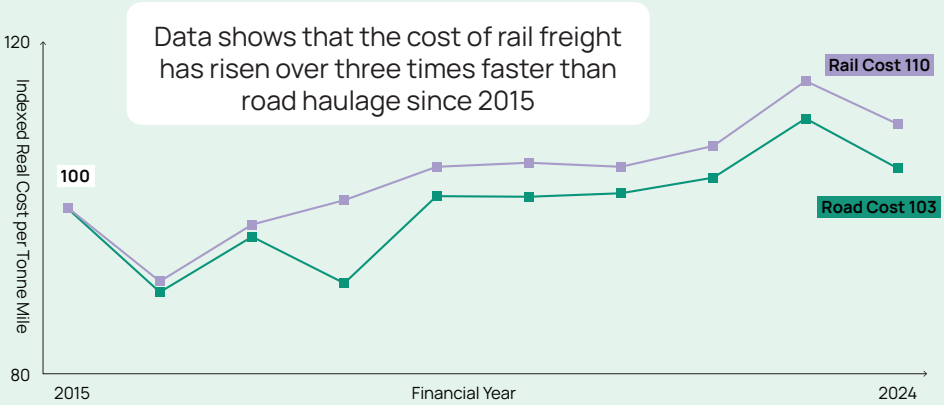
Rising rail freight costs risk jeopardising the delivery of growth

Decision makers are aligned in their ambitions to grow rail freight. Successive governments have committed to a long-term rail freight growth target, building on the regulated target to grow rail freight by 7.5% in England and Wales, and by at least 8.7% in Scotland, by 2029.

However, recent cost pressures are increasingly posing a challenge to this ambition. Many businesses are looking towards rail freight as a low-carbon way to move goods, but in a price-sensitive, low-margin freight and logistics sector, affordability of rail freight compared to road freight is key.

Rail Partners commissioned new research, delivered by Steer, to understand how road and rail freight costs have changed since 2015. The analysis is based on publicly available information and commercial data provided by freight operators.

Rail freight costs are rising more quickly than road



Road v Rail Freight Cost Analysis, Steer (2024)

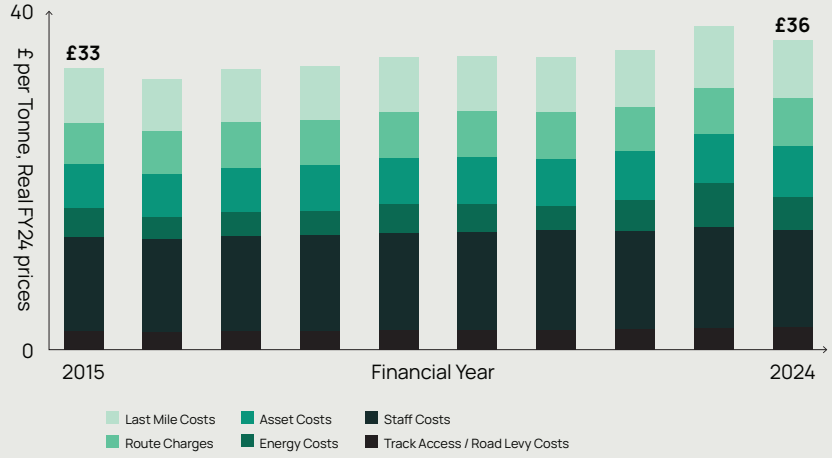
Cost increases vary by traction and commodity

The biggest relative increases in cost per tonne mile have occurred on **electric intermodal (+9%)**, **construction (+8%)**, and **international services (+20%)**.

Freight Commodity	Cost growth per tonne mile from FY2015 to FY2024		
	Rail	Road	Rail over Road
Intermodal – Diesel	10%	5%	+5% points
Intermodal – Electric	14%	5%	+9% points
Construction	9%	1%	+8% points
Metals	9%	5%	+4% points
Automotive	6%	6%	+0% points
International	21%	1%	+20% points
Weighted Average	**10%**	**3%**	**+7% points**

Road v Rail Freight Cost Analysis, Steer (2024)

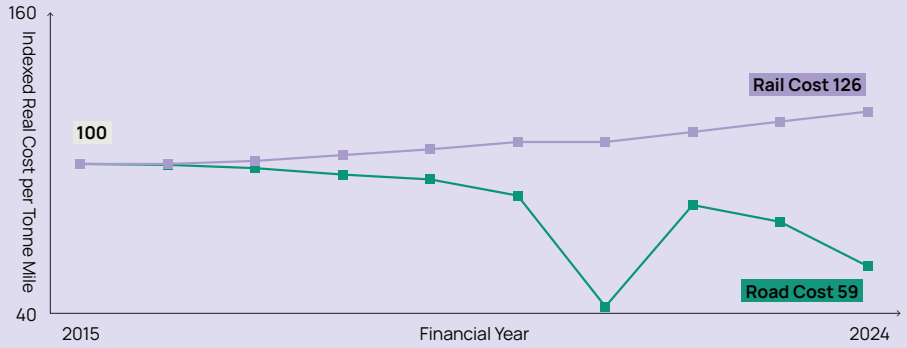
The rail freight cost base comprises staff, asset, energy, handling and track access, as well as last mile costs associated with short road movements to/from end users. Overall, on a per tonne basis, these costs have risen in real terms by almost 10% since 2015.



Road v Rail Freight Cost Analysis, Steer (2024)

Increasing track access and energy costs are making rail less competitive

Rail freight track access charges v road levies and charges



Road v Rail Freight Cost Analysis, Steer (2024)

Rail freight track access charges have risen by 26% in real terms since 2015 with further increases projected in the next five years. As a comparison, over the same period road charges and levies have fallen by 41%.

Road and rail energy costs

Road v Rail Freight Cost Analysis, Steer (2024)

Rail freight energy costs have risen 20 percentage points more in real terms than road energy costs since 2015. This is largely driven by the decision to freeze road fuel duty for 15 consecutive years.

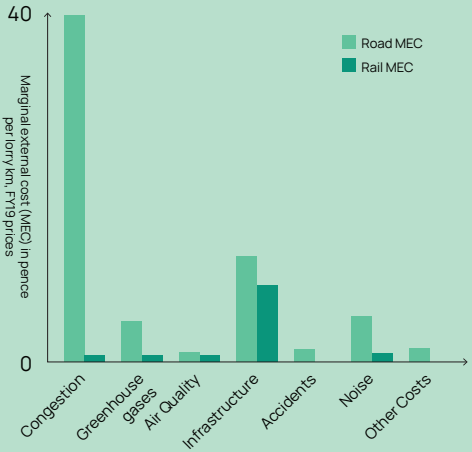
Addressing rising relative rail freight costs will secure greener outcomes

Steer considered a hypothetical scenario: halving track access charges and uplifting road fuel duty by inflation since 2011. It found that these measures would increase rail freight's market share by 31% – saving 370,000 kilotonnes of CO_2e and 108 million HGV miles annually. Although this analysis is purely illustrative, it demonstrates how government policy decisions can significantly alter rail freight's market share and how government policy can support growth.

	Scenario 1: Fuel duty rises with inflation since 2011	Scenario 2: Current track access charges are halved	Scenario 3: Scenario 1 and 2 combined
Change in road costs	6.7%	-	6.7%
Change in rail costs	-	-4.1%	-4.1%
Change in rail freight modal share (relative change)	1.5% (17.7%)	0.9% (11.0%)	2.7% (31.3%)
Freight transferred (bn net tonne km)	2.8	1.7	4.9
HGV miles removed	61 million	38 million	108 million
Reduction in CO_2e emissions (kilotonnes)	209	130	370

Road v Rail Freight Cost Analysis, Steer (2024)

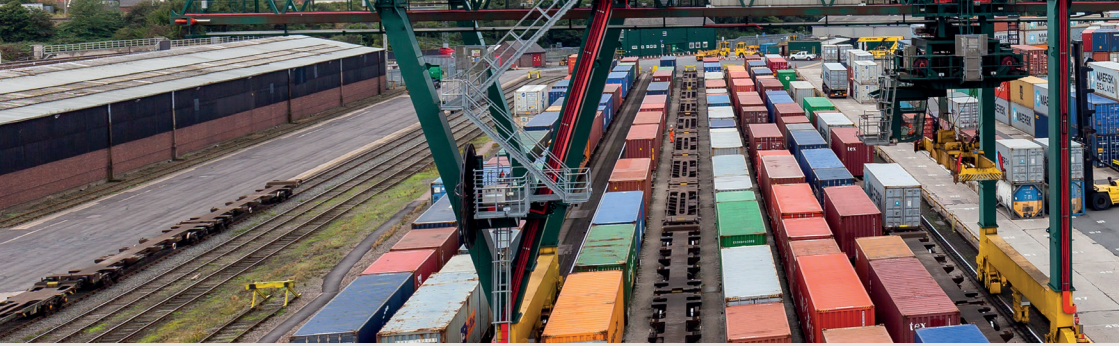
Rail freight has lower societal and environmental costs than road



As DfT's transport appraisal guidance shows, the movement of freight by rail causes significantly less societal damage through lower congestion, emissions, noise pollution, and better safety outcomes than road.

These societal benefits are not sufficiently captured in freight pricing, which does not send the right signal to customers.

Assessing the Value of Rail Freight, Deloitte (2021)



Rail Partners has identified a series of measures to support the delivery of rail freight growth

1. Include protections in the Rail Reform Bill to maintain investor confidence

- The forthcoming Rail Reform Bill should retain existing legal protections – including long-term access rights and a stable charging regime – which are crucial for investor confidence.
- The freight growth target should be enshrined in primary legislation.
- To overcome the 26% increase in track access charges observed in our analysis, future legislation should enable a more creative approach to charging, incentivising the use of greener assets and more efficient network use.

2. Increase incentives to drive modal shift

- The Mode Shift Revenue Support (MSRS) scheme is hugely successful, helping to bridge the gap between road and rail costs, and removing an estimated 900,000 HGV movements every year at an average benefit-cost ratio of more than 6:1. Doubling the budget to £40m from 2026 would build on its success and support rail freight growth.
- The Freight Facilities Grant (FFG), or a similar capital investment scheme, should be introduced in England to support the co-funding of rail-connected facilities and stimulate private investment to secure modal shift.

3. Create a level playing field between freight modes

- To address that rail freight costs have risen over three times faster than road haulage, freight customers should be empowered to make greener decisions by ensuring that the wider societal benefits of different freight modes are reflected in the prices they pay.
- To grow rail freight, government must take a holistic view of taxation and charges for freight operators across different modes, including reviewing the fifteen-year road fuel duty freeze.

4. Provide capacity to grow productive and sustainable rail freight services

- Freight operators are running longer, heavier and more direct freight services making rail more competitive and providing significant productivity benefits to customers – further opportunities to expand these services should be explored.
- Delivering key infill electrification schemes, including London Gateway and Ipswich-Felixstowe, will enable greener and more efficient freight services.
- Prioritising infrastructure projects which address ongoing capacity challenges on the East Coast and West Coast Mainlines, and from key Thames and Anglian ports.

Rail Partners represents the five largest rail freight operators in the UK accounting for 99% of UK freight volumes.

For more information email **contactus@railpartners.co.uk**