Railfreight in 2015:
An operator’s perspective

DB Schenker Rail
Nigel Jones
Head of Strategy and Planning
London June 15th 2015
Highly competitive and vibrant sector
- Open Access, liberalised rail market – 5 main FOCs, each active nationwide
- Main competition is with road transport, which often sets price and service standards
- 80% growth since privatisation

Key support to UK PLC
- Bulk markets – coal, steel, building materials, petroleum products
- Non-bulk markets – intermodal, general merchandise, automotive, international,
- Services for the rail sector – NDS, test trains, autumn services, passenger stock moves.

Efficient
- No subsidy – but very low margins (3%)

Benefits of rail freight fall outside the railway balance sheet
- Growth has delivered benefits for UK plc of £1.5bn
  - Consumer/customer benefits of £1bn
  - Externality benefits of £0.5bn
Changing markets and customers

**Structural decline in coal for electricity generation**
- Recent announcements regarding Ferrybridge and Longannet.
- Impact of environmental legislation.
- Limited substitution by Biomass.

**Decline in traditional heavy industry in UK**
- Impact on steel and petroleum products.
- replacement by service sector economy.
- customers increasingly European/global rather than UK based,

**Growth in Intermodal**
- Intermodal movements grew 5% last year and have increased by over 90% in 12 years.
- NR Freight Market Study predicts continual strong growth possible in this sector until 2043.

**Aggregates**
- Construction material movements grew 10% in the last year and have grown by 45% since 2008/9.
- NR Freight Market Study predicts continual strong growth in this sector until at least 2033.
Challenges for Railfreight

Market challenges
- Understanding and giving customers what they want / need – as those needs continually develop.
- Developing and introducing new products to match innovation of road sector.

Industry challenges
- Usable capacity is running out on key parts of the network.
- Freight paths are often slow and inefficient.
- Cost and lead times of network connections.
- Scale of disruptive access for Network Rail work.

Political and Regulatory challenges
- Regime needed that incentivises rail to compete with road to deliver modal shift.
- Track Access charges originally proposed for PR13 would have reduced rail freight volumes by 15%.
- Impact of environmental legislation on diesel engines (eg Non Mobile Machinery Directive)
What are DB Schenker doing?

**Focussing on the customers’ needs**
- On-line portal giving customers full transparency of their shipments.
- Unique customer satisfaction measurement process.
- Joint solutions with DB Schenker Logistics.

**Improving operational performance and reducing cost**
- Industry leader in utilising “Lean” techniques.
  - Class 67 loco reliability increased by over 100%.
- Auto engine start/stop.
- Electric shunting units.
- Investment in more efficient wagons.

**Developing new products and investing for the future**
- Barking Euro-Hub.
- DB Schenker new Aggregates terminals – Bow East.
- European network.
- Eco-neutral zero carbon rail freight.
Working together for the future

Foster an environment where investors will continue to invest.
- The PR13 Access Charging scare cannot be repeated

Develop more / better network capacity for freight
- Using what we have more smartly
- Focusing infrastructure investment where it is needed
- We cannot wait for the capacity released by HS2 – the sector needs track capacity now.

Improved network performance
- New, more meaningful, Network Rail regulatory measure for CP5 – Freight Delivery Metric
- Currently FDM achieving 94.8%
- Freight Joint Board has brought sector together to successfully improve freight network performance

Continue to drive efficiency and reduce cost
- Longer, heavier trains that maximize the use of available track capacity
- Electrification
- Improved suspension systems to reduce track costs