Tritax Symmetry (Hinckley) Limited

HINCKLEY NATIONAL RAIL FREIGHT INTERCHANGE

The Hinckley National Rail Freight Interchange Development Consent Order

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INDUSTRY REPORT H49.200

Freight Rail Transport in the UK

Just the ticket: Growth in freight volumes is likely to be driven by demand for intermodal transport

Mia Fraser | June 2022

Contents

Recent Developments

Recent industrial action has caused disruption to rail transport

Rail strikes across the UK involving over 50,000 workers have caused significant disruption to travel throughout the country. Beginning in June of 2022, rail workers have been striking against working practices, rules on redundancies and work life balance according to the Rail, Maritime and Transport Union. The Union has rejected an 8% pay offer split over two years, and further strikes are planned as there are no signs of a deal being made imminently. The strikes have affected tourists in Dover, the Common Wealth Games in Birmingham, and a vast number of commuters. Leaders in the hospitality sector have also warned that the strikes could also result in a 20% fall in spending in towns and city centres.

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About This Industry

Industry Definition

Operators in this industry transport goods via rail using both main-line and short-line rail networks. The industry does not include the related warehousing, storage, cargo handling or freight terminal activities. Neither does it encompass the operation of railway infrastructure or switching and shunting activities.

Major Players

DB Cargo (UK) Ltd

Freightliner Group Ltd

GB Railfreight Ltd

Direct Rail Services Ltd

Main Activities

The primary activities of this industry are:

Transporting freight via mainline rail networks

Transporting freight via short-line freight railways

Transporting freight via inter-urban railways

The major products and services in this industry are:

Transporting coal

Transporting metals

Transporting construction materials

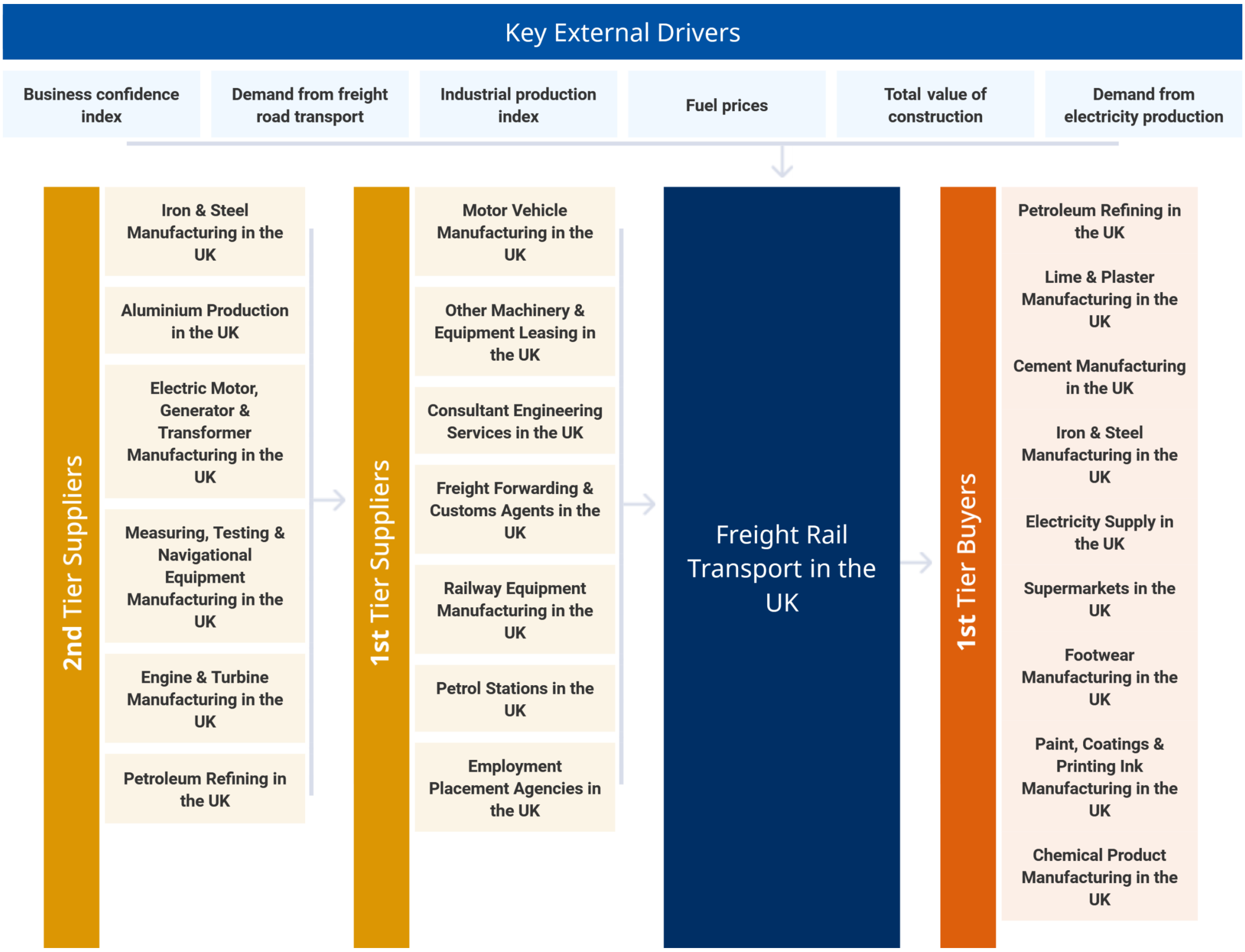
International freight transport

Domestic intermodal transport

Transporting other goods

Transporting oil and petroleum

Supply Chain



SIMILAR INDUSTRIES

Intercity Passenger Rail Transport in the UK
Complementor

Urban Passenger Rail Operations in the UK
Complementor

Freight Road Transport in the UK
Competitor

Sea & Coastal Freight Water Transport in the UK
Competitor

Warehousing & Storage in the UK
Complementor

RELATED INTERNATIONAL INDUSTRIES

Shortline Railroad Operation

Rail Freight Transport in Australia

Freight Rail Transport in China

Rail Transportation in Canada

Rail Transport in New Zealand

Rail Transportation in the US

Industry at a Glance

Key Statistics

£1.2bn
Revenue

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
0.1%	2.8%	

£18.6m
Profit

Annual Growth 2018–2023	Annual Growth 2018–2023
9.9%	

1.6%
Profit Margin

Annual Growth 2018–2023	Annual Growth 2018–2023
0.6pp	

102
Businesses

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
17.3%	8.4%	

8,054
Employment

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
4.5%	1.3%	

£453.2m
Wages

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
2.9%	2.2%	

Key External Drivers

% = 2018–23 Annual Growth

-0.2%
Business confidence index

0.8%
Industrial production index

4.4%
Demand from electricity production

5.3%
Fuel prices

2.2%
Demand from freight road transport

2.8%
Total value of construction

Industry Structure

POSITIVE IMPACT

Life Cycle
Growth

Barriers to Entry
High / Steady

MIXED IMPACT

Capital Intensity
Medium

Industry Assistance
Medium / Decreasing

Technology Change
Medium

Competition
Medium / Increasing

NEGATIVE IMPACT

Revenue Volatility
High

Concentration
High

Regulation & Policy
Heavy / Increasing

Industry Globalization
High / Increasing

Key Trends

- Transport of construction materials has contributed to the recovery in rail freight volumes since 2020-21
- The Mode Shift Revenue Support scheme is expected to raise the number of enterprises over the five years through 2022-23
- Falling activity in downstream markets reduced demand and revenue in 2020-21
- The opening of the first new intermodal freight rail hub in 2018 is expected to benefit the industry
- Expansion of intermodal rail freight networks are expected to support revenue growth
- Investment during Network Rail's CP7, which runs through 2028-29, will focus on environmental impact
- Increasing road congestion has made the industry more competitive over the past five years

Products & Services Segmentation

Transporting coal | Transporting metals | Transporting construction materials | International freight transport | Domestic intermodal transport | Transporting other goods

Freight Rail Transport
Source: IBISWorld

Major Players

- 26.5% DB Cargo (UK) Ltd
- 24.0% Freightliner Group Ltd
- 19.7% GB Railfreight Ltd
- 8.2% Direct Rail Services Ltd
- 21.6% Other

Freight Rail Transport
Source: IBISWorld

SWOT

S STRENGTHS

High & Steady Barriers to Entry
Growth Life Cycle Stage
Low Imports
Low Customer Class Concentration
Low Product/Service Concentration
High Revenue per Employee

W WEAKNESSES

Medium & Decreasing Level of Assistance
High Volatility
Low Profit vs. Sector Average
High Capital Requirements

O OPPORTUNITIES

High Revenue Growth (2018-2023)
High Performance Drivers
Total value of construction

T THREATS

Low Revenue Growth (2023-2028)
Demand from electricity production

Executive Summary

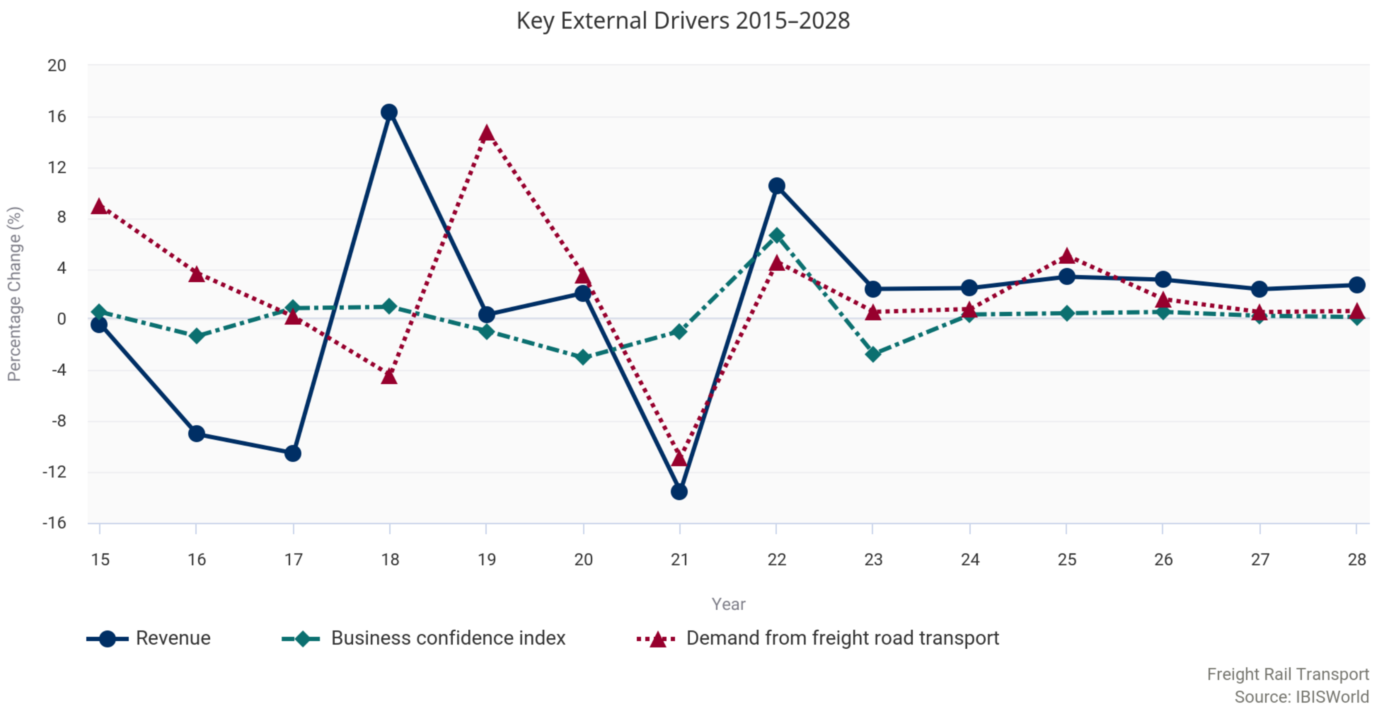
Just the ticket: Growth in freight volumes is likely to be driven by demand for intermodal transport

The United Kingdom boasts the world's oldest railway system, having one of the 20 largest rail networks in the world. Industry operators move goods on main-line rail networks and dedicated short-line railways. After privatisation in the 1990s, freight rail transport remains dominated by a small number of major providers due to the industry's high barriers to entry and the economies of scale held by existing operators. In 2022-23, the four largest players in the industry are expected to generate 78.4% of industry revenue. The industry has benefited from a modal shift from road to rail transport over the past five years, driven by rising environmental awareness. This has supported the industry's transformation away from coal and steel to a more diversified mix of commodities, following the decline in these two traditional sectors. However, soaring gas prices led to increased use and therefore transportation of coal towards the end of 2021, which is expected to continue during the current year.

Industry revenue is expected to increase at a compound annual rate of 0.1% over the five years through 2022-23 to reach £1.2 billion. This includes anticipated growth of 2.4% during the current year. Industry revenue expanded in the first half of the period, supported by increased demand for intermodal transport and strengthening construction material volumes. The COVID-19 pandemic spurred a collapse in freight volumes in the first half of 2020-21. However, volumes returned to pre-pandemic levels in the second half of the year and in 2021-22, with a continued recovery expected during the current year due to the lifting of restrictions. A severe shortage of HGV drivers is also expected to accelerate the modal shift from road to rail in the current year.

Industry revenue is expected to increase at a compound annual rate of 2.8% over the five years through 2027-28 to reach £1.3 billion. Rising environmental pressures are expected to accelerate the modal shift from road to rail transport in the coming years, with the extension of the Mode Shift Revenue Support (MSRS) scheme through 2024-25 expected to support a continued increase in demand. Track improvements and capacity expansion are also expected to allow operators to improve their competitiveness over the period. This is expected to enable the industry to capture a greater share of overall freight volumes, which are anticipated to increase in line with long-term recovery in wider economic activity.

Industry Performance



Key External Drivers

Business confidence index

The business confidence index is an indicator of businesses expectation of the future and drives decisions on how much inventory to hold and when to order new stock. These decisions affect demand for rail freight services. When business confidence is declining, businesses are more likely to let their stock levels fall, meaning they are less likely to use industry services. Over 2022-23, business confidence is expected to rise, supporting industry demand.

Demand from freight road transport

Freight road transport is the main form of competition for rail freight operators. Demand from freight road transport is an indicator of how well that industry is performing and how much of the freight transport market it accounts for. An increase in freight road transport is likely to limit demand for freight rail transport. Demand from freight road transport is forecast to decline in 2022-23, supporting industry demand.

Industrial production index

Industry operators transport production inputs to factories, manufactured goods to consumers and retailers, and manufacturing waste to disposal facilities. The industrial production index measures the volume of output from the production industries, of which the largest component is the manufacturing sector. When manufacturing activity rises, freight transport is required to move both inputs and outputs, supporting industry demand. The industrial production index is expected to rise over 2022-23.

Fuel prices

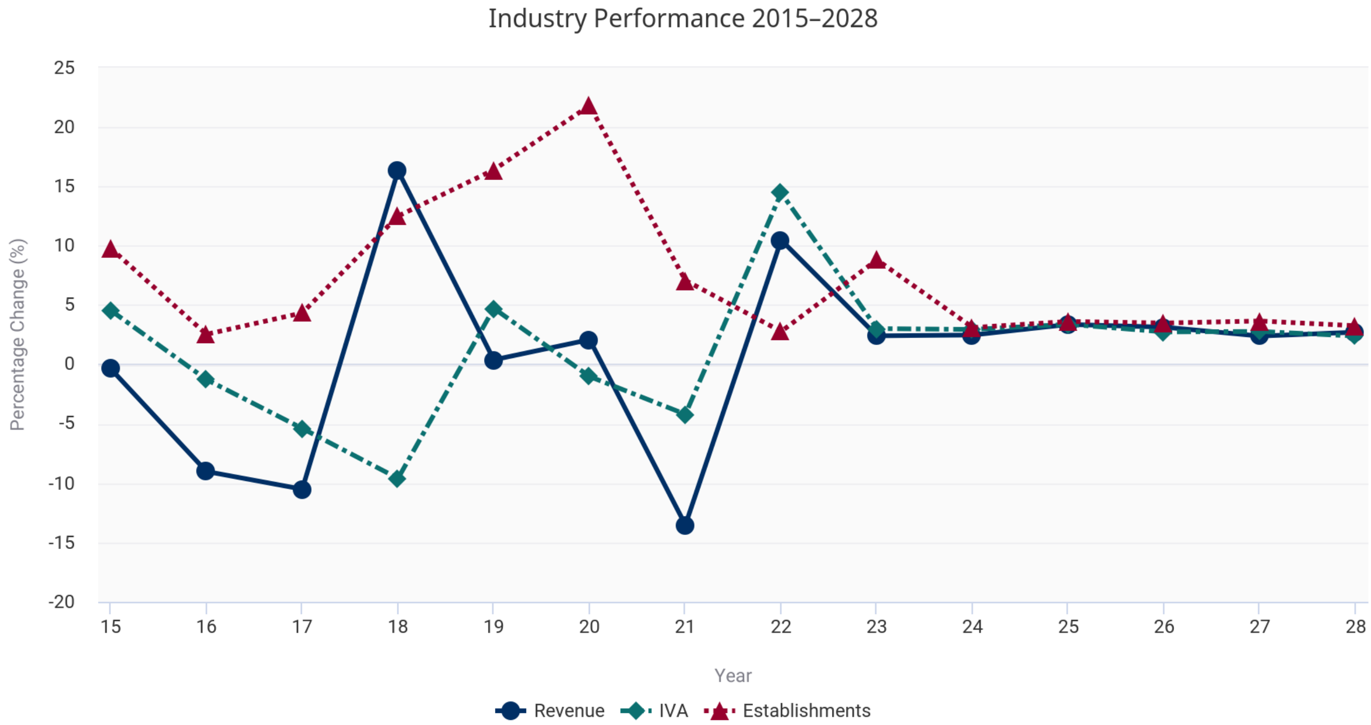
Many industry services are run by diesel trains, meaning that operating costs rise with fuel prices. However, since rail freight is more fuel-efficient than road freight, rising fuel prices can also make rail freight more competitive. Fuel prices are forecast to rise marginally over 2022-23, increasing the competitiveness of the industry.

Total value of construction

The transportation of construction materials is one of the largest markets for industry services and the total value of construction can act as a proxy for demand for industry services from the construction sector. When the value of construction increases, industry demand is likely to rise. Over 2022-23, the total value of construction is forecast to increase, presenting an opportunity for the industry.

Demand from electricity production

Electricity producers are a large market for the industry's services because they need coal, oil and biomass to be transported to power stations throughout the United Kingdom. Generally, higher demand from electricity producers is likely to help freight rail operators' revenue grow. However, as coal and oil are being phased out of the energy mix through the government's long-term initiative to achieve net-zero emissions by 2050, demand from this market is shrinking. Demand from electricity producers is expected to decrease in 2022-23, presenting a threat to industry demand.



Freight Rail Transport
Source: IBISWorld

Current Performance

The Freight Rail Transport industry conveys containerised consumer goods and bulk commodities, such as construction materials, coal and oil.

Industry performance is driven by the amount of freight carried on the British rail network, which is contingent on business confidence levels, competition from other types of freight transport and the level of demand from key markets, such as the construction sector and electricity production. The amount of freight carried is also influenced by UK trade volumes.

Over the five years through 2022-23, industry revenue is expected to increase at a compound annual rate of 0.1% to reach £1.2 billion. The economic shock caused by the COVID-19 (coronavirus) pandemic spurred a notable decline in freight rates and volumes in the first half of 2020-21, spurring a contraction in revenue for the year. However, a swift return to pre-pandemic levels of demand is expected to be sustained over the two years through 2022-23, aiding revenue growth of 2.4% in the current year. Rising demand and increasing freight rates are expected to support profit growth over the two years through 2022-23.

OUT OF STEAM

Aside from coal and steel, the industry benefited from robust volumes of commodities carried in the first half of the period.

However, disruption to domestic and global economic activity reversed this trend following the onset of the coronavirus pandemic. The volume of freight moved by industry operators fell by 17.3% in the first half of 2020-21, compared with the same period in 2019-20, according to the Office for Rail and Road (ORR). Renewed growth in demand supported a return to pre-pandemic volumes during the second half of the year, though they were constrained by the reimplementation of strict public health restrictions and trade frictions following the end of the transition period between the United Kingdom and the European Union. Overall, the volume of freight moved declined by 8.6% in 2020-21, spurring a significant contraction in industry revenue in 2020-21.

According to the ORR, the volume of freight moved by industry operators was 4.3 billion net tonne kilometres in the second quarter of 2021-22. This represents a 10% increase on volumes recorded during the same period in 2020-21 and a 0.7% increase on volumes in 2019-20, prior to the coronavirus-induced slump. The transport of construction materials has been the largest contributor to this renewed growth with consumption of heavyside materials, such as aggregates and asphalt, reaching its highest point for 12 years in the first half of 2021, according to the Mineral Products Association (MPA). This has been supported by demand for bulk fill materials on major infrastructure projects and highway schemes. Data from the ORR revealed that the volume of construction materials transported by rail rose by 12.4% over the three months through December 2021, compared with the equivalent period in 2019, reaching 1.2 billion net tonne kilometres. This was the highest value recorded for this time period since the time series began in April 1998.

Rail freight volumes are expected to continue to rise, partly due to an anticipated acceleration in the modal shift from road to rail transport, necessitated by a severe shortage of HGV drivers. For example, major downstream supermarket retailer Tesco increased the number of containers with produce destined for stores transported by rail by nearly 50% during 2021. In December 2021, Tesco partnered with Direct Rail Services on a new refrigerated rail freight service that will take 40 lorries off the road for every journey it makes and will run 14 times a week. This service will take at least 17,000 containers off the road each year, saving Tesco 7.3 million road miles and nearly 9,000 tonnes of carbon dioxide emissions. Other downstream firms are expected to follow suit in order to avoid disruption to their supply chains and lessen their carbon footprint.

TRACKING CHANGES

One of the main measures of industry performance is the amount of freight transported by the industry, which is recorded in total tonne kilometres.

In 2017-18, the base year of the past five-year period, the industry carried 17 billion net tonne kilometres, but this fell to just under 15.2 billion net tonne kilometres in 2020-21. As the UK's reliance on coal-generated electricity declined, the volume of coal requiring transport across the country plunged. According to figures from the ORR, the volume of coal transported by industry operators declined from 1.2 billion tonne kilometres in 2017-18 to 210 million tonne kilometres in 2020-21. Despite this phasing out, the ORR reported an 82.2% rise in coal transportation volumes over the three months through December 2021 and the International Energy Agency (IEA) stated in December 2021 that coal power was on track to reach a global record in 2022. Warm autumn weather in 2021 meant wind farms have not generated as much power as normal, with the IEA finding that demand for electricity in 2021 outpaced the growth in low-carbon sources, leading to the UK relying more heavily on fossil fuel power plants. This has been exacerbated by the global gas supply crunch, which has caused record-high prices for gas and subsequently reigniting demand for coal. This unexpected rise in coal transportation, along with rising volumes in other sectors as the economy recovery from the pandemic, is expected to support revenue recovery over the second half of the past five years.

GOING GREEN

As emissions from fossil fuels have become an increasingly prominent topic of public discussion, the industry has managed to make some headway in promoting itself as a more sustainable freight option.

Rail is inherently more fuel-efficient than road transport and emits less carbon, factors that have become increasingly important over the past five years. According to the MPA, rail freight delivers economic benefits of nearly £2.5 billion to the UK economy each year, including £1.7 billion in productivity benefits for customers and £800 million of benefits to wider society, through environmental gains, reduced congestion and improved safety. This has prompted the government to offer its support to encourage a shift from road transport to rail. The Department for Transport's Mode Shift Revenue Support scheme is designed to contribute to the operating costs associated with running rail or inland water freight transport where these are more expensive than road. Such schemes have attracted new operators into the industry over the past five years, with the number of industry enterprises expected to increase at a compound annual rate of 17.3% over the five years through 2022-23.

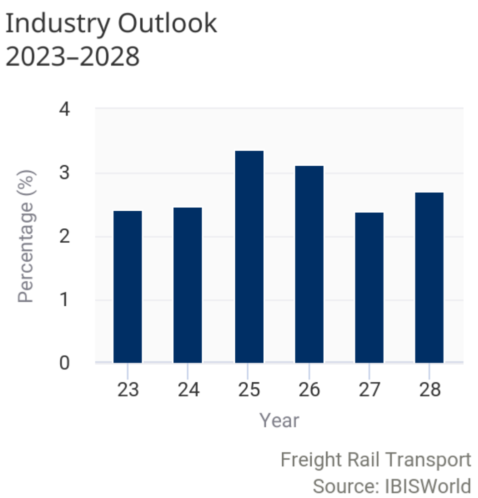
Historical Performance Data

Year	Revenue (£m)	IVA (£m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports (£m)	Imports (£m)	Wages (£m)	Domestic Demand (£m)
2013-14	1,229	524	143	29.0	5,640	N/A	N/A	373	N/A
2014-15	1,225	548	157	31.0	6,191	N/A	N/A	420	N/A
2015-16	1,114	541	161	33.0	6,538	N/A	N/A	440	N/A
2016-17	997	512	168	34.0	6,749	N/A	N/A	455	N/A
2017-18	1,160	462	189	46.0	6,467	N/A	N/A	392	N/A
2018-19	1,165	484	220	61.0	6,773	N/A	N/A	407	N/A
2019-20	1,189	479	268	71.0	6,854	N/A	N/A	407	N/A
2020-21	1,028	459	287	83.0	7,165	N/A	N/A	407	N/A
2021-22	1,136	526	295	93.0	7,558	N/A	N/A	443	N/A
2022-23	1,163	542	321	102	8,054	N/A	N/A	453	N/A

Industry Outlook

Outlook

Over the five years through 2027-28, industry revenue is expected to grow at a compound annual rate of 2.8% to reach £1.3 billion.



The industry is expected to continue to benefit from recovery in domestic and global economic activity in the short term, with growth in freight volumes expected to be supported by strong demand for intermodal transport and elevated demand from construction firms, driven in particular by continued work on major infrastructure projects such as High Speed 2. This is expected to support growth in average industry profit margins over the period. The current Mode Shift Revenue Support scheme, designed to shift road freight to rail freight, has been extended through 2024-25, which is expected to support the industry's performance. The government's commitment to supporting a modal shift from road to rail transport was also re-enforced by the Williams-Schnapps Plan for Rail, which highlighted the key role which rail freight can play in the UK's wider decarbonisation agenda.

FUTURE FUNDING

In October 2018, the final determination of the 2018 Periodic Review for Network Rail's Control Period (CP6) was reached, which runs over the five years through 2023-24.

It concluded an increase for freight operators variable track access charges by 3.2% above the consumer price index on average each year. Access charges ensure that Network Rail recovers an appropriate level of costs from rail users and provides incentives for operators to reduce network costs and make efficient use of the network. The access charge approved Network Rail's £48 billion spending plan for the period. Track improvements and capacity expansion are anticipated to improve operators' competitiveness, as £7.7 billion and £16.6 billion was allocated for maintenance and renewals respectively. Network Rail received £2.3 billion in access charges revenue in 2020-21, 24% of which came from its total income, with the balance made up of network grant funding (£6.6 billion) and other commercial income such as property rental (£600 million).

In autumn 2022, confirmation of changes to the charging framework for CP27, which runs over the five years through 2028-29 will be confirmed. In April 2022, proposals for CP27 were reported and include adapting existing legislative framework to set access charges to incentivise better environmental outcomes. The aim is to align access charges more closely with aspirations in the Williams-Schnapps Plan, particularly relating to rail freight and decarbonisation. The report proposed greater use of on-train metering to incentivise operators to lower their overall energy consumption, by establishing a clearer link between their activities and the charges paid. If these environmental improvements continue to be made by rail freight, it is likely to receive more support from government funding, which is expected to support the industry revenue growth over the next five years.

THE ROAD AHEAD

The government is expected to continue to promote the expansion of rail freight in the place of road freight in the coming years, underpinned by the government signing into law the reduction of greenhouse gases to net zero by 2050.

The removal of all diesel trains from the rail network by 2040 and further electrification of railways, will further reduce and potentially neutralise emissions. Moreover, in September 2021, the UK's first hydrogen fuel cell train, which was supported with a £750,00 grant from the Department for Transport, made its debut journey. This technology will be available by 2023 to retrofit current in-service trains to hydrogen, which will help to further decarbonise the rail network. Despite currently ongoing trials of autonomous lorries, the Freight Road Transport industry (IBISWorld report H49.410) is expected to continue to face driver shortages into the medium term, owing to an ageing workforce, continued testing backlogs and reduced access to EU labour markets. This is expected to maintain opportunities for growth, with the number of industry enterprises expected to increase at a compound annual rate of 8.4% over the five years through 2027-28.

BETTER CONNECTED

Following the opening of the UK's first new intermodal inland rail freight hub in 10 years, iPort Rail, in September 2018, and the subsequent opening of East Midland Gateway in 2020, the industry is expected to benefit from continued expansion in the coming years.

A further seven intermodal ports have been proposed, with several already under construction. Demand for increased intermodal capacity has been supported by the end of the transition period between the United Kingdom and the European Union, with logistics operators seeking to direct capacity away from Channel Ports in order to avoid potential delays.

While such measures tend to initially have been bought in as a temporary measure, it has provided an opportunity for operators to increase container traffic in the long term. For example, in October 2021, shipping operator DKT Allseas launched a new freight link out of the Port of Liverpool to meet increased demand for its China-to-Liverpool sea route. This was initially bought in as a temporary measure to avoid congestion at Southern English ports but has now been confirmed as a permanent route. Other ports away from the channel are also expected to expand their facilities in order to benefit from greater volumes in the coming years, supporting industry demand. For instance, Maritime, the integrated rail and road logistics operator, signed a deal to significantly expand its intermodal handling capabilities at the port of Liverpool in April 2022. The transport depot will more than double in size and offer a wide range of loaded container handling for up to 2,000 TEU. The announcement in 2021 of eight new UK freeports could also help promote intermodal freight volumes in the coming years. This includes the UK's first inland freeport at East Midlands Airport, which is adjacent to the new East Midlands Gateway terminal. Increased freight volumes at these new freeports are likely to expand demand for rail freight connections.

Performance Outlook Data

Year	Revenue (£m)	IVA (£m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports (£m)	Imports (£m)	Wages (£m)	Domestic Demand (£m)
2022-23	1,163	542	321	102	8,054	N/A	N/A	453	N/A
2023-24	1,192	558	331	110	8,208	N/A	N/A	463	N/A
2024-25	1,233	577	343	120	8,322	N/A	N/A	475	N/A
2025-26	1,271	592	355	130	8,427	N/A	N/A	487	N/A
2026-27	1,302	609	368	141	8,503	N/A	N/A	496	N/A
2027-28	1,337	623	380	153	8,592	N/A	N/A	506	N/A
2028-29	1,358	634	393	165	8,720	N/A	N/A	513	N/A

Industry Life Cycle

The life cycle stage of this industry is Growth

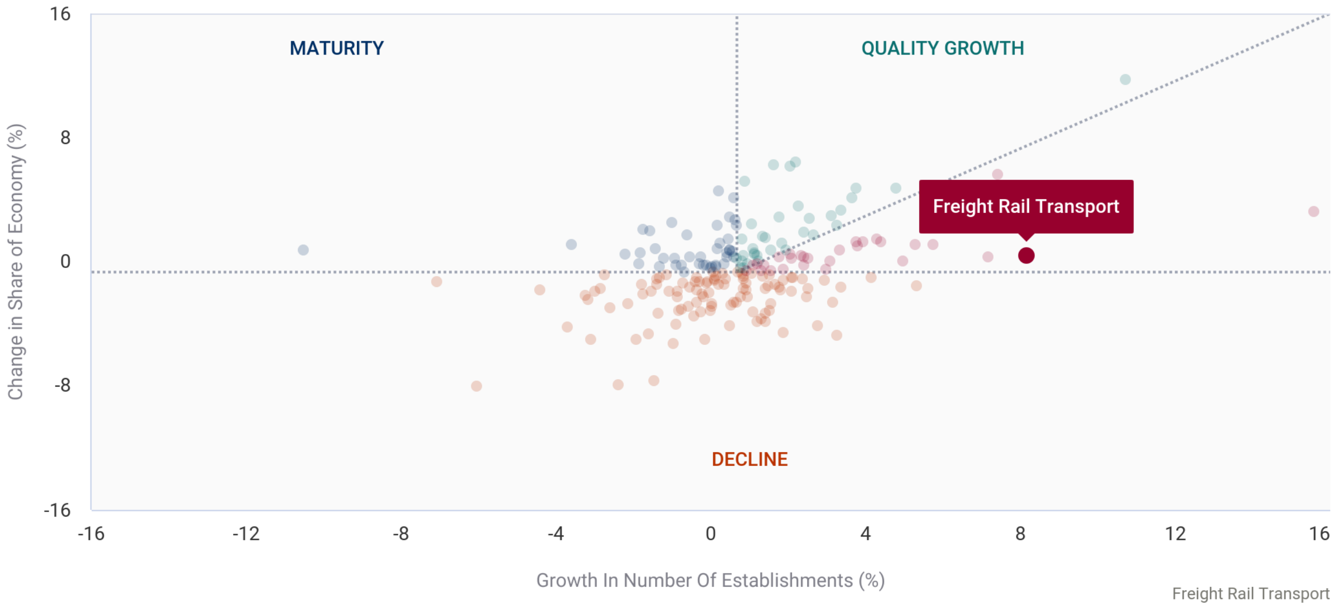
LIFE CYCLE REASONS

The lower carbon footprint of rail transport has helped the industry become more competitive than road transport

Investment is going into new equipment and infrastructure

The industry stands to benefit from its position in the green economy

Indicative Industry Life Cycle



Freight Rail Transport
Source: IBISWorld

The industry is in the mature phase of its economic life cycle. Industry value added (IVA), which measures the industry's contribution to the wider economy, is expected to rise at a compound annual rate of 3% over the 10 years through 2027-28. Over the same period, UK GDP is expected to grow at a compound annual rate of 1.4% over the same period. This suggests that the industry will account for an increasing share of the UK economy as the government continues to support the transition from road freight to rail freight due to its environmental benefits. Moreover, rising investment and expansion of rail networks to improve their carbon footprints and operating efficiency, along with rising demand from downstream consumers for more clean transportation methods is expected to support the industry's growth over the 10 years through 2027-28.

The industry has exhibited considerable structural change in recent years, with the phasing out of coal forcing industry operators to focus on the transport of other commodities. Although this has caused overall volumes to fall, increased transport of construction materials and containerised goods as part of intermodal transport is expected to have limited the decline. Moreover, soaring gas prices led to increased use and therefore transportation of coal towards the end of 2021, which is expected to continue during the current year, supporting industry growth. The success of the readjustment to new operating conditions undertaken by operators enabled a swift rebound from initial COVID-19-induced lows during 2021-22, with industry operators also expected to capitalise on the severe shortage of HGV drivers over the two years through 2022-23 to accelerate the modal shift from road to rail transport. The potential role of rail freight in wider decarbonisation strategies set out by the UK government presents a significant opportunity for further growth in rail freight volumes in the coming years.

Products & Markets

Supply Chain

Key Buying Industries

1st Tier

- Petroleum Refining in the UK
- Lime & Plaster Manufacturing in the UK
- Cement Manufacturing in the UK
- Iron & Steel Manufacturing in the UK
- Electricity Supply in the UK
- Supermarkets in the UK
- Footwear Manufacturing in the UK
- Paint, Coatings & Printing Ink Manufacturing in the UK
- Chemical Product Manufacturing in the UK

Key Selling Industries

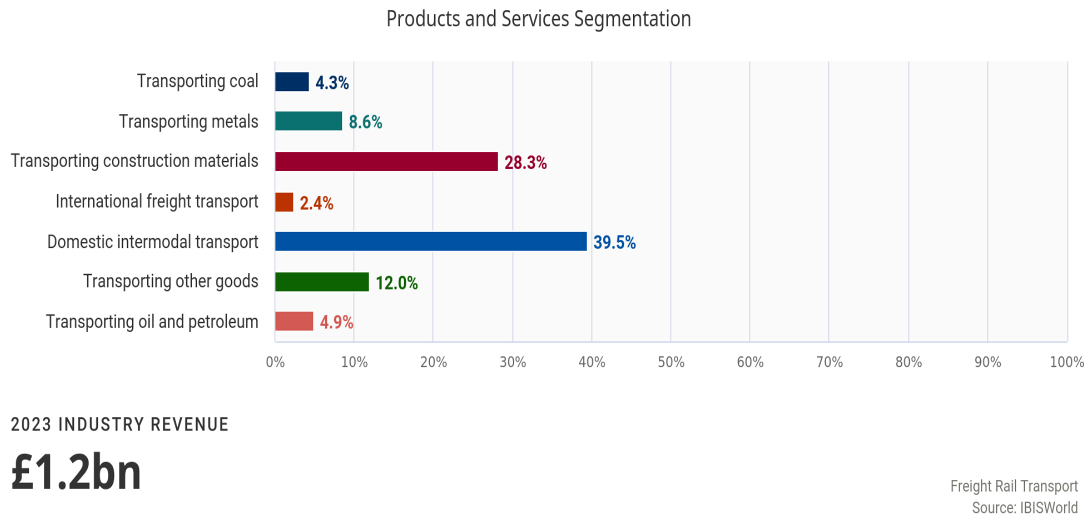
1st Tier

- Motor Vehicle Manufacturing in the UK
- Other Machinery & Equipment Leasing in the UK
- Consultant Engineering Services in the UK
- Freight Forwarding & Customs Agents in the UK
- Railway Equipment Manufacturing in the UK
- Petrol Stations in the UK
- Employment Placement Agencies in the UK

2nd Tier

- Iron & Steel Manufacturing in the UK
- Aluminium Production in the UK
- Electric Motor, Generator & Transformer Manufacturing in the UK
- Measuring, Testing & Navigational Equipment Manufacturing in the UK
- Engine & Turbine Manufacturing in the UK
- Petroleum Refining in the UK

Products & Services



The Freight Rail Transport industry conveys containerised consumer goods and bulk commodities such as construction materials, coal, metals and oil.

The segmentation below is based on the freight moved, measured in net tonne kilometres, rather than on revenue generated by transporting each type of freight.

DOMESTIC INTERMODAL TRANSPORT

Intermodal transport is the transport of containerised goods where rail makes up part of the journey, and has a much higher value per tonne kilometre than bulk products.

Demand for intermodal transport has increased steadily over the past decade. Over the five years through 2022-23, the proportion of industry revenue derived from intermodal transport is expected to grow. Rail freight competes directly with road freight to transport these goods. During the past five years, rail transport has become quicker and more reliable due to high levels of investment in rolling stock and infrastructure. According to a joint study by Rail Freight Group (RFG) and the UK Major Ports Group, UK intermodal rail freight has doubled over the 20 years through 2020-21 and reports that there is room for more growth. This is largely due to operators' investment in terminals and other facilities to improve productivity and speed up the delivery of import and export containers to customers.

Rail transport is more fuel efficient than road transport, so it is being adopted by organisations seeking to minimise their carbon emissions. The Rail Freight Group estimated in 2021 that for each tonne of cargo conveyed, rail freight produces 76% less carbon dioxide than road freight. The ongoing HGV driver shortage, with the Office for National Statistics reporting a fall of 53,000 HGV drivers over the four years through June 2021, is expected to make rail transport an increasingly attractive option for transporting freight on long-haul domestic routes between two terminals during the current year, with one freight train able to take approximately 60 HGVs off the road, according to the RFG. Domestic intermodal transport is expected to account for 39.5% of freight moved in 2022-23.

TRANSPORTING CONSTRUCTION MATERIALS

Rail freight has competitive advantages when transporting heavy products in bulk such as gypsum, aggregates, limestone, concrete and ballast.

The volume of construction materials carried has grown steadily over the past five years, in line with rising construction activity. This trend was reversed in 2020-21, as the COVID-19 (coronavirus) pandemic led to widespread temporary site closures. However, construction activity recorded a strong rebound during 2021-22, with the Office of Rail and Road (ORR) reporting a 77.8% increase in the volume of construction materials transported in the opening quarter of 2021-22, compared with the same period in 2020-21. Construction volumes transported in the three months through 2021 were 5.8% higher compared with the same quarter in 2020 and 12.4% higher than the same quarter in 2019. HS2 construction work is continuing to drive growth and, with existing quarries at capacity, previously dormant rail facilities at quarries are being re-opened to provide additional output. The transport of construction materials is expected to constitute 28.3% of freight moved in 2022-23.

TRANSPORTING METALS

The rail freight transportation of metals, including iron, steel and scrap metals.

This is a fast and cost-effective method of haulage, and is generally considered to be the most efficient and environmentally sustainable form. The volume of metals transported has fallen over the past five years, largely due to sustained decline in the UK steel industry. This is despite anticipated renewed growth in the volume of metals transported during 2021-22, aided by a recovery in industrial production activity following the economic shock caused by the coronavirus pandemic. The transportation of metals is expected to account for 8.6% of freight moved in 2022-23.

TRANSPORTING OIL AND PETROLEUM

Demand for oil and petroleum transportation is expected to have fallen over the past five years.

The proportion of freight movements accounted for by this segment is expected to have declined to 4.9% in 2022-23. Increasing fuel efficiency of the UK motor vehicle fleet has contributed to lower demand for this service, as well as other decarbonising efforts. Data from the OR revealed than oil and petroleum freight transported volumes were up 8.7% in the final quarter of 2021 compared with the same quarter in 2020 as car use rose. However, volumes were down 10.5% compared with the same quarter in 2019 as the impact of the pandemic on the aviation sector continues to suppress demand for fuel to be transported by rail.

TRANSPORTING COAL

Coal transportation was historically the keystone of the industry, accounting for a peak of nearly two-fifths of rail freight moved in 2006-07.

However, the volume of coal transported by industry operators declined from 1.2 billion tonne kilometres in 2017-18 to 210 million tonne kilometres in 2020-21, as the government aims to phase coal out of the UK's energy mix by 2024. Despite this phasing out, the ORR reported an 82.2% rise in coal transportation volumes over the three months through December 2021, compared with the equivalent period in 2020. This is due to the surge in global energy prices, which has caused record-high prices for gas and subsequently reignited demand for coal. High gas prices are expected to remain during the current year, supporting coal transportation by rail, which is estimated to account for 4.3% of freight moved by rail during 2022-23.

INTERNATIONAL FREIGHT TRANSPORT

International freight transport accounts for an estimated 2.4% of freight moved by rail in the current year.

This segment covers the movement of freight between England and France in the Channel Tunnel. International transport options have been expanding, with the first direct train from Yiwu in China, arriving in Barking, London in January 2017. This segment also includes infrastructure rail freight carried, such as for use on the railways.

TRANSPORTING OTHER GOODS

Agricultural produce, post, biomass, household waste, military equipment, production inputs, transport equipment, manufacturing equipment and automobiles are also carried by freight trains.

Demand for automobiles has increased over the period, as has demand from manufacturers, which means this segment's share of freight tonne kilometres has improved over the past five years.

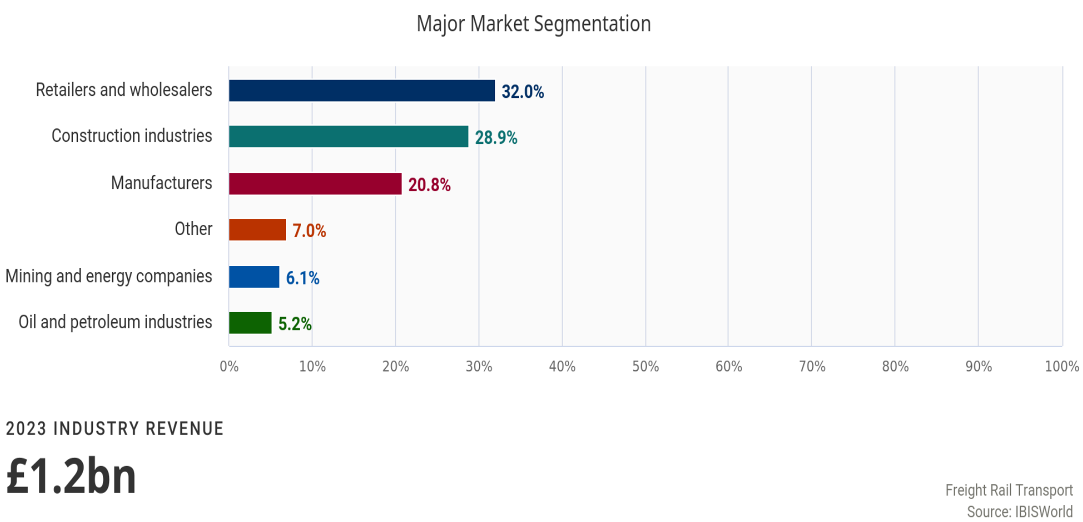
Demand Determinants

Demand for the Freight Rail Transport industry is mainly driven by consumer expenditure, business confidence levels, competition from other types of freight and demand from key markets.

Traditionally, the industry was underpinned by the transport of coal between producers and power stations, but a significant long-term decline in the contribution of coal to the UK's energy mix eroded rail freight volumes in first half of the past five years. Increased transportation of other materials has helped close the gap caused by the decline of coal, though overall volumes have displayed a downward long-term trend. The industry transported 15.2 billion tonne kilometres in 2020-21, down from 17 billion tonne kilometres in 2017-18, according to data from the Office of Rai and Road. This decline has been underpinned by efforts made to phase coal out of the UK's energy mix, with the volume of coal transported by industry operators declining from 1.2 billion tonne kilometres in 2017-18 to approximately 210 million tonne kilometres in 2020-21. However, total freight moved in the three months through December 2021 had surpassed pre-pandemic levels and was 2.1% higher than the equivalent quarter in 2019. This was supported by a rise in coal transported as soaring energy prices have made it too costly for the United Kingdom to rely on gas.

The amount of freight carried is also influenced by trade volumes. The start of the period was affected by the result of the EU referendum and the ensuing uncertainty. Freight volumes recorded an accelerated decline in 2020-21, owing to reduced domestic and global economic activity due to the COVID-19 pandemic. Demand for industry services is also contingent on trends in the wider transport sector, particularly substitute modes of transport. Increased environmental consciousness displayed by downstream businesses has provided operators with a competitive advantage over road freight transport over the past five years.

Major Markets



RETAILERS AND WHOLESALERS

Retailers and wholesalers use rail freight to transport goods from manufacturers, ports and international locations to distribution centres in the United Kingdom.

They are also the prime consumers of intermodal transport. Thus, discretionary consumer expenditure patterns have a key bearing on the level of demand from this particular market segment. Retail volumes have continued to grow strongly over the past five years, driving demand for industry services. despite the closing of non-essential retailers during lockdown periods in 2020-21, the closure of food establishments and panic buying is expected to have led to increased demand from supermarkets. Moreover, the surge in online buying is also expected to have supported demand from this segment during the pandemic. The reopening of non-essential retailers is expected to support continued growth in demand from retailers and wholesalers over the two years through 2022-23. This segment is expected to account for 32% of industry revenue in 2022-23. Overall, due to the essential nature of many of these goods and high and persistent levels of consumerism in the United Kingdom, demand from this segment remains fairly stable.

CONSTRUCTION INDUSTRIES

Demand for services from construction firms varies in line with activity in sector.

Construction activity increased during the opening part of the period, supported mainly by growth in residential construction markets due to several government-initiated schemes to stimulate demand. Operational and supply chain disruption caused by the coronavirus pandemic spurred a significant decline in demand from construction firms in 2020-21. However, following a strong rebound from these initial lows, construction output recovered to pre-pandemic levels during the opening part of 2021-22. However, a global shortage of key materials has weighed on the sectors recovery since, constraining renewed growth in demand for freight rail services from construction firms. Construction industries are forecast to account for 28.9% of industry revenue in 2022-23.

MANUFACTURERS

Manufacturing industries use rail both to transport inputs and to distribute the finished goods.

Manufacturers are the main consumers of non-bulk freight transport. This means that activity levels in the UK industrial economy flow through to affect non-bulk rail freight movements. Over the first half of the past five-year period, demand from this segment was rising, with a stronger economy encouraging greater levels of industrial production. Depreciation in the pound following the outcome of the EU referendum also supported demand for UK exports in the opening part of the period. Additionally, increased manufacturing stockpiling due to trade-related uncertainty is expected to have boosted demand.

However, the coronavirus pandemic and subsequent supply chain disruption is expected to have acted as a drag on demand during 2020-21. Moreover, the introduction of the new EU-UK Trade and Cooperation Agreement caused demand from manufacturers to decline following its implementation in January 2021. However, export volumes have improved following this initial dip, supporting demand for industry services from manufacturers. Manufacturing volumes have also improved, since the manufacturing Purchasing Managers' Index reached 55.8 in April 2022, and a value above 50 indicates an expansion of the sector. The transport of goods for manufacturers is expected to account for 20.8% of industry revenue in the current year.

MINING AND ENERGY COMPANIES

Miners and energy companies predominately use rail to transport coal to power stations.

However, demand from this market diminished precipitously over the first half of the past five years, owing to efforts made by the government to phase coal out of the UK's energy mix by 2024 in line with long-term decarbonisation targets. In 2021, coal production fell to a record low of 1.1 million tonnes, down 37% compared with 2020, according to data from the Department for Business, Energy and Industrial Strategy (DBEIS). The increase in use of biomass has somewhat counteracted this effect. Moreover, the surge in gas prices towards the end of 2021 has supported demand for coal use, as gas prices rose by 28.1% over the years through October 2021, according to the Office for National Statistics. This segment also contains the market of transporting nuclear waste. Mining and energy companies are is expected to account for 6.1% of industry revenue in 2022-23.

OIL AND PETROLEUM INDUSTRIES

The oil and petroleum industries demand services from rail for the transport of crude oil, petrol, diesel, aviation fuel, gas and other petroleum-based products.

The majority of demand is for the transport of refined or finished products from refineries to distribution centres. Construction of new and upgrading of current pipelines has reduced the reliance on rail freight for this market. Further, the improving efficiency of the UK motor vehicle fleet and rising environmental consciousness has limited crude oil and petroleum usage. The supply and use of crude oil fell from 43.2 billion tonnes in 2018 to 38.2 billion tonnes in 2021, according to the DBEIS. This segment is expected to account for just 5.2% of industry revenue in the current year.

OTHER

Other markets include international customers, farmers and the government.

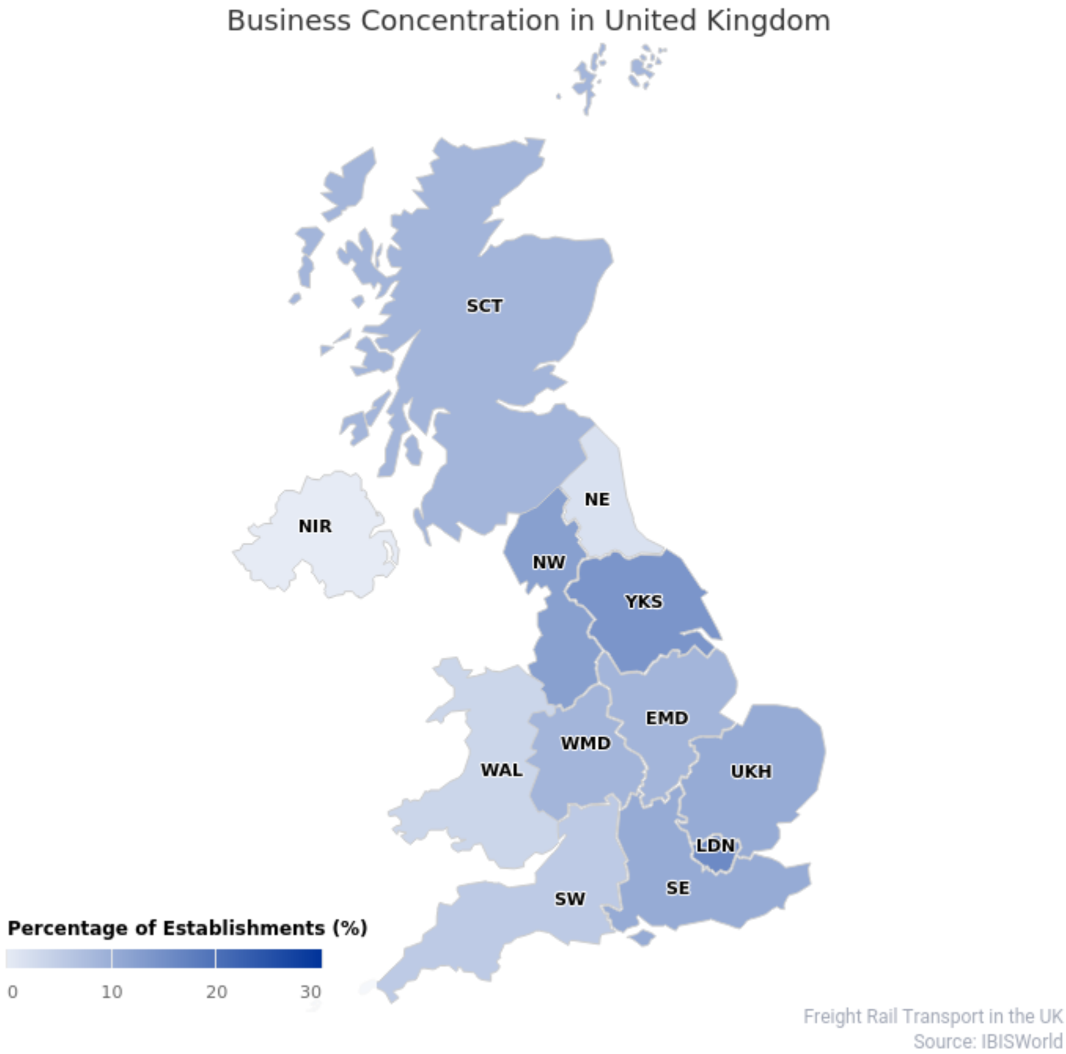
International customers are a very small market for the industry and are generally limited to freight travelling through the Channel Tunnel. There is strong potential for growth in this market, but it is heavily dependent on the capacity of the tunnel and demand for competing passenger rail services. The operation of a new unaccompanied cross-channel rail freight service from September 2021 is expected to increase the volume of goods carried through the tunnel in the coming years. However, this service will be operated by European public company Getlink, limiting the direct influence on industry revenue.

Exports in this industry are ⊘ Low and Steady

Imports in this industry are ⊘ Low and Steady

As it is service-based, the Freight Rail Transport industry is not expected to undertake international trade. While freight carried by industry operators may be from outside of the United Kingdom, this is recognised at the manufacturing level.

Business Locations



The distribution of establishments in the Freight Rail Transport industry is influenced by the location of start- and end-user markets. In this case, journeys frequently begin and end at ports and areas of major industrial activity as containerised goods are moved between the two points.

London

It is expected that London contains 15.8% of industry establishments, partially due to the head office of most rail freight transportation companies having head offices located there. London is also experiencing a large infrastructure boom, requiring aggregate and construction goods to be transported via rail, such as Crossrail, HS2 and the Battersea Power Station redevelopment. Various retailers require distribution hubs located in London that are situated near rail hubs for speed and convenience, such as Tesco and Amazon. There are ports within easy reach of London, such as London Gateway and the Port of Tilbury. The European rail hub in Barking also contributes towards the number of business locations, as it connects to the Channel Tunnel to the major distribution centre of Daventry via rail and road access links to the M25.

Yorkshire

Yorkshire contains 14% of industry establishments. The industry's newest intermodal port, iPort Rail, opened in September 2018. The site is located in Doncaster and connects to the East Coast Main Line. It provides easy access to the M18, is close to Doncaster Sheffield Airport and within two hours of the East Coast's deep-water ports at Teesside and Immingham. The region is also home to the Drax Power Station, which supplies 6% of Britain's energy needs, including 15% of its renewable power, through a mix of biomass and coal.

The North West

The North West contains 12.3% of industry establishments. Liverpool, a major transport hub for bulk cargo, bulk liquids and oil, is located in the region. The region is also home to the major city of Manchester, in which construction activity is currently growing significantly. The North West is also a hub for manufacturing activity.

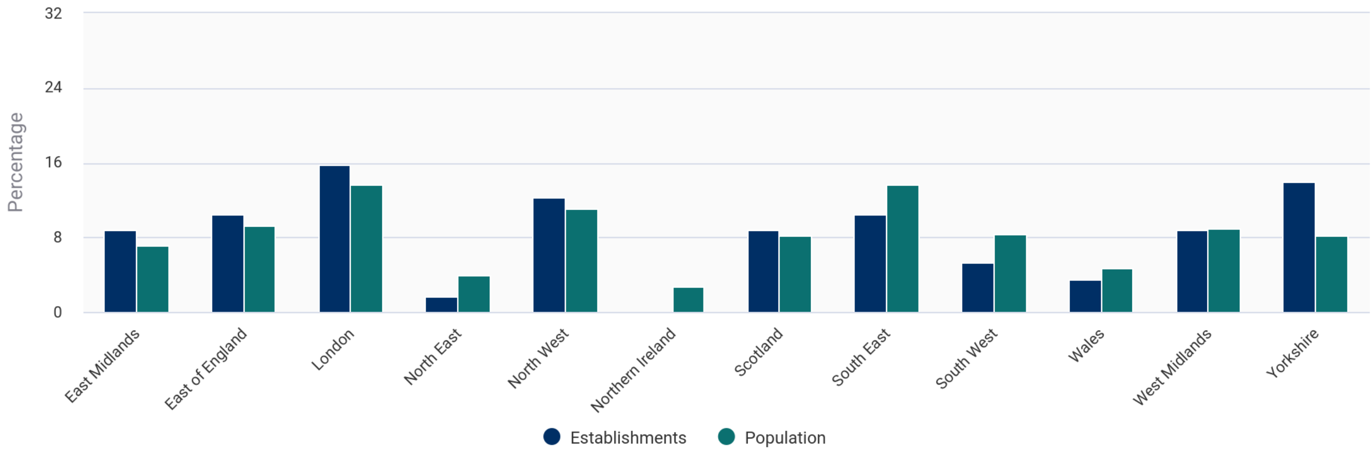
The South East

The major ports in the South East include the Port of Dover, the main entry point for lorries and ferries from mainland Europe, and Southampton. These two ports have contributed towards 10.5% of industry establishments being located in the region. The South East contains the Dollands Moor rail freight terminal, which receives trains from Continental Europe via the Channel Tunnel.

Other

The Midlands also have a fairly high share of establishments. The area is a hub for moving freight to other parts of the country. Many logistic hubs are located in the Midlands as it is home to the logistics golden triangle, which gives access to 91% of the UK population in less than a four-hour drive. The Port of Bristol in the South West is a major port for the transport of automobiles. Regions such as the North East and Wales do not have many industry establishments as they are less convenient for distribution and have a low population share. There is currently no freight traffic on the rail network in Northern Ireland.

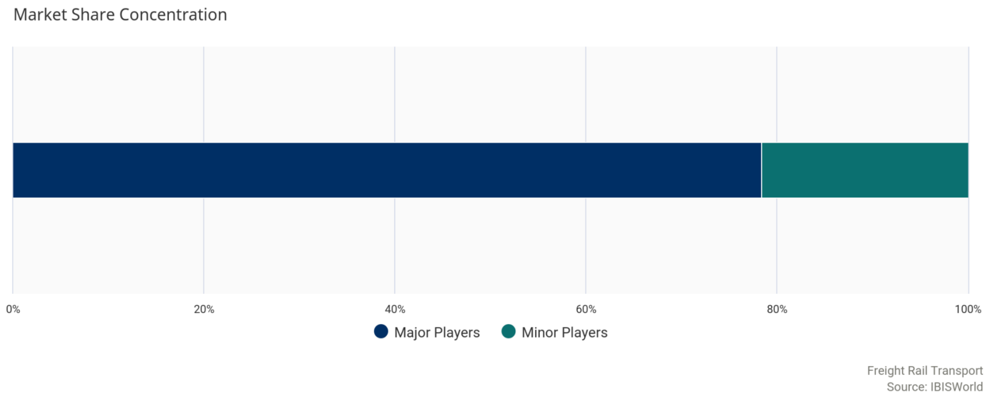
Distribution of Establishments vs Population



Freight Rail Transport
Source: IBISWorld

Competitive Landscape

Market Share Concentration



Concentration in this industry is ⚠ High

The level of market share concentration in the Freight Rail Transport industry is high, as the four largest operators in the industry are expected to account for 78.4% of industry revenue in 2022-23. This is due to the high barriers to entry, making it difficult and therefore deterring potential operators from entering the industry. However, concentration is expected to have fallen slightly over the past five years. This is primarily due to the collapse in the use of coal and British steel production over the period. Coal accounted for 8.9% of freight transported by the industry in 2017-18, but this is expected to fall to approximately 4.3% in the current year. As a result, the proportion of industry revenue held by the largest industry operator, DB Cargo (UK) Ltd, is expected to fall from 30.6% in 2017-18 to 26.5% in the current year, as the company focused on the transportation of coal. However, the proportion of industry revenue accounted for by the next three largest industry operators has either remained stable or risen, as they have focused on the transportation of other growing segments, such as intermodal and construction materials transportation.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Effective cost controls:
Volatile fuel costs make it more difficult for firms to control their profit margins. Operators can cut the risk associated with this by using forward fuel contracts.

Having an extensive distribution/collection network:
Freight operators that can offer the best service maintain a large and diverse network. This may include combining alternative transport modes to provide door-to-door services.

Access to secure revenue:
Securing lucrative long-term distribution deals is key to guaranteeing steady revenue expansion year on year.

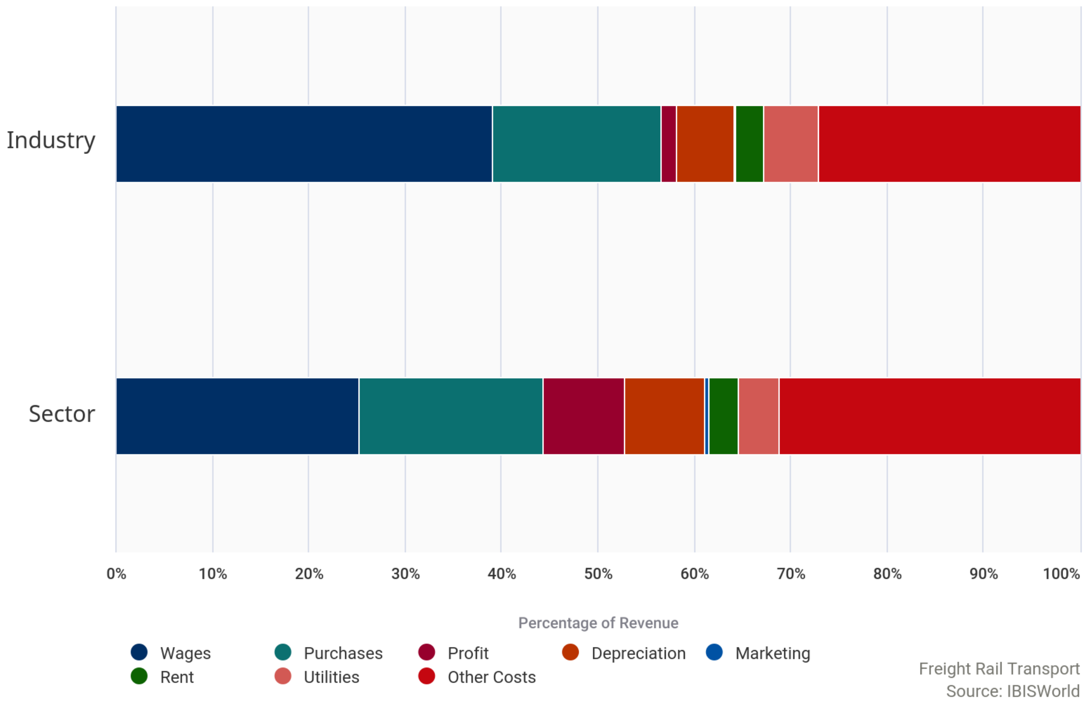
Ability to allocate product/service to area of greatest need:
Since demand from many market segments is cyclical and mature, the ability to alter services in line with fluctuating market conditions provides firms with a competitive advantage.

Effective quality control:
It is important for an operator's services to run on time. This can be benchmarked against the industry using the Freight delay per 100 train kilometres published by the Office of Rail and Road.

Must have licence:
Freight rail operators require a licence to operate non-passenger trains on the main-line network. Specialist licences are also required to transport hazardous materials.

Cost Structure Benchmarks

Cost Structure 2023

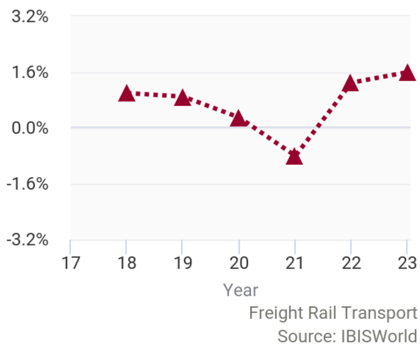


Profit

Industry profitability has fluctuated significantly over the past five years. A decline in the volume of coal transported is expected to have constrained profit margins over the three years through 2020-21. Profitability is influenced by fluctuations in the price of fuel, though the effects of volatile price changes are often mitigated by fuel surcharges implemented by industry operators. Rising freight volumes supported profitability in 2018-19. Restructuring costs, such as redundancy and lease termination fees, also affected profitability during the year.

Disruption caused by the COVID-19 (coronavirus) pandemic is expected to contribute to widespread losses in 2020-21, as services were forced to run below capacity. Average industry profit margins are expected to recover over the two years through 2022-23 to reach 1.6% during 2022-23, aided by renewed growth in freight volumes and rising freight rates. However, due to the rising level of competition, if for instance firms incur additional costs due to rising investments or crude oil prices rise significantly, operators are unlikely to raise their prices too high as this is expected to result in a large fall in demand. This can hider industry profit margins, particularly as fuel is a vital component when transporting goods can fluctuate significantly. Moreover, growth is expected to be constrained due to a significant rise in fuel prices, compounded by increased wage costs amid a severe shortage of skilled workers.

Profit as a Share of Revenue 2018-2023



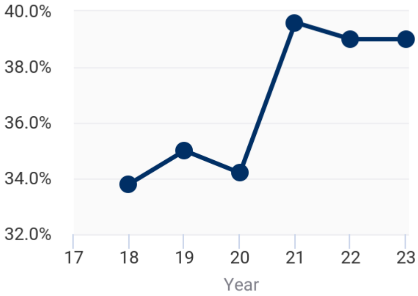
Wages

Wages are the largest expense for industry operators, as a range of specialist staff are required to run an efficient freight rail provider. Wages are expected to account for 39% of industry revenue in 2022-23.

Widespread use of the Coronavirus Job Retention Scheme (CJRS), which ran between March 2020 and September 2021, is expected to have spurred a slight decline in wage costs in 2020-21. In the two years through 2022-23, the ending of the CJRS in tandem is expected to raise wage costs. Moreover, wages are expected to increase over this period as widespread labour shortages throughout transport and logistics sectors inflate average wages. The Logistics UK Skills Report

2021 revealed that average driver pay rose by 10% in the nine months through October 2021 in order to retain existing staff and attract new drivers, though smaller fleet operators are still not back to pre-pandemic fleet capacity.

Wages as a Share of Revenue 2018-2023



Freight Rail Transport
Source: IBISWorld

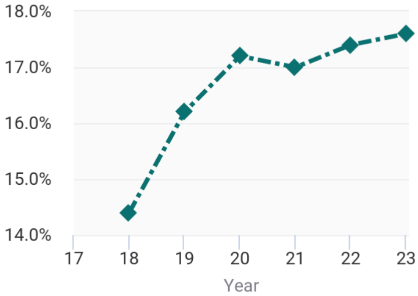
Purchases

Purchases are expected to account for 17.6% of revenue in 2022-23, with track access charges and fuel costs accounting for a significant share of this. The underlying rail network and stations are owned and maintained by Network Rail. Network Rail is government funded and regulated. Freight companies enter into station and track access agreements with Network Rail, which are then approved by the Office of Rail and Road (ORR).

Access charges are set by the government to allow Network Rail to recover the economic cost of the freight rail activity and reinvest in the network. Access charges vary between operators depending on the type of freight the company predominantly transports. Charges are lower for the carriage of intermodal freight compared with the transport of bulk freight, such as coal and aggregates. The main access charge is the variable usage charge, which accounts for 70% of all access charges paid by freight operators.

The cost of diesel is also included in this segment. With only 37.9% of the UK rail infrastructure electrified as of 2020-21, according to the ORR, locomotives propelled by diesel remains important for the industry. Rising fuel prices increased the proportion of industry revenue attributed to purchases in the first half of the period. A notable reduction in the price of fuel is expected to have caused purchase costs to decline in nominal terms 2020-21. However, a significant coronavirus-induced decline in volumes, and subsequent revenue contraction, is expected to have limited the fall in the share of industry revenue attributed to purchases. Purchase costs are expected to rise over the two years through 2022-23, owing to renewed growth in fuel prices, with the average price of diesel rising to record highs of 180.9p per litre in May 2022, according to the RAC.

Purchases as a Share of Revenue 2018-2023

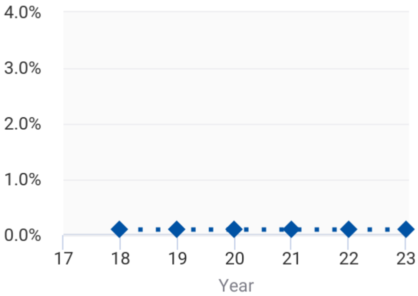


Freight Rail Transport
Source: IBISWorld

Marketing

The industry is expected to spend a fairly small amount of revenue on marketing, at just 0.1% of the total in 2022-23. This is expected to have remained steady over the past five years as the industry takes advantage of syndicated marketing through industry association, Rail Delivery Group.

Marketing as a Share of Revenue 2018-2023

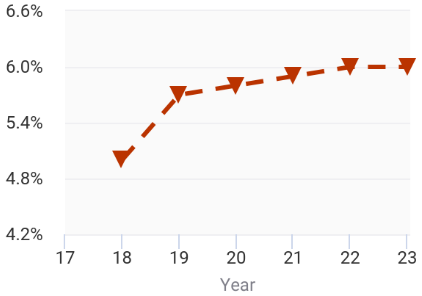


Freight Rail Transport
Source: IBISWorld

Depreciation

Depreciation is an indicator of industry investment and capital expenditure and is expected to account for 6% of industry revenue in 2022-23. The structure of the UK rail sector, where operators rent rolling stock and line access, means that companies own fewer assets. However, operators construct, upgrade and improve facilities to cope with rising levels of intermodal transport demand.

Depreciation as a Share of Revenue 2018-2023



Freight Rail Transport
Source: IBISWorld

Rent

Rent costs are expected to be relatively low, accounting for 2.9% of industry revenue in 2022-23. Rent costs are primarily incurred on the rental of sidings, private rails, depots and offices. However, as these are often in rural areas, the costs are minimal. The proportion of industry revenue attributed to rent is expected to increase, as firms expand the areas they serve.

Rent as a Share of Revenue 2018-2023

Freight Rail Transport
Source: IBISWorld

Utilities

Utility expenses are expected to have remained relatively steady as a proportion of revenue over the past five years and are expected to account for 5.7% of industry revenue in 2022-23. This includes utilities used in buildings and the electricity to power locomotives.

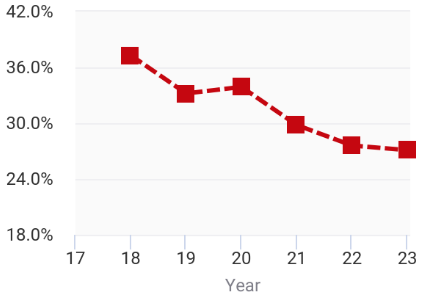
Utilities as a Share of Revenue 2018-2023

Freight Rail Transport
Source: IBISWorld

Other Costs

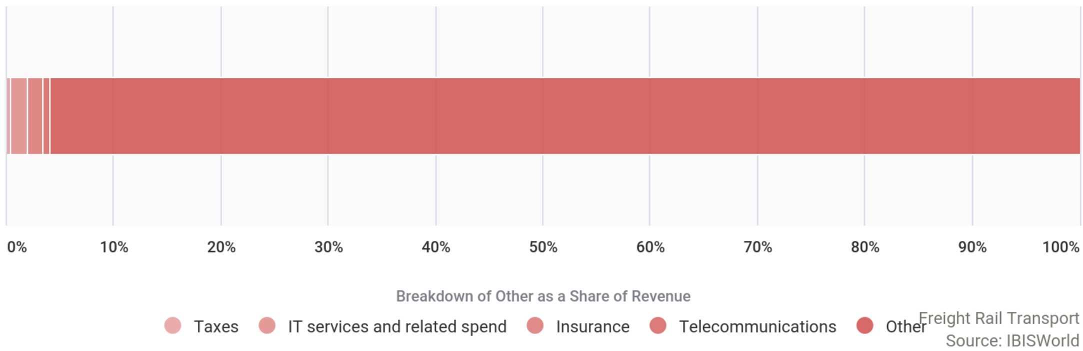
The freight operators active in the industry lease their rolling stock from rolling stock companies (ROSCOs) by private arrangement. They have more flexibility when choosing their vehicles and the routes they serve than passenger rail operators. There are three major privatised ROSCOs, as well as government-funded and -controlled entities established to purchase passenger rolling stock for specific passenger lines. Vehicle rental costs are expected to account for approximately 15% of industry revenue in the current year. Other expenses include tax, insurance premiums, IT and communication costs.

Other Costs as a Share of Revenue 2018-2023



Freight Rail Transport
Source: IBISWorld

Other Breakdown (% of Total Other in 2023)



Freight Rail Transport
Source: IBISWorld

Basis of Competition

Competition in this industry is Medium and the trend is Increasing

INTERNAL COMPETITION

Since the abolition of British Rail's monopoly in the three years to 1997, competition in the industry has increased, contributing towards increasing efficiency in the industry.

Between 2003-04 and 2013-14, data from the Office of Rail and Road (ORR) showed that freight tonnes lifted increased by 30% while train numbers fell by 30%, resulting in an increase in tonnes carried per train of over 80%. Although the amount of freight transported started falling in 2014-15, the industry returned to growth towards the end of the past five-year period as demand readjusted from the decline of coal and steel and the economy recovered from the COVID-19 outbreak. The ORR reported that 19.8 million tonnes of freight were lifted in the second quarter of 2021-22, which was a 14.3% rise compared with the same quarter in 2020-21 and a 5.3% rise compared with the same quarter in 2019-20.

EXTERNAL COMPETITION

Freight rail transport faces competition from operators in the Freight Road Transport industry (IBISWorld report H49.410).

Rail's main competitive advantage over road transport is its efficiency in moving large loads over long distances. Furthermore, rail transport is more fuel-efficient than road transport, which has become more important over the past five years under increasingly stringent emissions regulations. Despite this, road transport remains the mode of choice for the majority of freight transported throughout the United Kingdom. Data from the Department of Transport revealed that 79% of domestic freight moved in the United Kingdom in 2020 was by road, compared with just 9% by rail. Nevertheless, a severe shortage of HGV drivers is expected to contribute to an accelerated shift from road to rail transport during the two years through 2022. This trend is expected to continue in the coming years, with the government's Williams-Schnapps Plan for Rail highlighting the role that rail freight can play in the UK's decarbonisation agenda.

Barriers to Entry

Barriers to Entry in this industry are High and the trend is Steady

The barriers to entering the industry are high. The most notable are access to infrastructure, the high cost of leasing rolling stock and sourcing appropriately skilled staff. Potential new entrants may have significant difficulties gaining access to appropriate paths on the rail network, as main lines may be busy or prohibitively expensive. The acquisition of suitable locomotives and rolling stock is also costly for new entrants, despite leasing arrangements. The difficulty and cost of recruiting staff with appropriate experience and route knowledge may also be a barrier for some operators. Freight operators can focus on a specific route or geographic area without investing as much capital in fixed assets. However, operating on a national scale requires specialised terminal facilities and effective fleet management systems. Larger firms need to build substantial economies of scale, as large volumes are essential to covering fixed costs over a larger revenue base, which is vital for maintaining profitability. Another barrier to entry would be getting approval for planning permission to build new rail tracks as the potential for disruption, noise pollution and accidents would make this nearly impossible to secure.

Barriers to success in the industry are also significant because of the dominance of a number of larger players which have a significant presence across a range of freight services. The establishment of the UK Rail Freight Alliance in 2013 is likely to have helped shape the functioning and regulation of the industry in favour of the five members of the alliance and posed a further limit on the ability of other businesses to succeed in the industry. Road freight is the dominant form of freight transport in the United Kingdom and strong external competition is a further deterrent to new operators.

Barriers to Entry Checklist

Competition	Medium ⊖
Concentration	High ⚠
Life Cycle Stage	Growth ⊘
Technology Change	Medium ⊖
Regulation & Policy	Heavy ⚠
Industry Assistance	Medium ⊖

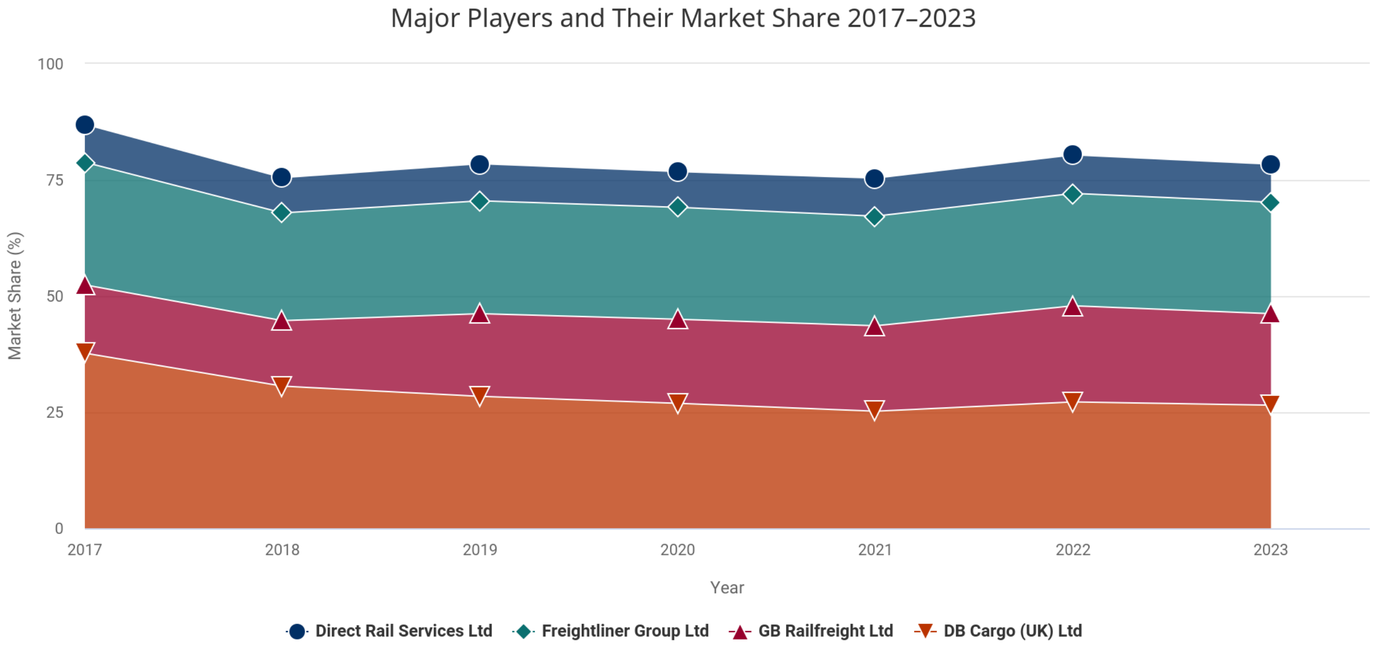
Industry Globalization

Globalization in this industry is ⚠ High and the trend is Increasing

The Freight Rail Transport industry displays a high degree of globalisation in the ownership of the major players as only two major companies, GB Railfrieght and Direct Rail Services, is domestically owned. The industry's largest operator, DB Cargo (UK), is owned by Deutsche Bahn AG, a state-owned German rail operator and a major global logistics company. DB Cargo is the logistics subsidiary of the company and purchased English, Welsh and Scottish Railway Ltd in 1997, with a 92% stake. Freightliner Group was acquired by US rail giant Genesee & Wyoming Inc in 2015, and then purchased by the Singaporean sovereign wealth fund, GIC, and Canadian Brookfield Infrastructure in July 2019. Mendip Rail is a British rail freight company that is a joint venture operated by Aggregate Industries, part of the Swiss company LafargeHolcim, and Hanson Aggregates, with a German parent company Heidelberg Cement.

GB Railfreight has also changed ownership twice, first when it was acquired by the Swedish investment fund EQT Partners in 2016 and then it was purchased by Infracapital, the European infrastructure division of M&G Investment Management Ltd, in 2019.

Major Companies

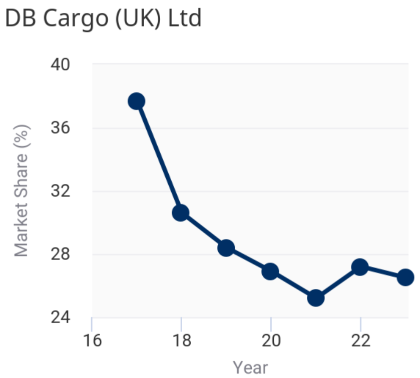


Freight Rail Transport in the UK
Source: IBISWorld

Major Players

DB Cargo (UK) Ltd

Market Share: 26.5%



Freight Rail Transport
Source: IBISWorld

DB Cargo AG, formerly DB Schenker Rail, is a leading freight train operator in Europe that carries a variety of cargo, including coal, steel, chemicals, automobiles, petroleum, fertilisers, consumer goods and construction materials. The company is owned by the German rail group Deutsche Bahn AG, which is the largest rail company and infrastructure owner in Europe. DB Cargo AG reported revenue of €4.2 billion (£3.6 billion) in 2021.

DB Cargo (UK) Ltd, headquartered in Doncaster, offers several core services, including; coal and biomass, construction and waste, intermodal, metals, automotive and chemicals. DB Cargo is the only operator of wagonload services in the United Kingdom, enabling customers to book as many wagons as they need on multi-user trains. It also operates the Royal Train and the Orient Express, rail infrastructure maintenance support and terminal management.

Declining demand for steel transportation has negatively affected the company over the past five years. However, the company believes that steel will play an important role in rail freight, and invested £6 million in the expansion of its Wolverhampton steel terminal, which opened in 2018. In its 2018 annual report, DB Cargo stated that it had been affected by the general vesting declaration of its Euston site, reducing its presence in London. Though it has been able to replace this with the opening of its North London Cricklewood Terminal in May 2020, acting as a base to serve aggregate and spoil customers, particularly for the High Speed 2 works. Its steel segment has come under pressure due to the sector's lack of competitiveness, confirmed by the liquidation of British Steel in May 2019. However, the DB Cargo was able to expand in the sector, following the purchase of British Steel by Jingye Steel in March 2020, taking on the contract to also haul raw materials for the company. The firm announced in January 2019 that it was expanding its intermodal rail capacity, with a deal with Maritime Transport to provide services from Southampton and Felixstowe, starting with four services.

DB Cargo is well placed to capitalise on plans to decarbonise the transport sector. In 2021, the company trialled the first UK carbon neutral trains fuelled by hydrogenated vegetable oil. Following these trials, the company now operates carbon neutral services within aggregates and intermodal.

Poor operating conditions forced the company to consider reducing its domestic workforce, sparking negotiations with trade unions. In April 2017, the company announced it had reached an accord with the trade unions and will introduce flexible working arrangements. Due to restructuring, the number of employees fell from more than 2,500 in 2016 to under 1,900 in 2020.

Financial performance

Over the five years through 2022, DB Cargo's revenue is expected to decline at a compound annual rate of 0.3% to £308 million. This decline is mainly due to a sustained contraction in its traditional markets of coal and steel. However, a rise in demand for coal towards the end of 2021, which is expected to continue during the current year is forecast to prevent a larger fall in revenue.

The company's ‘future business model' was launched in July 2017. This involves investing in Astra Rail MMA wagons supplied by leasing company VTG Rail UK and developing an Anubis customer order IT system. Subsequently, in March 2018, DB Cargo announced plans to equip its entire fleet with new sensors and telematics systems by 2020. In 2019, the company that it had entered into an agreement with Maritime Transport to increase rail freight capacity and competition in the intermodal sector, which has continued to grow in the second half of the period.

The company's revenue declined by 14.3% in 2020, as the economic shock caused by the COVID-19 (coronavirus) pandemic led to a significant downturn in freight volumes during the first half of the year. Volumes started to recovery in the second half of the year, aided by the recommencement of activity in key downstream markets, such as the construction sector. The company reported that revenue returned to expected levels by the end of the year. The company has a significant proportion of fixed costs, which were unable to be mitigated, so despite it using government coronavirus support schemes to reduce labour costs, the pandemic had a significant impact on the business' profitability. As a result, the firm reported an operating loss of £29 million during 2020.

Despite being slightly constrained by the re-introduction of strict public health restrictions and the immediate fallout of the end of the transition period during the opening of the year, revenue is expected to continue to record a robust recovery in 2021. Revenue growth is expected to continue during the current year, with the lifting of all coronavirus-related restrictions. The recovery is expected to also be supported by an accelerated modal shift from road to rail, spurred by environmental concerns and a severe shortage of HGV drivers. The company is also investing further to develop its interfaces with its customers and integration of its operational systems to enhance its customers' experience from ordering to tracking and increase both functionalities and flexibility together. This is expected to support profit margins over the two years through 2022.

DB Cargo (UK) Ltd - financial performance

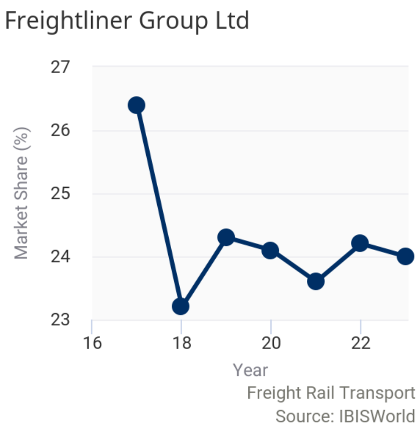
Year*	Revenue (£m)	Growth (% change)	Operating Profit (£m)
2017	312	N/C	-14
2018	297	-4.8	-16
2019	293	-1.3	-12
2020	251	-14.3	-29
2021**	297	18.3	-17
2022**	308	3.7	-11

Source: Companies House and IBISWorld
Note: *Year end December **Estimate

Freightliner Group Ltd

Market Share: 24.0%

Brand Names Freightliner Heavy Haul Ltd, Freightliner Ltd



Freightliner began operating in 1965 and its first train ran from London to Scotland. The firm operates in the industry through its two subsidiaries: Freightliner Ltd, which now deals with maritime container transport; and Freightliner Heavy Haul Ltd, which transports aggregates, cement, coal, infrastructure, minerals and waste. The group also has several other international subsidiaries. Freightliner Group has intermodal, bulk freight and maintenance activities in the United Kingdom, runs open access freight operations in Poland, Germany and

Australia, and owns ERS Railways in the Netherlands. The group also consults in the planning and delivery of rail freight on the North South Railway in Saudi Arabia. The group was acquired by private equity firm Arcapita Inc in 2008 and changed ownership again in 2015, when it was bought by Genesee & Wyoming Inc. In July 2019, the parent company was purchased by GIC, the Singaporean sovereign wealth fund, and Brookfield Infrastructure Partners, a Canadian infrastructure management firm, for US$8.4 billion (£6.6 billion). In January 2020, the company entered into a partnership with Tideworks Technology to provide its terminal operation services.

Freightliner Ltd is based in the deep-sea ports of Felixstowe, Southampton and London Gateway. From these locations, intermodal goods are transported to several rail depots across the United Kingdom on 100 daily services. Freightliner Ltd carries more than 770,000 containers each year in the United Kingdom. The company employed 1,032 people as of 2020 and offers rail-only and door-to-door delivery. In January 2019, the company expanded its contract with FSEW, a freight forwarding company, to provide additional intermodal services on the Cardiff to Southampton route and a new service of Birmingham to Daventry. Despite falling demand for industry services in 2020 due to the of coronavirus outbreak, the company found success in several of its contracts, such as with Suez, for which its transports 1,500 tonnes of domestic waste on three trains per day from Manchester to a waste-to-energy plant in Runcorn.

Freightliner Heavy Haul Ltd is a leading bulk rail freight company, operating up to 200 services each week to move over 12 million tonnes of bulk freight each year. The company offers several services, including aggregates, biomass and coal, metal and scrap, infrastructure and construction. Freightliner Heavy Haul has 20 operations, covering most of England and Scotland. In January 2019, the company announced its plans to expand its Ipswich maintenance and fuelling facility, anticipating growth in demand for the Freight Rail Transport industry. In July 2019, the firm ran a successful test for the UK's heaviest jumbo-train, in preparation of contracted work for Mendip Rail. This contract with Mendip Rail has proven to be successful, enabling the company to maintain its services throughout the coronavirus pandemic, moving aggregates for the construction sector. Furthermore, in September 2020, the company expanded its contract with Tarmac to haul aggregates from Tarmac's quarries in the West Country and their Tunstead site to deliver in Wales, Somerset and Herefordshire. The company employed nearly 610 staff as of 2019.

In September 2021, the company took delivery of 40 FFA-G wagons as part of a strategy to reduce their carbon footprint. The wagons are two tonnes lighter per wagon than any other, enabling improved fuel efficiency, as well as significantly reducing noise levels and minimising track damage. A further 190 of the new wagons arrived in November 2021. The company have also began exploring low carbon alternative fuels in 2020 and carried out a number of HVO trials on jumbo trains.

Financial performance

Freightliner Group's industry-related revenue is derived from Freightliner Ltd's industry-related revenue and Freightliner Heavy Haul Ltd's revenue. Freightliner Group's industry-related revenue is estimated to increase at a compound annual rate of 3.4% over the five years through 2022, reaching £279.5 million. Freightliner Heavy Haul has expanded its services over the past five years, following an 18% fall in the company's freight train tonne kilometres over 2017, according to data from the Office of Rail and Road (ORR). This was followed by renewed growth in the length of track covered over the two years through 2019. The firm last reported revenue of £85.9 million for 2019, alongside an operating at a loss of £16.3 million. The acquisition of the Mendip contract from DB Cargo UK in November 2019 has allowed Freightliner Heavy Haul to expand its market share in the second half of the period. According to data published by the ORR, the number of freight train kilometres covered by Freightliner Heavy Haul increased by 27.1% in 2020. This is compared with an industry-wide decline of 10.5%. However, data from the ORR for the three months through December 2021 revealed a 3.5% decrease in freight train kilometres covered, compared with industry-wide growth of 2.5%. This is expected to constrain revenue growth during 2021. Freightliner Heavy Haul's revenue is expected to increase at a compound annual rate of 4.2% over the five years through 2022, reaching £98.8 million.

Freightliner Ltd's industry-related revenue excludes road services and is estimated to grow at a compound annual rate of 3% over the five years through 2022 to reach £180.7 million. Freightliner has benefited from the steady growth of the intermodal freight market throughout the period, albeit despite recording a dip in 2020, in which the coronavirus pandemic caused volumes to decline.

Freightliner Ltd - industry-related performance*

Year**	Revenue (£m)	Growth (% change)
2017	156.1	N/C
2018	168.2	7.8
2019	177.3	5.4
2020	145.0	-18.2
2021	170.9	17.9
2022	180.2	5.4

Source: Companies House and IBISWorld
Note: *Estimate **Year end December

Freightliner Heavy Haul Ltd - financial performance

Year*	Revenue (£m)	Growth (% change)	Operating Profit (£m)
2017	80.6	N/C	-1.3
2018	85.1	5.6	-14.7
2019	85.9	0.9	-16.3
2020**	89.8	4.5	-13.5
2021**	93.2	3.8	-10.2
2022**	98.8	6.0	-8.2

Source: Companies House and IBISWorld
Note: *Year end December **Estimate

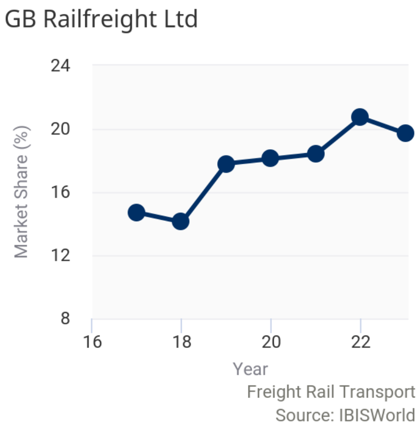
Freightliner Group Ltd - industry-related performance*

Year**	Revenue (£m)	Growth (% change)
2017	236.7	N/C
2018	253.3	7.0
2019	263.2	3.9
2020	234.7	-10.8
2021	264.1	12.5
2022	279.5	5.8

Source: IBISWorld
Note: *Estimate **Year end December

GB Railfreight Ltd

Market Share: 19.7%



GB Railfreight (GBRf) was purchased by Groupe Eurotunnel SA in May 2010 for £31 million, the operator of the Channel Tunnel. GB Railfreight was part of the company's Europorte subsidiary until November 2016, when it was sold to Swedish investment fund EQT Partners for €180 million (£145.6 million). In September 2019, the company was sold to Infracapital, the European infrastructure division of M&G Investment Management Ltd.

GBRf provides intermodal services from the Port of Felixstowe and bulk transport from various other ports, including London Gateway and Southampton. GBRf's rail services customers include the train builder Bombardier and moving the London Underground S-Stock from Derby to London. The company also hauled Siemens Rail Class 350 for London Midland and TransPennine Express and delivered the final two Class 180s to Derby Etches Park on behalf of East Midlands Railway in July 2020. Other customers include Drax, Network Rail, EDF Energy, MSC UK, Aggregate Industries, Crossrail and Tarmac. GBRf transports 115,000 tonnes of biomass from ports to power stations each week using approximately 80 trains. Since 2011, the company has provided petrochemical rail haulage from Inver Terminal in the North East to Cardiff's Queen Alexandra Dock, now at three trains per week, as well as, two trains per week between Norwich and Harwich for Petrochem Carless. The firm also moves approximately 87,000tonnes of steel coil each week for Tata, between Port Talbot to the Isle of Grain and Trostre to Tilbury. The firm employs over 900 staff, transporting 22% of British rail freight on more than 1,400 trains per week.

Recently, the company has expanded due to several new contract wins, such as the seven-year contract with Hanson Cement, announced in November 2019, to provide freight services from two of their cement works to terminals in London, Bristol and Glasgow. This builds on the new Southampton-to-Manchester intermodal service launched in the previous month, along with the launch of a five-day per week service between iPort Rail in Doncaster and Felixstowe. Over 2019, the company introduced 100 new box wagons and 80 new hopper wagons.

Despite the coronavirus outbreak, the company expanded its services, opening a Southampton to East Midlands intermodal service in July 2020, running five trainloads per week. This builds upon its expansion of its intermodal sidings in Peterborough that opened in June 2020, which doubled its capacity in the location and opening the Dove Holes to Crawley route in the same month. In March 2021, the company launched a new daily service from Felixstowe to West Yorkshire, further boosting its dominance in intermodal transport. This is likely to be supported in the longer term, with the Port of Felixstowe's designation as a freeport in the 2021 Budget. In the same month, the company signed a two-year deal with Hanson to provide twice weekly aggregate deliveries between Shap Quarry in Cumbria and Liverpool.

Financial performance

GBRf's revenue is expected to increase at a compound annual rate of 9.8% over the five years through December 2022 to reach £229.3 million. The company has grown rapidly over the past five years, albeit despite recording an anticipated coronavirus-induced dip in 2020. Growth has been supported by the fact it has its base at the Port of Felixstowe and holds a market-leading position in the growing intermodal transport market. The company commenced operations at DP World London Gateway in March 2017 and subsequently, in June of the same year, entered a three-year agreement to manage the movements and preparation of all trains running in and out of the port.

The company reported a 7.5% fall in revenue during 2020 to £182.9 million, due to a reduction in trading following the COVID-19 pandemic. A larger fall in revenue was prevented through the company's continued expansion of services in 2020, including the commencement of two new contracts to support the constructions of High Speed 2 railway link and new service with CEMEX from Dove Holes quarry to Crawley.

The company's operating profit has remained under pressure over the past five years, owing mainly to the demise of coal. This was exacerbated by the effects of the coronavirus on freight volumes in 2020. However, the rise in intermodal rail haulage and a transition from coal to aggregate haulage has provided some relief to margins over the period, which grew by 10.3% to £9 million in 2020. The company operated a series of intermodal services during 2021 from the Port of Tyne to strategic rail hubs in Yorkshire and the Midlands to help ease strains caused by simultaneous increased consumer demand and supply chain challenges, ensuring the delivery of goods across the United Kingdom. The firm reported than it expected its revenue to exceed £225 million in 2021 and subsequent growth is expected to occur in the current year as the firm continues to expand its services. For instance, in January 2022, GBRf opened a new service from Newhaven to Thorney Mill, which is capable of transporting 1,350 tonnes. Moreover, in March 2022, HBRf and rolling stock company Porterbrook announced the production of 50 new box wagons.

GB Railfreight Ltd - financial performance

Year*	Revenue (£m)	Growth (% change)	Operating Profit (£m)	Growth (% change)
2017	143.8	N/C	9.5	N/C
2018	185.4	28.9	7.0	-26.3
2019	197.8	6.7	8.2	17.1
2020	182.9	-7.5	9.0	9.8
2021**	225.7	23.4	9.4	4.4
2022**	229.3	1.6	9.9	5.3

Source: Companies House and IBISWorld
Note: *Year end December **Estimate

Direct Rail Services Ltd

Market Share: 8.2%

Direct Rail Services (DRS) was established in 1995 to provide the nuclear industry with strategic rail transport. Along with Pacific Nuclear Transport Ltd, the company operates as a subsidiary of Nuclear Transport Solutions, which was launched by the Nuclear Decommissioning Authority (NDA) in April 2021 to create a single nuclear transport division. Nearly 45% of the firm's revenue comes from moving spent nuclear fuel, decommissioning waste and nuclear construction support, though this has been falling in recent years as the company expands its external operations. DRS is Britain's only accredited freight carrier of radioactive material. Other key services include intermodal freight, rail network infrastructure support, major infrastructure project support, and passenger and train operating company support.

The company employed 480 staff as of 2020-21, operating services from rail hubs in Carlisle and Crewe, and has

31 depots across the United Kingdom. In spring 2018 new locomotives arrived, bringing the total fleet number to 107 as of 2018. In September 2017, the firm launched a tender for 10 further locomotives, which arrived at the end of 2019. The company are reducing the use of its ‘heritage fleet', which encompasses the Class 20 and 37 locomotives as it seeks to improve its efficiency and reduce carbon dioxide emissions. In 2022, DRS sold the last of its Class 20 locomotives.

In addition to being involved in the NDA's decommissioning activities, DRS performs other rail freight activities and associated services. Over the past five years, the company has expanded into a number of different rail freight sectors, especially in ‘critical supply' rail transportation. The company won The Best Performing Rail Freight Operator at the Golden Whistle Awards for the ninth consecutive time in 2022. This award is based on consistent arrival times over the previous year, and is therefore an important metric for customers. The company has expanded its services over the past few years, launching the first services between Tilbury and Grangemouth in June 2019, taking retail goods, food and drink to Scotland and returning with alcoholic spirits and chemicals for export. In January 2020, the company won a contract with Ford to transport up to 10 trainloads of cars and vans each week from its Dagenham factory to a rail terminal in Liverpool.

Financial performance

In 2020-21, Direct Rail Services Ltd generated revenue of £81.7 million, with an operating loss of £3 million. This loss was predominantly due to delays in planned growth as a result of the COVID-19 pandemic and the deferment of a major nuclear contract. This was the second loss in the company's history, with the first occurring in 2019-20 due to cost challenges and lower infrastructure revenue, along with the early effects of the coronavirus outbreak. There was increased revenue from intermodal during 2020-21, but the train operating company and nuclear sector revenue declined over the year due to contracts which finished in the previous financial year and a slight reduction in services required. Despite this, the company was able to largely mitigate the decline in revenue through the delivery of a programme of cost saving initiatives.

DRS's revenue is estimated to increase at a compound annual rate of 4% over the five years through 2022-23 to reach £94.9 million. Revenue growth has primarily been due to growth in services provided to outside of the nuclear industry. For example, the firm began hauling the trains for the TransPennine Express as part of a seven-year contract with First in August 2019. In July 2013, Tesco renewed its contract with DRS to provide distribution services from its Daventry depot, while DRS also provides most of the rail freight services of Stobart Group's logistics. The contract with Tesco is expected to have been the key driver of an increase in freight kilometres recorded by the company in 2020, as the coronavirus pandemic caused supermarket sales to spike. Despite easing as demand returns towards seasonal averages, industry revenue is expected to remain elevated during the current year. This will be supported as the company signed a new three-year deal with Tesco in January 2022, to continue to supply and expand rail operating across the countries in their established partnership.

Direct Rail Services Ltd - financial performance

Year	Revenue (£m)	Growth (% change)	Operating Profit (£m)
2017-18	78.0	N/C	1.7
2018-19	83.4	6.9	1.8
2019-20	84.4	1.2	-3.0
2020-21	81.7	-3.2	-6.0
2021-22*	90.1	10.3	0.5
2022-23*	94.9	5.3	1.3

Source: Companies House and IBISWorld
Note: *Estimate

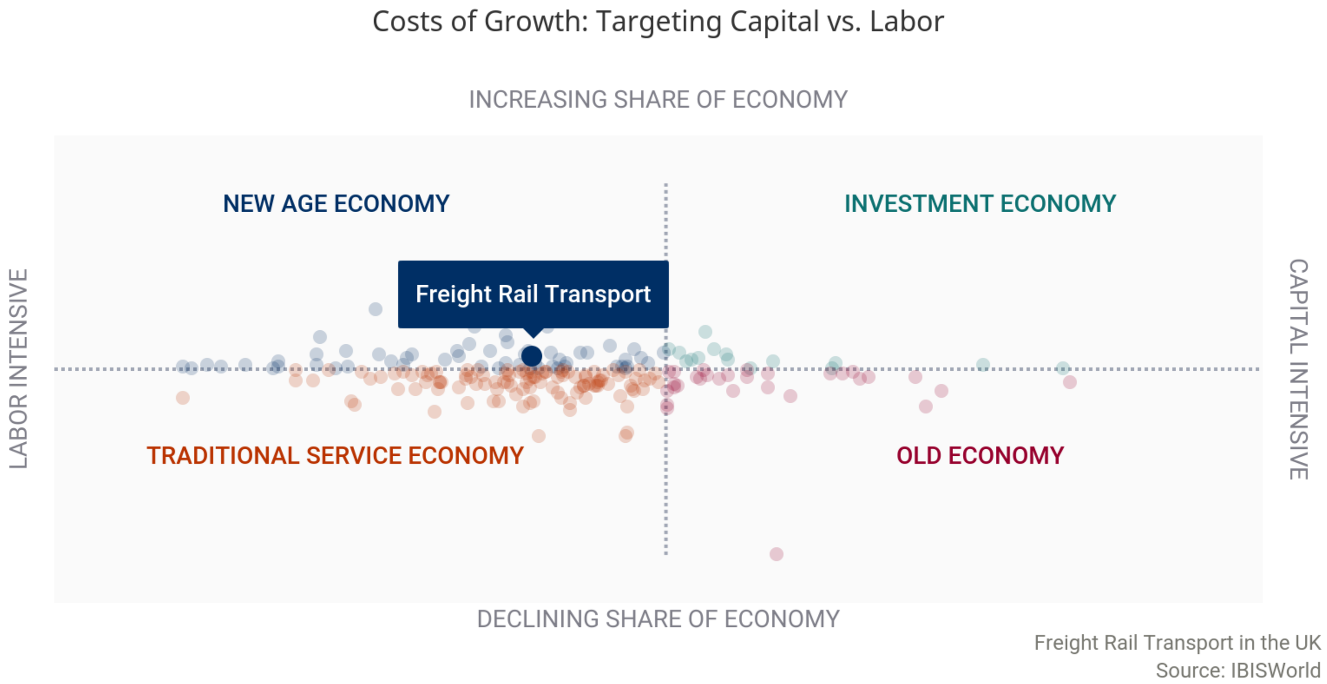
Other Companies

Mendip Rail Ltd

Market Share: 3.7%
Mendip Rail is a British rail freight company that is a joint venture operated by Aggregate Industries and Hanson Aggregates. The company was originally established in 1993 as a cost-saving solution by the two businesses. The rail company moves aggregates from the two main quarries of the parent companies, in the Mendip Hills in Somerset, to London and South East England. Recent projects include Crossrail, Battersea Power Station redevelopment and Hinkley Point C. Mendip Rail hauls approximately eight million tonnes of stone each year. The firm trialled the heaviest freight train in the United Kingdom with Freightliner at 4,000 tonnes in August 2019, which is expected to improve profitability in the future.

The company last reported revenue of £38.1 million for 2020, with an operating loss of £261,000. In December 2018, Freightliner Group was awarded the contract for operating Mendip Rail trains from November 2019, purchasing eight trains from Mendip Rail. In June 2020, the company received the final of 95 new hoppers, designed to transport aggregate from the parent companies' quarries. Mendip Rail is expected to generate revenue of £42.5 million in 2022.

Operating Conditions

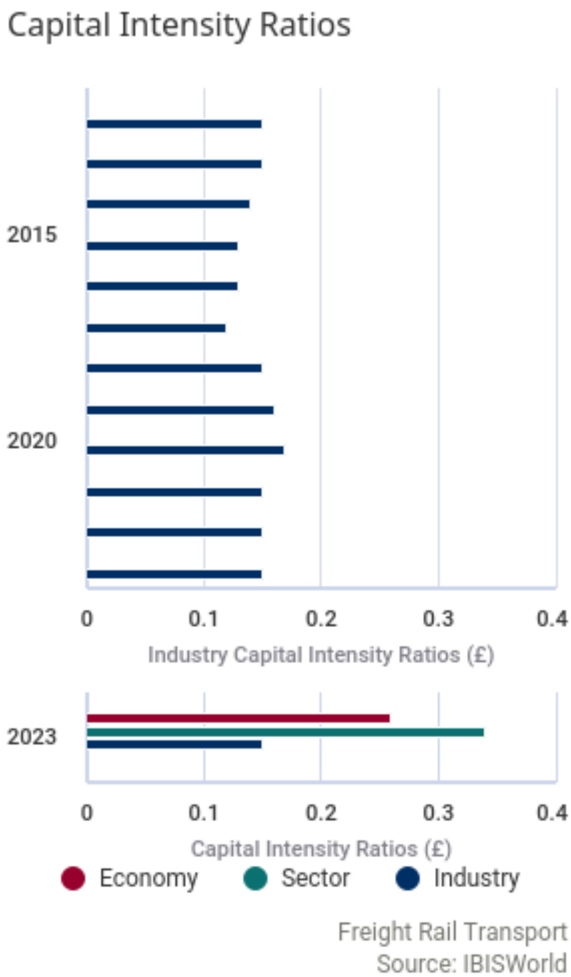


Capital Intensity

The level of capital intensity is ⊝ Medium

The Freight Rail Transport industry is expected to operate with a moderate level of capital intensity in 2022-23. In 2022-23, the industry is anticipated to spend approximately £6.50 on labour for every £1.00 invested in capital. Capital intensity has increased over the past five years, as the long-term prospects for the industry have improved, with many firms refitting their existing capital to adapt to the transition from coal transport. However, a shortage of skilled drivers and competition for obtaining employees have pushed up wage costs over the past five-year period, slowing growth in the industry's capital intensity. The Logistics UK Skills Report 2021 revealed that average driver pay rose by 10% in the nine months through October 2021 in order to retain existing staff and attract new drivers.

Other rail transport industry, such as the Intercity Passenger Rail Transport industry (IBISWorld report H49.100), are often capital intensive due to the high cost of rolling stock and other equipment. However, the structure of the privatised British rail system means the industry's capital costs are fairly low. Rather than owning rolling stock, many industry operators rent trains and carriages from rolling stock companies. The industry also rents space on the network by paying network access charges to Network Rail. Depreciation is therefore much lower than in many similar industries. However, in the latter half of the period, firms have been increasing investment in their fleets to improve green credentials and operating efficiency, raising depreciation costs.



Technology & Systems

Potential Disruptive Innovation: Factors Driving Threat of Change

The industry's operations are not significantly affected by any external technological platforms or systems.

As a result, there are no technological disruptors relevant to this industry.

The level of technology change is ⊖ Medium

The industry is characterised by a moderate level of technology change.

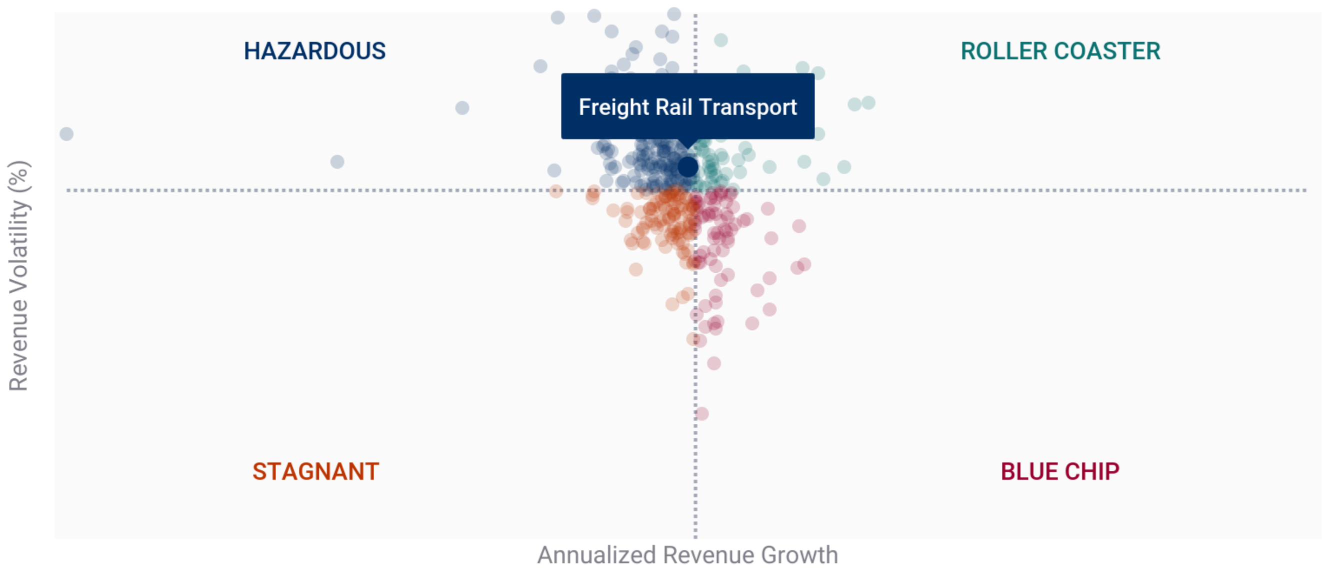
Rolling stock companies are slowly replacing older rolling stock with more fuel-efficient locomotives, compliant with increasingly stringent emissions regulations. According to the Office of Rail and Road, the average age of rolling stock nationally fell from 20.2 years in 2016-17 to 17.1 years in 2020-21. Electric trains are cheaper to operate and maintain, as well as emitting between 20% and 35% less carbon per than a diesel train, according to Network Rail in 2021. Technology is being developed to build trains making no carbon emissions. For example, Porterbrook, a rail leasing company, began experiments in 2021 with a train that uses carbon-free hydrogen fuel cells to power its electric motors.

Furthermore, stronger and lighter materials are increasingly used in the construction of rolling stock, which increases the net weight carried by a train as a proportion of its gross tonnage. Moreover, since leaving the European Union in 2020, UK firms have been able to increase the maximum train length to 775 metres, which is 35 metres longer than the European maximum standard. These developments are likely to reduce the industry dependence on labour and capital by increasing the maximum haulage by one locomotive.

Revenue Volatility

The level of volatility is ⚠ High

Volatility vs. Growth



Freight Rail Transport
Source: IBISWorld

The Freight Rail Transport industry has exhibited a high degree of revenue volatility over the past five years.

Industry revenue recorded a notable decline in the two years prior to the past five-year period, after the introduction of the additional tax on carbon emissions in April 2015 led to an accelerated decline in coal volumes. Coal volumes continued to decline over the three years through 2020-21, with operators forced to readjust to the shift in operating conditions, with many seeking to capture a share of growing demand for intermodal transport. This readjustment has induced a degree of volatility to freight volumes over the period. Despite a rise in coal transportation from the end of 2021 due to a surge in gas prices leading to increased use of coal, the overall share of freight revenue attributed to transporting coal is expected to decline over the next five years, with the government aiming to phase coal out of the UK's energy mix by 2024.

Revenue is also influenced by changes in the world price of crude oil, which affects the cost of fuel. Changes in fuel costs are usually passed on to clients in the form of higher or lower rates. However, due to the rising level of competition, operators are unlikely to raise their prices too high as this is expected to result in a large fall in demand. Since oil is inherently volatile in nature, this has contributed to a rise in the level of volatility displayed by industry revenue over the past five years. In the current year, crude oil prices are expected to rise rapidly following Russia's invasion in Ukraine in March 2022. Various countries imposed sanctions on Russia, which Russia responded to with the threat of sanctions of its own, threatening to reduce or cut oil supplies to Europe. As Russia supplies roughly 11% of the world's oil supply and more than one-quarter of Europe's crude oil, crude prices are forecast to increase rapidly in 2022. Since this impact is so large, most operators are expected to raise their prices, supporting industry revenue.

Revenue volatility is expected to have increased in the second half of the period, as disruption to domestic and global economic activity has spurred significant unseasonal fluctuations in freight rates and volumes. The effects of this disruption have been mainly concentrated in the first half of 2020-21, with the Office for Rail and Road (ORR) reporting a 17.3% decline in the volume of freight moved over the six months through September 2020, compared with the same period in the previous year. Volumes have since recovered to pre-pandemic levels, with the ORR data revealing that total freight moved in the three months through December 2021 was 2.1% higher than the equivalent quarter in 2019. This, in addition to increased freight rates, is expected to support significant renewed growth in industry revenue during the current year.

Regulation & Policy

The level of regulation is ⚠ Heavy and the trend is Increasing

The Freight Rail Transport industry is heavily regulated, with the level of regulation increasing over the past five years.

The industry is regulated by the Office of Rail and Road (ORR), a non-ministerial government department. ORR is also the competition authority for the railways and enforces consumer protection law in relation to the railways.

LICENSING

In order to qualify as a railway operator, a company is required to hold an appropriate licence.

Operators in the Freight Rail Transport industry are required, through the Railway (Licensing of Railway Undertakings) Regulations 2005, to hold a European freight licence. A European licence holder operating in Great Britain must also have and comply with a Statement of National Regulatory Provisions issued by the ORR. European licences are valid anywhere in the European Economic Area. Railway operators are also required to hold a current Safety Certificate produced by the ORR. Most operators require a Network Licence, Non-Passenger Licence and a Light Maintenance Depot Licence in order to provide and full and efficient service. European licences issued by a licensing authority in the European Union and not by ORR will remain valid in the United Kingdom until 31 January 2022. After this date, holders of EU-issued licences will need to apply to ORR for the necessary licence to operate in Great Britain.

EMISSIONS REGULATIONS

Industry operators have to comply with Non-Road Mobile Machinery emissions regulations, following its adoption by the United Kingdom prior to its departure from the European Union.

These standards are now harmonised with the US EPA standards, and comprise gradually more stringent tiers known as Stage I–V standards. However, the early stages did not include railway locomotive engines. Stage III/IV emission standards for railway locomotives were adopted in April 2004. The Stage III/IV standards, in addition to the engine categories regulated at Stage I/II, also covered railway locomotive engines. Stage III standards, were phased in from 2006 to 2013, while Stage IV standards entered into force in 2014. The directives are implemented into UK law by the Non-Road Mobile Machinery (Emission of Gaseous and Particulate Pollutants) Regulations 1999. A Stage V regulation started to be phased in from 2018 and came into full effect from January 2020. Following the end of the transition period between the United Kingdom and the European Union on 31 December 2020, EU legislation as it applied to the United Kingdom is now a part of UK domestic legislation known as ‘retained EU legislation'.

Industry Assistance

The level of industry assistance is ⊖ Medium and the trend is Decreasing

The industry benefits from a medium level of direct government assistance, though assistance has declined over the past five years.

Industry operators can benefit from freight grants provided by the UK government under the Mode Shift Revenue Support (MSRS) scheme and national government's Freight Facilities Grants. Although the latter was scrapped in England in 2011, it is still in place in Scotland and Wales. Operators also benefit from support from joining trade associations such as the Freight Transport Association, the Rail Freight Group or the Rail Freight Alliance.

The MSRS scheme, funded by the Department for Transport, is intended to reduce road congestion and reduce emissions by moving traffic to rail. The scheme assists companies with the operating costs associated with running rail or inland water freight transport instead of road, where rail or inland waterway transport is more expensive. The grant should be reflected in the price demanded from the final customer. The value of grant cannot exceed 50% of the environmental benefit savings.

The scheme operates in two parts: MSRS (Intermodal) for the purchase of intermodal container movements by rail; and MSRS (Bulk and Waterways) for the purchase of other freight traffic movements by rail and all movements by inland waterway. The scheme allocated funding of approximately £21 million in 2015-16. The funding was cut from £19.7 million in 2016-17 to £15.2 million in 2018-19, with a further 5% efficiency saving applied for 2019-20 by the Scottish government. The MSRS scheme was due to end in 2020 but has instead been extended through 2024-25.

The high-level output specification includes key priority schemes for rail freight. In 2013, the government announced £235 million of ring-fenced funding for the strategic freight network between 2014-15 and 2019-20. The industry also benefits from the lobbying and syndicated advertising of the Rail Delivery Group, which represents the industry, passenger train operators and Network Rail.

Key Statistics

Industry Data

Year	Revenue (£m)	IVA (£m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports (£m)	Imports (£m)	Wages (£m)	Domestic Demand (£m)
2013-14	1,229	524	143	29.0	5,640	N/A	N/A	373	N/A
2014-15	1,225	548	157	31.0	6,191	N/A	N/A	420	N/A
2015-16	1,114	541	161	33.0	6,538	N/A	N/A	440	N/A
2016-17	997	512	168	34.0	6,749	N/A	N/A	455	N/A
2017-18	1,160	462	189	46.0	6,467	N/A	N/A	392	N/A
2018-19	1,165	484	220	61.0	6,773	N/A	N/A	407	N/A
2019-20	1,189	479	268	71.0	6,854	N/A	N/A	407	N/A
2020-21	1,028	459	287	83.0	7,165	N/A	N/A	407	N/A
2021-22	1,136	526	295	93.0	7,558	N/A	N/A	443	N/A
2022-23	1,163	542	321	102	8,054	N/A	N/A	453	N/A
2023-24	1,192	558	331	110	8,208	N/A	N/A	463	N/A
2024-25	1,233	577	343	120	8,322	N/A	N/A	475	N/A
2025-26	1,271	592	355	130	8,427	N/A	N/A	487	N/A
2026-27	1,302	609	368	141	8,503	N/A	N/A	496	N/A
2027-28	1,337	623	380	153	8,592	N/A	N/A	506	N/A

Annual Change

Year	Revenue (%)	IVA (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2013-14	6.51	0.88	2.14	3.57	2.75	N/A	N/A	2.72	N/A
2014-15	-0.36	4.56	9.79	6.89	9.76	N/A	N/A	12.6	N/A
2015-16	-9.02	-1.27	2.54	6.45	5.60	N/A	N/A	4.73	N/A
2016-17	-10.5	-5.39	4.34	3.03	3.22	N/A	N/A	3.31	N/A
2017-18	16.3	-9.60	12.5	35.3	-4.18	N/A	N/A	-13.7	N/A
2018-19	0.39	4.73	16.4	32.6	4.73	N/A	N/A	3.77	N/A
2019-20	2.09	-1.02	21.8	16.4	1.19	N/A	N/A	-0.08	N/A
2020-21	-13.5	-4.20	7.08	16.9	4.53	N/A	N/A	0.02	N/A
2021-22	10.5	14.5	2.78	12.0	5.48	N/A	N/A	8.79	N/A
2022-23	2.41	3.02	8.81	9.67	6.56	N/A	N/A	2.37	N/A
2023-24	2.48	2.95	3.11	7.84	1.91	N/A	N/A	2.25	N/A
2024-25	3.37	3.38	3.62	9.09	1.38	N/A	N/A	2.58	N/A
2025-26	3.14	2.74	3.49	8.33	1.26	N/A	N/A	2.39	N/A
2026-27	2.39	2.78	3.66	8.46	0.90	N/A	N/A	1.78	N/A
2027-28	2.72	2.39	3.26	8.51	1.04	N/A	N/A	2.05	N/A

Key Ratios

Year	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee (£'000)	Wages/ Revenue (%)	Employees per estab. (Units)	Average Wage (£)
2013-14	42.6	N/A	N/A	218	30.4	39.4	66,152
2014-15	44.7	N/A	N/A	198	34.3	39.4	67,857
2015-16	48.5	N/A	N/A	170	39.5	40.6	67,299
2016-17	51.3	N/A	N/A	148	45.6	40.2	67,358
2017-18	39.9	N/A	N/A	179	33.8	34.2	60,662
2018-19	41.6	N/A	N/A	172	35.0	30.8	60,106
2019-20	40.3	N/A	N/A	173	34.2	25.6	59,352
2020-21	44.7	N/A	N/A	144	39.6	25.0	56,790
2021-22	46.3	N/A	N/A	150	39.0	25.6	58,574
2022-23	46.6	N/A	N/A	144	39.0	25.1	56,270
2023-24	46.8	N/A	N/A	145	38.9	24.8	56,457
2024-25	46.8	N/A	N/A	148	38.6	24.3	57,126
2025-26	46.6	N/A	N/A	151	38.3	23.7	57,767
2026-27	46.8	N/A	N/A	153	38.1	23.1	58,274
2027-28	46.6	N/A	N/A	156	37.8	22.6	58,857

Figures are inflation adjusted to 2022-23

Additional Resources

Additional Resources

Office of Rail and Road
http://www.orr.gov.uk

Freight Transport Association
http://www.fta.co.uk

Freight on Rail
http://www.freightonrail.org.uk

Department for Transport
http://www.gov.uk/dft

British International Freight Association
http://www.bifa.org

Industry Jargon

CONTROL PERIOD
Network Rail sets plans and budgets in five-year periods called control periods, in which it establishes regulations and charges that effect industry operators.

INTERMODAL TRANSPORT
When shipping containers are moved on standardised trailers using different modes of transport.

ROLLING STOCK
The wheeled vehicles owned and used by a rail operator, including locomotives, freight cars and passenger cars.

TEU
A TEU or Twenty-foot Equivalent Unit is an exact unit of measurement used to determine cargo capacity for container ships and terminals.

TONNE KILOMETRES
The weight of freight hauled in tonnes, multiplied by the distance hauled in kilometres.

Glossary

BARRIERS TO ENTRY
High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY
Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than £0.333 of capital to £1 of labour; medium is £0.125 to £0.333 of capital to £1 of labour; low is less than £0.125 of capital for every £1 of labour.

CONSTANT PRICES
The pound figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the pound, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the Office for National Statistics' implicit GDP price deflator.

DOMESTIC DEMAND
Spending on industry goods and services within the UK, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT
The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE
A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT
The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS
Total value of industry goods and services sold by UK companies to customers abroad.

IMPORTS
Total value of industry goods and services brought in from foreign countries to be sold in the UK.

INDUSTRY CONCENTRATION
An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE
The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA)
The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE
The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE
All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT
Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT
IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY
The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES
The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure

Call Preparation Questions

Role Specific Questions

Sales & Marketing

How has your revenue been affected by the significant decline in demand for coal transportation?

Coal was traditionally the most important product transported by the industry.

A steep decline in the use of coal to generate electricity has caused demand for coal transportation to plunge over the past five years.

High gas prices are expected to remain during the current year, supporting coal transportation by rail, which is estimated to account for 4.3% of freight moved by rail during 2022-23.

What percentage of your freight is domestic intermodal transport?

The Department for Transport estimates that for each tonne of cargo conveyed, rail freight produces 76% less carbon dioxide than road freight.

The ongoing HGV driver shortage is expected to make rail transport an increasingly attractive option for transporting freight on long-haul domestic routes during the current year, with one freight train able to take approximately 60 HGVs off the road.

Domestic intermodal transport is expected to account for 39.5% of freight moved in 2022-23.

What percentage of your revenue comes from manufacturing firms, and how has this changed since the EU referendum?

Manufacturing firms are expected to account for 20.8% of industry revenue in 2022-23.

The weak pound has made UK-produced goods more competitive in foreign markets, supporting exports and thereby boosting demand from manufacturers.

The COVID-19 pandemic exerted a drag on demand from this market in 2020-21, though has since recovered.

Strategy & Operations

What measures have you taken to encourage and increase female participation in rail transportation and related markets?

As per ONS data, women accounted for just 23.5% of the total transport and storage sector workforce over the three-month period through March 2021.

ONS gender pay gap by occupation data revealed that just 21% of those in 'managers and directors in transport and logistics' roles in the United Kingdom, in 2020, were women.

What are the main strategies you employ to compete with the Freight Road Transport industry? On which routes do you face the stiffest competition from road freight? What economies of scale can you offer that road transport operators cannot?

Freight road transport is the most significant form of competition for the industry.

In recent years, freight rail transport has become more competitive owing to increasing road congestion.

Rail transport is deemed to be more environmentally friendly, which has supported demand over the past five years.

Demand from freight road transport is forecast to fall in 2022-23.

What changes has your company made to its employment numbers over the past five years, and how has this benefited your operations? What percentage of your revenue is absorbed by wages?

Industry employment numbers are forecast to rise over the five years through 2022-23.

Wages are expected to account for 39% of industry revenue in 2022-23.

Wages are expected to increase during the current year as widespread labour shortages inflate wages.

Technology

Has rail electrification affected your operations? Has the transition towards net zero encouraged investment in more eco-friendly technologies?

As per BEIS data, the rail transport sub-sector accounted for 7.4% of total territorial GHG emissions in the wider transport and storage sector in 2019; relative to the UK economy, it accounted for 0.5%.

Environmental fears have supported the propensity to kick-start track electrification projects, as electric trains emit between 20% and 35% less carbon per passenger mile than diesel models.

What efforts has your company made to replace its older trains with more fuel-efficient locomotives?

Operators are gradually replacing older stock with more fuel-efficient locomotives to comply with increasingly stringent emissions regulations.

In addition to emitting fewer emissions, electric trains are cheaper to operate and maintain.

New technology in trains allows drivers to better monitor fuel consumption.

Compliance

How do you ensure you remain compliant with significant regulations pertaining to freight rail transport operations?

Key regulations concern licensing requirements, customs regulations, and health and safety considerations, in addition to emissions regulations.

With regards to the latter, the UK government has announced all diesel trains are to be removed from the rail network by 2040, effectively forcing operates to commit new capital investment or otherwise be subject to enforcement action.

How do you expect emissions regulations to be affected by the UK's exit from the European Union?

Freight rail operators have to comply with Non-Road Mobile Machinery emissions regulations.

Stage IV standards came into force in 2014. Stage V standards came into full effect from January 2020.

The United Kingdom will abide by existing EU regulation following its exit from the European Union.

Finance

What proportion of your revenue is spent on purchases? How much of this is related to the purchase of fuel?

Purchase costs are anticipated to absorb 17.6% of industry revenue in 2022-23, with fuel costs accounting for a significant proportion of this.

Plummeting oil prices in 2020 reduced purchase costs in 2020-21, though a coronavirus-induced decline in volumes and revenue limited the fall.

Purchase costs are expected to increase during the current year, owing to surging fuel prices.

How has falling demand affected your company's profit margin over the past five years, and what have you done to mitigate this?

The fall in demand for coal transportation has significantly affected profit over the past five years.

Restructuring costs, such as redundancy and lease termination fees, and a lack of demand following the coronavirus outbreak led to losses in 2020-21.

Average industry profit margins are expected to recover over the two years through 2022-23 to 1.6%, aided by renewed growth in freight volumes and rising freight rates.

External Impacts Questions

Impact: Demand from electricity production

How does a rise in demand from electricity production affect demand for your services?

Electricity producers are a large market for the industry's services because they need coal, oil and biomass to be transported to power stations throughout the United Kingdom.

As coal and oil are being phased out of the energy mix, demand from this market is shrinking.

Demand from electricity producers is expected to decrease in 2022-23, presenting a threat to industry demand.

Impact: Business confidence index

How closely do you monitor trends in business confidence? How do changing confidence levels affect demand for your services?

Whether or not businesses decide to order new stock or hold inventory is determined by business confidence levels.

When business confidence is high, businesses are more likely to increase their stock levels, meaning they are likely to transport more goods by rail.

Over 2022-23, business confidence is expected to rise, supporting industry demand.

Impact: Total value of construction

How does a decrease in the total value of construction affect demand for your services?

The total value of construction can act as a proxy for the level of demand for freight rail transport from the construction sector.

When the total value of construction increases, industry demand is likely to rise.

Over 2022-23, the total value of construction is forecast to increase, presenting an opportunity for the industry.

Internal Issues Questions

Issue: Having an extensive distribution/collection network
To what extent is your company able to provide services throughout the United Kingdom? What could you do to expand your coverage?

Freight operators that can offer the best service are able to maintain a large and diverse network. This may include combining alternative transport modes to provide end-to-end services.

The largest industry operators have establishments located throughout the United Kingdom to cater to demand in all regions.

Issue: Effective quality control
How do you monitor the performance of your services? How does this compare with your competitors? What are the main factors that influence quality?

It is important for an operator's services to run on time. This can be benchmarked against the industry using the Freight delay per 100 train kilometres published by the Office of Rail and Road.

Firms whose services run on schedule most frequently are more likely to attract demand.

Issue: Access to secure revenues
How reliant is your company on large contracts? Who are your major clients? How do you manage the renewal of new contracts?

Securing lucrative long-term distribution deals is key to guaranteeing steady revenue expansion year on year.

Movements in the revenue of the industry's major players have been largely influenced by contract wins and losses over the past five years.

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