



Summary of SNC-Lavalin Report on Development of Rail Freight Traffic through the Channel Tunnel

October 2013

- The development of rail freight through the Channel Tunnel was intended to be a collaborative arrangement between Eurotunnel (concessionaire) and the Railway Networks – Société Nationale des Chemins de Fer (SNCF) and British Railways Board (BRB), as clearly stated in the Railway Usage Contract (RUC) signed in July 1987. All parties agreed to promote such development.
- Between 1994 and 2000 there was reasonable growth in rail freight traffic through the Channel Tunnel. In the years thereafter the market was totally disrupted by the action of illegal immigrants trying to board freight trains heading for the UK, as a result of which trains were significantly delayed in Fréthun waiting for inspection. The French authorities had the responsibility for undertaking the inspection and unfortunately the means and resources appeared insufficient to deal with the issue, resulting in significant delays and eventual loss of traffic, and subsequent cancellation of trains by the Railways' customers.
- As a consequence, rail freight traffic using the Channel Tunnel declined sharply by almost 60% from an annual peak of 3.1m tonnes to a yearly volume of around 1.3m tonnes, especially for non-bulk trains (of which intermodal traffic is a large proportion). Traffic moved to more reliable and flexible cross-Channel routes which had the capacity to accommodate the swap bodies originally moved by Channel Tunnel intermodal trains. These alternative routes – accompanied road haulage and unaccompanied rail transport using the maritime routes from the Belgian ports have been shown to be very competitive. It is worth noting that distribution to end clients in the UK of swap bodies using these routes is predominantly by road haulage, both for economic reasons due to the generally short distances and the lack of available rail infrastructure.
- The transfer from using rail through the Channel Tunnel to road and maritime routes has been accelerated by the structural changes in Western European industry over the recent decades. For example, the closure of industrial sites and relocation of production further to the East favours a road rather than rail based solution.
- One other unfavourable consequence of the disruption of the intermodal freight market caused by illegal immigrant activity was the withdrawal from the market of intermodal aggregators dedicated to offering clients rail freight services using the Channel Tunnel. Combined Transport Ltd (CTL), Anglo-Continental Intermodal Ltd (ACI) and Unilog n.v.,

were created with support from the principal railway companies prior to the Channel Tunnel opening, to focus on developing intermodal services through the Channel Tunnel. Following the reduction in the number of customers using services via the Channel Tunnel, these companies went into liquidation.

- The decline of rail freight using the Channel Tunnel also has to be viewed in the context of the sharp decrease of rail freight traffic in France, which has almost halved in the past decade. Clearly freight through the Channel Tunnel could not escape this decline in the French domestic situation and the uncertainties this caused for shippers.
- Reasons for this have been largely identified as: poor quality and reliability of the French network resulting in lack of reliability, and limited interest by the loss making SNCF freight business unit in developing the Channel Tunnel rail freight business, despite an increase in traffic as a result of the opening of the market to private operators in 2006.
- The disappearance of intermodal aggregators (Novatrans for instance after it was taken over by SNCF in 2009), has further accelerated this trend. At the same time the very competitive, flexible and reliable offer by road haulage companies is widely appreciated by clients who increasingly have a demand for just-in-time delivery.
- Intermodal traffic failed to return to the Channel Tunnel route as a result of:
 - Perception of poor service reliability acting as a deterrent to potential shippers wishing to use the route
 - Technical developments in the intermodal sector, resulting in larger intermodal units being used in European traffic, which cannot be moved on the conventional UK rail network from the Channel Tunnel to London. This results in shippers wanting to use this route having to use non-standard equipment at a higher cost.
 - High investment costs to re-enter the market – wagons and specialist locomotives
 - Lack of focus from previous industry stakeholders in supporting investment or marketing opportunities.
- The level of tolls is not hindering the growth of rail freight through the Channel Tunnel:
 - A decrease in the level of tolls since 2007 has resulted in little response from the market, the number of intermodal trains has increased but the total number of freight trains remains at a low level
 - The lack of growth can be attributed to non-tariff related barriers, which have largely impeded the development of freight traffic and caused Eurotunnel to lose revenue.

- Specifically the principal factors hindering the growth of Channel Tunnel rail freight can be attributed to:

- The smaller railway infrastructure gauge in the UK
- Quality issues on the French railway network both in terms of infrastructure and the service provided by market leader Fret SNCF
- Limitation of freight train lengths in certain countries
- Loss of intermodal aggregators able to offer regular rail freight services between the continent and the UK using the Channel Tunnel route
- Level of investment needed to operate regular routes in terms of the provision of locomotives and terminal facilities
- The surcharge of €600 per train imposed by RFF for border security control, adding a further 13% to the cost of each crossing
- Enlargement of the European Union with road hauliers from the new countries offering very aggressive rates
- Evolution of the dimensions of European Intermodal Load Units (swap bodies), limiting the routes which can be used in the UK.

- The SNC-Lavalin study gives an estimate of the financial implications of these limitations to Eurotunnel as an annual loss of revenue of at least €55m.

- A study commissioned by the Freight Transport Association (FTA)¹ promotes the idea that a massive decrease in Channel Tunnel tolls would generate a strong development of rail traffic with a significant transfer from unaccompanied intermodal and accompanied road haulage using the short sea routes (shuttle service and ferries).

- The SNC-Lavalin study considers that this is not the case:

- The FTA study contains a number of erroneous statements by using the wrong hypotheses, inappropriate modelling and an over simplistic approach.
- The GB Freight Model used by MDS is based on generalised costs by traffic type and the overall movement of goods; it does not address specific traffic flows, typified by the Channel Tunnel intermodal market, which historically has represented less than 3% of the total unitised UK-continental market.

Therefore the review carried out by SNC-Lavalin suggests that the conclusion of the FTA study cannot be used as the basis to justify the review of the level of freight access charges through the Channel Tunnel.

¹ Freight Transport Association – The impact of Eurotunnel tolls on through rail freight, MDS Transmodal June 2011.