Railway Association of Canada
Association des chemins de fer du Canada

2017 Pre-Budget Consultations

A submission by the Railway Association of Canada

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1.0 Introduction

The Railway Association of Canada (RAC) welcomes the opportunity to participate in the 2017 pre-budget consultation. The subsequent sections provide our recommendations for consideration.

2.0 Investments in rail support multiple government objectives

Reduced emissions

Railways can support the government's objectives to reduce emissions by 30% below 2005 levels by 2030. In general, rail produces five times fewer emissions than trucking.

A single freight train can replace more than 300 hundred trucks from the country's congested highway and road network, while one tonne of freight can travel more than 200 kilometers on a single litre of fuel. If just 3, 5, or 10% of truck traffic was transferred to rail, Canada would reduce its emissions by 1.1, 1.9 and 3.7 megatonnes (Mt).

Very few sectors can grow their business while reducing their emissions. Railways however, have increased their workloads by more than 80% since 1990 while reducing their emissions intensity by more than a third[1].

Improved transportation safety

Over the past three years, the rail safety regulation has changed and new measures have come into force such as the *Grade Crossings Regulations, Railway Safety Management System Regulations,* and the *Safe and Accountable Railway Act.* These regulations have introduced new crossing standards, administrative requirements for safety management systems, and minimum insurance requirements for railways carrying dangerous goods.

Recent amendments to the *Transportation of Dangerous Goods Regulations* have introduced specifications for a new class of tank car for flammable liquid dangerous goods service, and require older tank cars to be phased-out over a detailed schedule. These cars are owned by shippers and leasing companies, and the total compliance costs are estimated to be $1,005 M over 20 years[2].

Effective federal funding programs and competitive fiscal measures are required to stimulate rail safety investments and ensure that compliance costs are kept to a minimum.

Improved movement of people through passenger rail

We are encouraged by Budget 2016 investments in passenger rail including support for studies and pre-procurement activities linked to VIA Rail's asset and infrastructure renewal and High-Frequency Rail (HFR) proposal.

VIA Rail was created in 1977 with a vision to connect Canadians from coast to coast, promoting economic and social growth through this essential intercity transportation service. Today, the success of passenger rail hinges on the provision of safe, sustainable, reliable, and modern services.

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[1] Since 1995, Canada's railways have maintained a series of Memorandum of Understanding with the Federal Minister of Transport to establish voluntary emission reduction requirements. Additional information is available at: http://www.railcan.ca/publications/emissions

[2] Source: www.gazette.gc.ca/rp-pr/p2/2015/2015-05-20/html/sor-dors100-eng.php (see costs)

HFR has been proposed as an efficient, sustainable, and safe alternative to the status-quo that would see VIA Rail establish dedicated tracks for passenger service within its Quebec City – Windsor Corridor.

Operating this way would allow VIA Rail to increase train frequencies, shorten trips, and provide a more reliable service to Canadians. In addition, the HFR can remove five million car trips from Canada's intercity highways and roads - the equivalent of 10 Mt of CO[2] over 30 years[3].

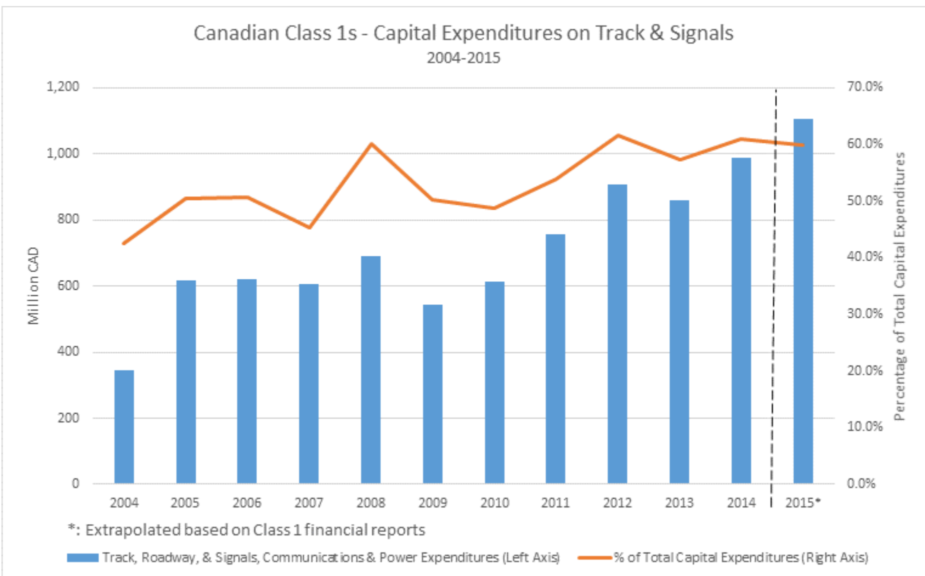
3.0 Our recommendations

The following recommendations allow the government to leverage the sector's ability to invest and are aligned with the recommendations included in the Canada Transportation Act Review[4].

Capital cost allowance

Investment in infrastructure represents the largest component of annual spending for railways, with CN and CP investing nearly $2.1 B in 2014 and 2015 on their tracks and signals. Over the past five years, these investments to track and signals reflect approximately 60% of annual capital expenditures[5].

Figure 1: Class 1 freight railway capital expenditures for track and signals (2004 – 2015)



Railway track and property are captured under Class 1 of the *Income Tax Act* (ITA) *regulations* and are described in subsection 1101(5e.1). They include railway track and grading including components such as rails, ballast, ties and other track material; railway traffic control or signaling equipment; and a bridge, culvert, subway or tunnel that is ancillary to railway track and grading. These assets have a capital cost

3 For additional information about VIA Rail's HFR proposal, please visit: http://www.viarail.ca/en/about-via-rail/governance-and-reports/dedicated-tracks

4 Tabled in Parliament on February 24 and available at: http://www.tc.gc.ca/eng/ctareview2014/canada-transportation-act-review.html

5 Source: Railway Association of Canada, 2016. Rail Trends Database.

allowance (CCA) rate of 10% on a declining balance basis. Similarly, tank cars are captured under Class 7 and have a CCA rate of 15% on a declining balance basis.

Under the United States (U.S.) Modified Accelerated Cost Recovery System, the above-mentioned assets are completely depreciated at the end of year 8. This tax depreciation allows for approximately 69% of the asset cost to be written-off in the first 4 years, and the remainder in the last 4 years. Since 2001 the U.S. system has provided for a tax bonus depreciation ranging from 30% to 100% of annual rail infrastructure spending. This tax measure has been very successful in enticing U.S. railways to improve their network and service for shippers. The bonus depreciation legislation has been extended to 2019.

We believe that aligning Canada's CCA rates with the U.S. would address the recommendations put forward in the Canada Transportation Act Review final report[6].

Recommendation 1

> ***The RAC recommends that*** *in order to stimulate investment and expedite compliance with new rail safety requirements, and align the Canadian and U.S. CCA tax depreciation regimes, the Government should:*
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> > *Introduce an accelerated CCA measure to encourage railways to invest in track and related property as defined under Class 1, in subsection 1101(5e.1) of the ITA regulations , and car owners (including shippers or leasing companies) to invest in tank cars as defined under Class 7 of these regulations.*
> >
> > *This measure would provide a 50% CCA rate for assets classified under Class 1 and acquired over a 7-year period starting effective in 2016 and ending in 2022, and over a 10 year period (2016 - 2026) for acquisitions under Class 7.*

This measure would directly support the Government's objective to phase out DOT 111 and CPC tank cars as a means to improving rail safety in Canada.

Improved public safety through targeted infrastructure funding

Transportation Safety Board (TSB) data indicates that railway crossing accidents and trespassing cause over 85% of rail-related deaths and serious injuries in Canada. The TSB has also placed railway crossing safety on its 2014 Watchlist for issues posing the greatest risk to Canada's transportation system.

Despite the efforts made by Transport Canada, railways, and stakeholders, crossing-related fatalities and injuries continue to occur. More must be done, and there is now a window of opportunity for impactful, Canada-wide, co-operative action.

The government is wisely focused on investing in trade gateways and infrastructure, while developing partnerships with other governments. However, in order to fully address the primary cause of rail-related deaths and injuries, grade crossing separation, improvement, opening, and closure programs need to be combined into a holistic a streamlined program. Such a program, driven by a public safety objective, should be supported by significant and on-going Federal infrastructure funding.

If just $500 M per year was allocated across the 10 year $120 B infrastructure funding envelope proposed in Budget 2016, the government could create a high-visibility, high-impact, Canada-wide program.

[6] See pg. 127 – 129 of the final report available at: http://www.tc.gc.ca/eng/ctareview2014/CTAR_Vol1_EN.pdf

Leveraged at historic rates and with other stakeholders, this investment could yield a return of $1.25 B per year. We estimate that approximately 400 projects can be completed each year.

Recommendation 2

The RAC recommends that:

> *Existing Federal crossing-related programs should be integrated into a unified program that focusses on a trade corridors and or regional/metropolitan areas. An integrated approach will ensure that crossing policy is implemented on a strategic basis that improves public safety, enhances network fluidity, and creates benefits for the Canadian economy.*
>
> *This program should strive to replicate the results achieved by the previously successful Roberts Bank Corridor Rail Program.*

Shortline funding

Shortlines are an integral part of Canada's railway network, providing vital services to regional and remote communities. They operate on low-density rail lines, feeding traffic to Class 1 railways, and providing shippers with a link to the marketplace. Shortlines compete directly against the subsidized trucking sector that has access to publicly funded infrastructure.

These railways face financial constraints yet need to upgrade their infrastructure to capitalize on growth opportunities and meet evolving rail safety regulatory requirements. Although shortlines invest approximately 12% of their revenues into their infrastructure annually, these investments are made to maintain current infrastructure and not upgrade or expand it.

To date the New Building Canada Plan and its predecessor have not been a significant source of funding for shortlines. Comparatively U.S. shortlines have access to a variety of innovative funding programs that include grants, low interest loans and tax credits.

Recommendation 3

> ***The RAC recommends that*** *the Government should create a capital funding program of $365 M over 6 years (effective in 2017 and ending in 2022) that will support shortline infrastructure investment and reduce the costs associated with new rail safety requirements.*
>
> *The funds would be accessible through a mechanism, which would limit contributions to the lesser of 50% of the eligible investment in the infrastructure or $15,000 per mile of track of the network during the first two years, and to $5,000 per mile for the remaining five years.*
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> *This fixed funding amount per track mile would be similar to the existing U.S. program for shortlines, but would be accelerated in the first two years to foster shovel-ready projects.*

Shifting traffic from road to rail will leverage private sector investment, reduce emissions and congestion, and lead to lower road maintenance costs.

Passenger rail funding

VIA Rail is currently conducting pre-procurement activities related to the renewal of its aging corridor fleet through investments in Budget 2016. The renewal of the railway's rolling stock would reduce operating and maintenance expenses, increase passenger volume and revenues, and can be leveraged to secure funding from financial markets for the proposed HFR project.

The implementation of a dedicated track network in the Quebec City – Windsor Corridor, with trains that run at their full potential speed of 160 km/h, would enable VIA Rail to provide a reliable, frequent and cost-effective intercity rail service to Canadians, increasing ridership from 2 M to 7 M passengers per year. The expected benefits would fulfill several government's objectives including economic growth, job creation, sustainable and safe transportation, and shovel-ready infrastructure. It would also eliminate VIA Rail's operating subsidy by 2024.

Recommendation 4

The RAC recommends that the Government of Canada:

- ***a.*** *allocates funding to VIA Rail's Quebec City-Windsor Corridor fleet-renewal project and proceed with its procurement process;*
- ***b.*** *empowers VIA Rail to leverage investment in fleet renewal to allow it to secure an additional $3 B from financial markets for the HFR project; and*
- ***c.*** *ensures that government investments into passenger rail (including intercity and commuter rail) are coordinated so that rail service is interoperable and interconnected.*

Reinvesting carbon revenues into rail
RAC recommends that revenues collected from carbon policy programs are directed to rail - just like the Government of Quebec (QC) has done in shaping its Green Fund.

Recommendation 5

The RAC is asking for an investment of $165 M over five years to support new rail and intermodal infrastructure projects across Canada. We propose that this program should be based on the PAREGES/PREGTI program adopted in QC and expanded across Canada.

Approximately $30.4 M was spent to achieve a reduction of 210,000 tonnes of $CO2e$ per year, or 1.05 Mt over a five year period in QC. We propose to replicate this model fully in British Columbia, Alberta and Ontario, and by 50% in Saskatchewan, Manitoba and the Maritimes.

Table 1: Proposed modal shift reinvestment program

Jurisdiction	Funding	Estimated $CO2^e$ reductions over 5 years
QC, BC, ALB, ON	$120 M ($30 M each)	4.2 Mt
SK, MN, Maritimes	$45M ($15 M each)	1.6 Mt
Total	**$165 M**	**5.8 Mt**

This program could reduce emissions by approximately 5.8 Mt of $CO2e$ over five years.

Closing
Please direct any questions or comments to Michael Gullo at mgullo@railcan.ca or 613-564-8103.