Railway Association of Canada Association des chemins de fer du Canada

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Pre-budget 2018 Submission

The Railway Association of Canada (RAC) welcomes the opportunity to participate in the 2018 pre-budget consultation[1]. The submission includes our recommendations for consideration.

Railways enable Canadian businesses to compete across North America and internationally. Last year, Canada's railways transported approximately $280 billion of Canadian goods to throughout Canada and the United States (U.S.), and to international markets[2]. Every year, railways move approximately 50 per cent of Canada's goods destined for export (by volume) and 70 per cent of the country's intercity freight traffic[3].

In addition to the movement of freight, more than 80 million people use passenger rail to travel to and from work or for leisure, reducing emissions and congestion, and wear and tear on Canada's busiest roads and highways.

The Canadian Railway Franchise

Canadian railways provide services to more than 10,000 customers by using finite resources, including track infrastructure, right of ways, yards, locomotives, and crews. This impressive network consists of two Canadian owned and operated Class I railways and more than 50 local and regional railways.

Figure 1: Canadian-owned railway network

[1] Additional information about the Railway Association of Canada can be found at: www.railcan.ca
[2] Source: Railway Association of Canada. Internal calculations using various sources, 2017.
[3] Ibid.

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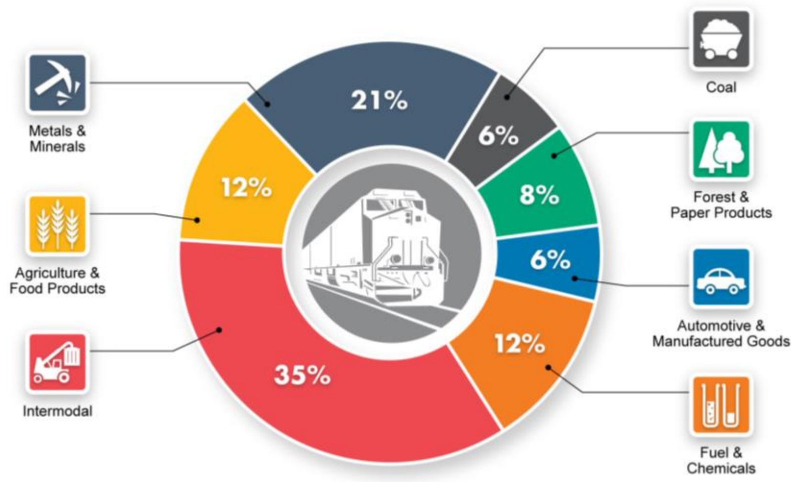
Freight railways continue to drive the Canadian economy by moving a diverse suite of goods, including: bulk commodities such as grain, potash and lumber; container traffic including retail and wholesale goods; and dangerous goods such as chlorine and sulphur.

More than 4 million carloads of freight are moved by approximately 2,400 locomotives and 33,000 dedicated railroaders across 44,000 kilometers of track that spans nine provinces, one territory and several points throughout the United States (U.S).[4]

Figure 2: Railway traffic mix (2015)



As critical components of the economy, railways provide an efficient, low-cost and safe service to their customers. While the U.S continues to receive more than 75 per cent of all Canadian exports[5], emerging economies have become increasingly more important trade partners.

With the development of multi-lateral trade agreements, the railway network ensures that Canada is well placed to capitalize on its trade agenda. **Figure 3** provides an overview of the markets that railways enabled for their customers in 2015 (as measured by the percentage of railway revenues and their respective destination, including imports and exports).

[4] Statistics extracted from Rail Trends 2016. Available at: https://www.railcan.ca/wp-content/uploads/2017/03/Rail_Trends_2016.pdf
[5] Source: Industry Canada, 2016. Trade Data Online.

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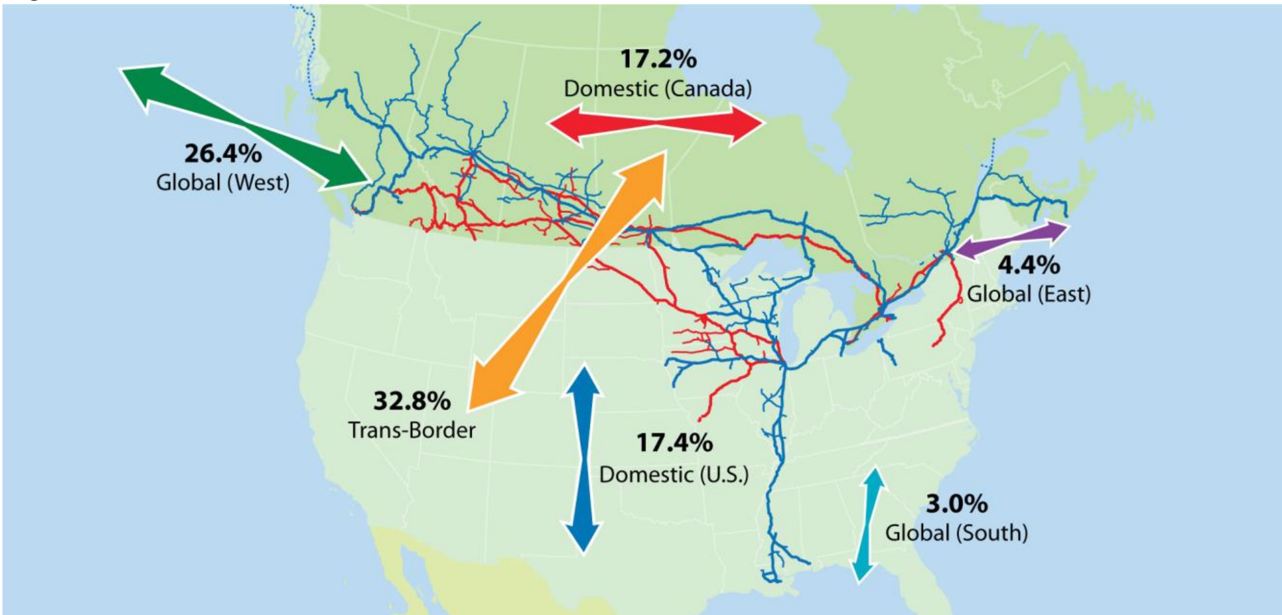
Figure 3: Market reach



Improved movement of people through passenger rail

We are encouraged by the Government's commitment to inter-city passenger rail. In Budget 2017, it provided $867.3 M to help maintain VIA's operations over the next three years. Furthermore, the creation of an Infrastructure Bank provides an opportunity for the government to invest in transformative and job-creating projects such as regional transit plans and intercity transportation networks.

VIA was created in 1977 with a vision to connect Canadians from coast to coast. In spite of a recent strong performance since 2014, which saw important growth in ridership and revenues of 4.6% and 15.6% respectively, VIA needs to address two fundamental challenges: its aging fleet and its ability to provide fast, frequent, and reliable service in the Quebec City-Windsor Corridor.

In 2016, the Government provided funding to review VIA's aging fleet and its High Frequency Rail (HFR) plan, which seeks to establish dedicated tracks for rail passenger service within the Quebec City-Windsor Corridor. The HFR plan would allow VIA to increase its train frequencies, shorten trips, and provide a more reliable service while reducing 10 (megatonnes) Mt (or 14 Mt if electric) of CO_2 emissions over 30 years, equivalent to removing 10% of Canadian cars from the road for one year[6].

VIA Rail submitted its business cases to the Government at the end of 2016. The HFR plan is endorsed by the RAC as well as several communities in Ontario and Quebec and their respective Chambers of Commerce[7].

[6] For additional information about VIA Rail's HFR proposal, please visit: http://www.viarail.ca/en/about-via-rail/governance-and-reports/dedicated-tracks
[7] For additional information see: https://slchamber.ca/2017/07/26/local-chambers-support-high-frequency-rail-continues-gain-traction/ http://www.lapresse.ca/le-nouvelliste/actualites/201706/19/01-5108954-trois-rivieres-et-drummondville-embarquent-dans-

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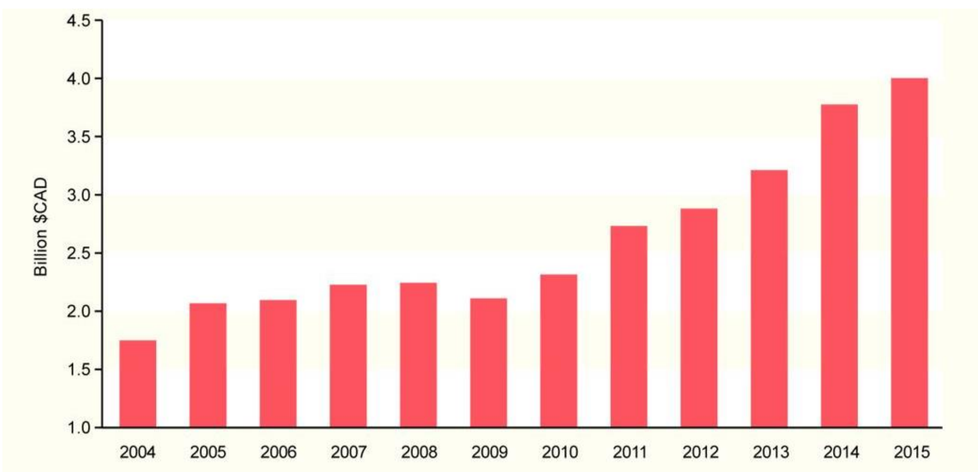
Investments drive performance

A competitive and commercial framework is a prerequisite for driving productivity and the levels of investment that are required to ensure that the railway network can continue to drive economic productivity and support trade. Last year alone, Canadian Class 1 railways invested more than $4 billion in their continental networks, representing approximately 22% of their revenues. Since 1999, these investments in Canada alone have exceeded $24.4 billion and have allowed railways to grow their volumes in line with the Canadian economy (**Figure 4**). These investments are critical to maintaining the safety, velocity, capacity and service of the network.

Figure 4: Class I railway capital expenditures



Innovation drives productivity and positions rail as a climate change solution

Railway investments also ensure that the industry remains an emission-friendly mode of transportation. On average, rail is four times more fuel efficient that truck, and 1 litre of fuel can move a tonne of freight 200 plus kilometers. Moreover, a single freight train can displace approximately 300 trucks from our busy road and highway network.

Investments in technology and infrastructure coupled with improved operating practices continue to drive down railway emissions. Similarly rail car optimization and locomotive utilization improves fuel economy and reduces emissions. Through these innovations, railways have managed to reduce their emissions despite an increase in traffic. Since 1990, RTKs have increased by 80% while greenhouse gases (GHG) intensities have fallen by more than 40%. This type of performance indicates that railways can be a critical partner in the Government's efforts to combat climate change.

Modal shift provides an exceptional opportunity for reducing transportation-related emissions. If fact, if just 10% of truck traffic was transferred to rail, Canada would reduce its emissions by 3.7 Mt of CO_2

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le-meme-train.php http://www.ccitr.net/chambres-de-commerce-corridor-montreal-quebec-se-mobilisent-faveur-train-a-grande-frequence-de-via-rail/

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equivalent. By comparison, British Columbia's (BC) taxation system is estimated to deliver a 3 Mt reduction by 2020.

1. What federal measures would help Canadians to be more productive?

The Government is presently reviewing VIA's abovementioned proposals. The renewal of the inter-city passenger railway's aging rolling stock, estimated at $1.5B, would significantly improve the customer experience, improve accessibility, reduce operating and maintenance expenses, increase passenger volumes by an estimated 13.6-17% over 10 years while reducing GHGs, highway congestion and car accidents. The renewal of the Corridor fleet can also be leveraged to secure funding from financial markets for the proposed HFR project.

The implementation of a dedicated track network, with trains that run at their full potential of 160km/h, would enable VIA to provide a fast, frequent, reliable, and cost-effective intercity rail service to Canadians, increasing ridership from 3.7M today to 9.9M passengers in 2030. This shovel ready project, estimated at $4B, could be completed in four construction seasons. The expected benefits would fulfill several government-objectives including economic growth, job creation, sustainable infrastructure and safe transportation. It would also eliminate VIA's Corridor operating subsidy by 2024.

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 $4 B from financial markets for the HFR project;*
- ***c.*** *ensures that government investments into passenger rail (including intercity and commuter rail) are coordinated so that rail services are interoperable and interconnected; and*
- ***d.*** *ensure that intercity rail continues to provide downtown to downtown service.*

2. What federal measures would help Canadian businesses to be more productive and competitive?

<u>Direct carbon revenues into rail infrastructure</u>

By nature of their extensive network, railways are exposed to all regional and national carbon pricing policies, including the fiscal instruments used in BC and Alberta, and the market-based approaches underway in Ontario, Quebec and eventually Nova Scotia. At the federal level, railways will be subject to the proposed Clean Fuel Standard and the carbon pricing backstop when it is implemented next year.

While the myriad of climate change policies that railway operations are subject to is complex and administratively heavy, fuel is the common point of regulation for all policies. For railways and their customers, the cost of fuel has and will continue to increase. Our estimates indicate that in 2015 freight railways paid $55 million in carbon costs (excluding the federal excise gasoline tax), which is expected to rise to $394 million by 2022. Cumulatively the compliance costs from 2015 to 2022 for freight railways are forecast to be $1.6 billion.

The RAC believes that Government can play a crucial role in realizing modal shift by ensuring that carbon pricing revenues are recycled back into rail infrastructure for prospective rail customers. Quebec is already leading by example where revenues from its cap and trade program are reinvested into programs that allow rail customers to offset the costs associated with building rail access. The government also provides resources to railways to help modernize their fleet and drive emissions down further.

Approximately $30.4 M was spent to achieve a reduction of 210,000 tonnes of CO_2e per year, or 1.05 Mt over a five year period in Quebec. This works out to a cost per tonne reduction of $14 when considering a 10-year project period. We propose to replicate this model fully in BC, Alberta and Ontario, and by 50 per cent in Saskatchewan, Manitoba and the Maritimes.

These programs are successful and have been renewed because they produce meaningful results. Recent projects sponsored by the Quebec Government include investments into railway track, transload facilities and reload centres.

Canada could also foster further investment in track infrastructure and rail properly by accelerating capital cost allowances (CCA) to match U.S. rates.

The RAC recommends that the Government of Canada

a. *Allocates revenues collected from carbon policy programs are directed to rail - just like the Government of Quebec has done in shaping its Green Fund and earmarks an investment of $165 M over five years to support new rail and intermodal infrastructure projects across Canada;*

b. *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.*

This last measure would provide a 50% CCA rate for assets classified under Class 1, allow to increase track safety, and hence help achieve the government's safety objective.

Invest in shortline railways

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, and as this stage it is too early to determine if the recently announced National Trade Corridors Fund will be applicable to shortline railways. Comparatively U.S., shortlines have access to a variety of innovative funding programs that include grants, low interest loans and tax credits.

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The RAC recommends that *the Government should create a capital funding program of $365 M over 7 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.

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.