

2022 FEDERAL PRE-BUDGET SUBMISSION



Railway Association
of Canada



BY: RAILWAY ASSOCIATION OF CANADA

The Railway Association of Canada (RAC)

Recommendations:

Recommendation 1: Commit to boosting federal rail safety infrastructure spending, including the Rail Safety Improvement Program, to further ensure that the movement of people and freight by rail continues to be safe, green, and responsive to customer needs.

Recommendation 2: Commit to investing in intercommunity passenger rail service, including the HFR project, to create employment, growth and leverage the environmental benefits of rail. Grant the necessary funding to replace VIA's long-distance and regional fleets, and hence, ensure the long-term continuity of passenger rail service.

Recommendation 3: Commit to providing additional capital funding to passenger railways, including the Canada Infrastructure Bank, to ensure transit is part of Canada's economic recovery.

Recommendation 4: Implement a shortline railway tax credit in Canada that is comparable to the U.S. Section 45G Tax Credit.

Recommendation 5: Commit to reviewing and revising detrimental tax policies and implementing accelerated depreciation measures, including allowing Canadian railway companies to deduct the full amount of capital expenditures immediately.

Recommendation 6: Commit to ensuring that tourism rail operators have immediate access to capital and create a task force to develop a long-term strategy that rebuilds confidence and repositions Canada as an attractive tourist destination for international and domestic tourists.

INTRODUCTION

Through challenging times, rail continues to be the backbone of Canada's economy. Canadians benefit from resilient freight and passenger railway services.

The Railway Association of Canada, and its members, remain committed to maintaining best practices in safety, innovation, environmental stewardship, and economic growth.

As evidenced throughout the global pandemic, railways are central to Canada's economy and interact with all facets of society: consumers, suppliers, shipping groups and communities from coast to coast to coast.

Freight railways support economic prosperity by connecting Canadian businesses to domestic and international markets and provide Canadians with the goods required to stay healthy and safe.

Passenger railways ensure that millions of Canadians, including essential workers, can safely and sustainably travel to and from work.

And tourism railways contribute to Canada's vibrant tourism industry and its annual \$100 billion economic footprint by creating economic opportunities for Canada's middle class.¹

The Railway Association of Canada is pleased to offer these recommendations for consideration.

FACTS & FIGURES

Canada's railways transport approximately \$320 billion of goods annually and move 50 per cent of the country's exported goods. Annually, approximately 3,800 locomotives and 33,300 dedicated railroaders transport goods and people across nearly 43,000 kilometers of rail track, which also extends to several points in the United States. Proactive maintenance ensures safe and efficient transportation.

Rail is one of Canada's most capital-intensive industries. Canadian railways are vertically integrated, including ownership of the track, real estate, and rolling stock, which illustrates the need for significant investments. On average, Canadian railways invest between 20 and 25 per cent of their revenues back into their networks each year — more than \$20 billion in Canada over the past decade. These significant investments support the demand for Canadian products by transporting them to global markets.

¹ [Tourism Industry Association of Canada, Travel & Tourism Fast Facts.](#)

The railway industry contributed a total of \$17.6 billion to Canada's real GDP in 2018 and sustained 182,000 jobs through its economic footprint. Through its operations and investments, the rail industry helped lift incomes in Canada by \$10.1 billion and generated a combined \$7.2 billion in revenues for the federal and provincial/territorial governments. Furthermore, on a GDP per worker basis, the rail industry grew 53.9% from 2009-2018, compared with the industrial average of 8.5%.

Canada's railways are doing their part to reduce greenhouse gas (GHG) emissions, while supporting the economy and enabling trade. Railways are among the lowest emitters in Canada, accounting for just 1.1% of total GHG emissions and only 3.5% of transportation sector emissions.² Since 1990, freight railways have reduced their GHG intensity by more than 40%, while experiencing a 95% increase in workload, and intercity passenger railway emissions intensity has improved by 42%, while ridership has increased by 26%.

On average, rail is 3 to 4 times more fuel efficient than truck. For instance, just one locomotive can haul a tonne of goods more than 215 kilometers on a single litre of fuel, while a single freight train can remove upwards of 300 trucks from Canada's roadways. Similarly, each passenger train replaces dozens of cars, reducing emissions, and congestion.

The *Pan-Canadian Framework on Clean Growth and Climate Change* and *Transport Canada's Transportation 2030* both highlight the value of moving more goods and people by rail.³ In fact, shifting just 10% of truck traffic to rail would reduce emissions by 4.1 Megatonnes of CO₂e per year. By taking vehicles off the road, railways reduce environmental impacts and prevent degradation of publicly funded infrastructure.

RAC and its members assert that investments into the rail-based supply chain generates long-term value for Canadians by supporting freight and passenger railway services.

² [Canada's 2021 National Inventory Report, Part 3, 12 April 2021.](#)

³ [Pan-Canadian Framework on Clean Growth and Climate Change, page 18.](#)
[Transport Canada, Transportation 2030: Green and Innovative Transportation.](#)



RECOMMENDATIONS

ENHANCING RAIL SAFETY

Canada's railway industry has developed a strong safety record thanks to substantial investments made over the past decade – railways have invested more than \$20 billion to enhance the safety and efficiency of their networks.

RAC and its members collaborate with Transport Canada and other government partners to make rail transport as safe as possible. We look forward to continuing to build and strengthen these relationships in the years ahead.

Railways bear the infrastructure costs of investing in the research, implementation and maintenance of all safety infrastructure projects. However, because rail safety is a shared responsibility, the federal government must continue to invest in projects that keep Canadians safe.

Railway companies and public and private authorities share responsibility for managing safety at federally regulated grade crossings. Collaboration is needed to ensure that grade crossings comply with the *Regulations and the associated Grade Crossing Standards* for everyone's safety. Therefore, RAC members are calling on the federal government to increase available funding under the *Railway Safety Act* for eligible costs related to improving and closing crossings.

Recommendation 1: Commit to boosting federal rail safety infrastructure spending, including the Rail Safety Improvement Program, to further ensure that rail transportation continues to be safe, green, and responsive to customer needs

ENHANCING INTERCOMMUNITY PASSENGER RAIL SERVICE

Passenger railways ensure that millions of Canadians can travel safely from coast to coast to coast and seamlessly connect with their loved ones in a sustainable way, now and for future generations.

Investing in passenger rail services will help spur economic growth, enhance accessibility, boost tourism, and reduce reliance on automobiles. Furthermore, investments in intercommunity rail, in collaboration with the Provinces, will support sustainable economic recovery, enhance business opportunities of local and regional economies, and connect communities.

RAC encourages the federal government to commit to the full investment needed to complete HFR, as it represents a key initiative that will improve services in Canada's central region by increasing train frequencies, shortening trip times, and enhancing reliability.

VIA operates 8 long distance, regional and remote routes that provide basic transportation between communities. Most of the trains serving these markets are nearing end of service life as they were manufactured in the 1950s.

Recommendation 2: Commit to investing in intercommunity passenger rail service, including the HFR project, to create employment, growth and leverage the environmental benefits of rail. Grant the necessary funding to replace VIA's long-distance and regional fleets, and hence, ensure the long-term continuity of passenger rail service.

INVESTING IN PUBLIC TRANSIT AND COMMUTER RAIL

The federal government recently committed to cost matching approximately \$1.8 billion in provincial/territorial investments to support public transit which is welcome news to commuter rail operators across Canada.

Throughout the pandemic, ridership on urban transit systems was down by as much as 85 per cent,⁴ and operators were forced to reduce service and initiate layoffs. The recovery phase will require commuter rail operators to find innovative and creative ways to safely serve ridership while reacting to fluctuating demand.

Commuter railways and municipalities continue to face financial challenges and require additional support to fund the operating and capital costs necessary to increase efficiency and maintain service.

Passenger railways across the country are eager to access available funds through The Canada Infrastructure Bank (CIB), since the proposed projects align with the CIB's core mandate of building new infrastructure that accelerates Canada's transition to a stronger low carbon economy.

Recommendation 3: Commit to providing additional capital funding to passenger railways, including the Canada Infrastructure Bank, to ensure transit is part of Canada's economic recovery.

⁴ Railway Association of Canada analysis based on data from Statistics Canada's Monthly Passenger Bus and Urban Transit Survey.

INCREASING SUPPORT FOR SHORTLINE RAILWAYS IN CANADA

Shortline railways provide vital first-mile/last-mile service that connects customers and rural economies to global markets. In fact, approximately 20 per cent of carloads in Canada originate on a shortline railway.

Statutory reviews of the *Canada Transportation Act and Railway Safety Act* underscored a demonstrable role for Government to support shortline railways.

To date, neither the New Building Canada Plan nor the National Trade Corridor Fund (NTCF) have been a significant source of funding for shortline railways however, recent changes to the NTCF have expanded eligibility criteria to include projects that increase the fluidity of Canada's supply chains from which shortline railways may benefit.

Conversely, shortline railways in the U.S. benefit from multiple federal and state-level funding programs that include grants, tax credits and low-interest loans that are not available in Canada.⁵

As such, RAC believes that more support for shortline railways is needed.

Recommendation 4: Implement a shortline railway tax credit in Canada that is comparable to the U.S. Section 45G Tax Credit.

⁵ [CPCS, Review of Canadian Short Line Funding Needs and Opportunities.](#)



TAX POLICY AND CANADIAN FREIGHT RAILWAY COMPETITIVENESS

Canada needs a competitive tax framework to further incent railway infrastructure investment to ensure that the sector can maintain a robust supply chain and facilitate future volume growth. Recent U.S. tax reforms altered the competitive landscape in North America. Tax changes in Canada can help maintain competitiveness and encourage investments at comparable rates to previous years and proportionate to American competitors.

With a lower after-tax-cost in the U.S., Canadian railways investing in their own infrastructure, are at a significant disadvantage to U.S. railways. Continued tax imbalances may lead to lost economic opportunities and investments.

The following tables highlight: (1) the differences between Canadian and U.S. tax regimes relative to railway capital cost allowance (CCA) and (2) the tax treatment of railways versus other capital-intensive industries in Canada.

Tax Treatment of Canadian Railways vs U.S. Railways and Select Canadian Industries

| | Canadian Railways | | U.S. Railways | | Canadian Trucking Industry | | Cdn Manufacturing & Processing (M&P) | |
|-----------------|-------------------------------|-------------|-------------------------------|-------------|----------------------------|-------------|--------------------------------------|-------------|
| | Class Rates | CCA Claimed | Class Rates | CCA Claimed | Class Rates | CCA Claimed | Class Rates | CCA Claimed |
| | Track Infrastructure | | Track Infrastructure | | N/A* | | M&P Plant | |
| Year 1 | 10% | 15% | 100% | 100% | | | 10% | 15% |
| Total by Year 4 | | 38% | | 100% | | | | 38% |
| | Rail Yard Facility (Building) | | Rail Yard Facility (Building) | | N/A | | N/A | |
| Year 1 | 4% | 6% | 100% | 100% | | | | |
| Total by Year 4 | | 17% | | 100% | | | | |
| | Railcars | | Railcars | | Trailers | | M&P Kiln/tank/vat | |
| Year 1 | 15% | 23% | 100% | 100% | 30% | 45% | 100% | 100% |
| Total by Year 4 | | 52% | | 100% | | 81% | | 100% |
| | Locomotives | | Locomotives | | Hauling trucks | | M&P Equipment | |
| Year 1 | 30% | 45% | 100% | 100% | 40% | 60% | 100% | 100% |
| Total by Year 4 | | 81% | | 100% | | 91% | | 100% |

*As infrastructure used to move freight (inter-provincial roads) for the trucking industry is already fully funded by the Government.

Recommendation 5: Commit to reviewing and revising detrimental tax policies and implementing accelerated depreciation measures, including allowing Canadian railway companies to deduct the full amount of capital expenditures immediately.

REINVIGORATING CANADA'S TOURISM RAILWAYS

Tourism railways are a critical component of Canada's vibrant tourism industry and its annual \$100 billion economic footprint.⁶ Tourism railways create economic activity by increasing demand for local businesses such as hotels, restaurants, retail, and excursion companies.

COVID-19 has had devastating impacts on Canada's tourism railways. Seasonal tourism operators have had to reduce service, suspend capital expenditures, lay off employees and in some cases cease operations. As such, support for tourism railways is needed to help them resume operations and provide tourists with the experiences they seek.

Recommendation 6: Commit to ensuring that tourism rail operators have immediate access to capital and create a task force to develop a long-term strategy that rebuilds confidence and repositions Canada as an attractive tourist destination for international and domestic tourists.

⁶ [Tourism Industry Association of Canada, Travel & Tourism Fast Facts.](#)

CONTACT

Comments and questions can be directed to Gregory Kolz, Director, Government Relations at 613-564-8105 / gkolz@railcan.ca.

MORE ON THE RAILWAY ASSOCIATION OF CANADA:

The RAC was established in 1917 and represents close to 60 freight and passenger railway companies. RAC also counts a growing number of industrial railways and railway supply companies in its associate membership. We encourage you to visit: <https://www.railcan.ca/>

