NATIONAL SUPPLY CHAIN TASK FORCE

Railway Association of Canada

RIGHT TRACK

JULY 2022

THE RAC IS PLEASED TO PRESENT THE TASK FORCE WITH THE FOLLOWING RECOMMENDATIONS THAT CAN BE TAKEN WITH THE OBJECTIVES OF INCREASING ACCESS, RELIABILITY, RESILIENCY, EFFICIENCY, AND INVESTMENT IN THE NATIONAL TRANSPORTATION SYSTEM AND SUPPLY CHAIN:

1. Improve regulatory efficiency so regulations support the industry's ability to remain resilient, fluid, and innovative.

2. Create more competitive tax policies to ensure Canadian railways can remain competitive and drive future investments.

3. Increase the envelope available for and accessibility to funding programs that support the rail network's fluidity and enhance rail safety while supporting innovation and sustainability.

4. Increase support for shortlines to enhance the fluidity of the supply-chain, increase capacity, drive more traffic to the rail network, and improve safety while lowering emissions and reducing the strain on public infrastructure.

5. Promote the railways as an exciting employer of choice offering opportunities in a growing, innovative, and sustainable industry where you can build a career, anywhere in Canada.

INTRODUCTION

The Railway Association of Canada (RAC) welcomes the opportunity to work with the National Supply Chain Task Force regarding actions that can be taken by all levels of government and industry with the objectives of enhancing access, reliability, resiliency, efficiency, safety, and investment in the national transportation system and supply chain.

The RAC is the voice of Canada's rail industry representing close to 60 freight railway companies. 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.

The effects of the COVID-19 pandemic, recent severe weather incidents, such as the floods and wildfires experienced in Western Canada last year, as well as the war on Ukraine, which is causing disruptions to global chains, remind us of the vital role of Canada's own supply chain. Through these challenges, railways have demonstrated continued resiliency to provide essential services to their customers. This reliable movement of critical goods, such as food, fuel and medical supplies requires continuous maintenance and improvements to critical infrastructure.

The railway industry in Canada has demonstrated its steadfast dedication to an efficient supply chain by continuously investing in their operations to ensure the reliability, fluidity, and safety of the supply chain, with limited public funding. For example, in response to the catastrophic flooding in BC last year, operators were able to get lines shored up, debris cleared, tracks replaced, and trains running again, in a matter of days, to ensure minimal disruption to the supply chain.

The industry recognizes the efforts the government is currently undertaking to address supply chain issues. However, we, as well as our supply chain partners, are looking to government for a long-term, overarching strategy encompassing all transport modes and supply chain partners. As the attention shifts away from pandemic recovery, the federal government must focus on investments and policies that enable building a resilient supply chain to support Canada's economy and ensure we remain competitive.

Demand is strong and we know that customers have options. But Canadian railways offer some of the most competitive freight rates in the world, which helps to save customers (and ultimately, consumers) billions. n fact, since 1988, rail freight rates (revenue/revenue-tonne-km) have increased by 36.2 per cent, while consumer prices have increased by 92.4 per cent. Together, shortline and Class 1 freight railways keep Canada's economy rolling and help our nation to stay competitive in today's global economy. Furthermore, railway operators ensure the freight network remains cost competitive through sustained capital investments, world class safety performance, and continuous improvements through innovation.

Despite volatility in traffic volumes from month to month, as well as by commodity sector, in 2020 total freight volumes were only slightly lower than in 2019. And despite the elevated levels of uncertainty, Canadian railways continued to make significant capital investments to facilitate future growth. In 2020, railways invested $2.6 Billion into their Canadian assets, which is the second highest level on record, behind $3.1B in 2019.

Investments in the rail industry help increase capacity, which stimulate a significant modal shift to rail. This means goods can be transported in a more sustainable way, without damaging public infrastructure, all while increasing motorist safety by reducing truck traffic on public roadways. Investing in rail also means investing in the reduction of the environmental footprint of the transportation sector as a whole. In the long term, a shift to more sustainable transportation directly impacts the resiliency of the supply chain as it reduces our impact on the environment and the resulting weather-related events.

Infrastructure investments and the modernization of the regulatory framework must work hand in hand, but regulations must evolve at the same pace as innovation. Otherwise, this could limit improvements in efficiency and safety, and slow progress toward a low-carbon economy, as well as result in unintended consequences which can impact the fluidity of the supply chain.

Further, a competitive tax framework is required for Canadian railways to remain competitive and ensure that investments in Canada maintain pace with investments in other North American jurisdictions.

Finally, access to the full available talent pool is needed now to allow the industry to meet growing service demand. This will also be necessary in the future to help mitigate the impacts of an aging employee base as well as impending regulations that will come into effect in the years ahead.

BACKGROUND

REGULATORY FRAMEWORK

Recommendation 1: Improve regulatory efficiency so regulations support the industry's ability to remain resilient, fluid, and innovative.

From automated inspection portals that do not require reducing train speeds as it monitors and assesses asset conditions in real time while train is moving, to the development of hydrogen locomotives, to using predictive analytics, railways are continuously investing in technology that helps improve safety and efficiency. However, change is occurring at a rapid pace and our current regulatory framework does not always support this. Improved regulatory efficiency, especially the elimination of redundancies, is needed to support the development and adoption of technologies that will lead to increased capacity, increased efficiency and further reduce the sector's GHG emissions.

ACTION ➜ The federal government work in close partnership with industry to **develop and foster a regulatory framework built on a data-driven, performance-based approach that supports innovation and adapts to evolving technologies.**

ACTION ➜ The federal government **streamline the exemption process** to allow the implementation of technologies being recognized as equivalent or better than existing required regulatory practice, to stimulate investments in innovation.

ACTION ➜ The federal government work towards a **better regulatory harmonization between Canada and the US** (e.g.: Transport Canada and the United States Department of Transportation) when it involves cross-border movement of goods and crews to allow for stronger linkages between companies and land, sea, and rail carriers.

TAX POLICIES

Recommendation 2: Create more competitive tax policies to ensure Canadian railways can remain competitive and drive future investments.

Canada needs a competitive tax framework to incent the continuous railway infrastructure investments required to 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.

ACTION ➜ The federal government **review and revise detrimental tax policies** and **implement accelerated depreciation measures**, including allowing Canadian railway companies to deduct the full amount of capital expenditures immediately.

FUNDING & TAXATION:

Recommendation 3: Increase the envelope available for and accessibility to funding programs to support the rail network's fluidity and increase rail safety while supporting innovation and sustainability.

FLUIDITY & CAPACITY

Growth drives investments and Canadian railways are continually investing to meet the growing demands of their customers. While rail is one of Canada's most capital-intensive industries, on average, Canadian railways invest between 20 and 25 per cent of their revenues back into their networks each year. That represents more than $20 billion in Canada over the past decade. From investing in increasing capacity to key ports, to purchasing high-capacity grain hopper cars and expanding the capacity of intermodal yards, Canada's railways pay for improvements with little to no public funding – unlike the trucking industry, which relies exclusively on publicly-funded infrastructure.

ACTION ➜ The federal government **provide additional capital funding**, including through the National Trade Corridors Fund, **and ensure that eligibility requirements reflect the evolving demands of the supply chain**, including those of shortline railways.

RAIL SAFETY

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

ACTION ➜ The federal government **boost rail safety infrastructure spending**, including the Rail Safety Improvement Program, to further ensure that the movement of freight by rail continues to be safe, green, and responsive to customer needs.

INNOVATION & THE ENVIRONMENT

Railways contribute a total of $17.6 billion to Canada's real GDP, sustain 182,000 jobs across the country, and transport $320 billion worth of goods annually, demonstrating positive economic impacts. This achievement is significant, as Canada's rail sector accounts for only 3.5% of total transportation emissions. By taking more transport vehicles off the road, railways can help further reduce environmental impacts, and contribute in meaningful ways to Canada's transition to a low-carbon economy. In fact, the Pan-Canadian Framework on Clean Growth and Climate Change and Transport Canada's Transportation 2030 both highlight the value and importance of moving more goods and people by rail. Shifting just 10% of truck traffic to rail would reduce emissions by 4.1 Megatonnes (Mt) of CO_2 per year.

ACTION ➡ The federal government **create a robust funding program**, to support the significant research, development, and deployment of low-carbon and net-zero technology currently underway in the Canadian rail sector. Government policies and programs must also recognize rail's commitment to sustainability by ensuring the sector's contributions are acknowledged and that eligibility criteria ensure railways are able to fully participate in these programs.

ACTION ➡ The federal government **create a long-term climate resiliency plan** to help mitigate the impacts of extreme weather occurrences on existing critical transportation and communications infrastructure.

SHORTLINE RAILWAYS

Recommendation 4: Increase support for shortlines to enhance the fluidity of the supply-chain, drive more traffic to the rail network, and improve safety while lowering emissions and reducing the strain on public infrastructure.

Shortline railways provide vital first-mile/last-mile rail services that connect customers and rural economies to global markets. 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. While we are hopeful that the recent changes to the NTCF expanding eligibility criteria may benefit shortlines, support is needed. Increased and more reliable access to funding will have a direct impact on shortline railways' ability to increase capacity and efficiency and improve supply chain fluidity. The CPCS "Review of Canadian Short Line Funding Needs and Opportunities" identified that with a lower after-tax-cost in the U.S., Canadian railways and customers, who invest in their own rail infrastructure, are at a significant tax disadvantage to U.S. railways. If this tax imbalance persists, important economic opportunities and investments in Canada may be lost.

ACTION ➜ The federal government **implement a shortline railway tax credit** in Canada that is comparable to the U.S. Section 45G transferable Tax Credit. While a transferable tax credit approach similar to the U.S. would be preferred, the industry is eager to see any form of funding that results in direct financial support to shortlines.

ACTION ➜ The federal government **develop and implement a federal shortline program**, inspired by initiatives at the provincial level such as the "Programme de soutien aux infrastructures de transport ferroviaire et a l'integration modale" (PSITFIM) in the Province of Quebec) to support strategic infrastructure investments. (We can also look to the US, where shortline railways also benefit from multiple federal and state-level funding programs that include grants, tax credits and low-interest loans that are not available in Canada.)

TALENT ATTRACTION

Recommendation 5: Promote the railways as an exciting employer of choice offering opportunities in a growing, innovative, and sustainable industry where you can build a career, anywhere in Canada.

Access to human capital is essential for railways to adapt to growing service demands and increase capacity. Given the nature of our railway operations, numerous positions involve physically demanding work in a 24-hour-per-day industrial environment, occasionally in remote geographic locations. Recruiting and retaining talent, particularly women and younger generations, can prove challenging. We need to ensure that potential employees and the workforce of tomorrow have railways in mind when looking for work – as rail career opportunities lead to meaningful, rewarding, and well-remunerated jobs and careers.

ACTION ➜ The federal government **create a national campaign promoting the breadth of rail industry employment opportunities**, showcasing innovation and sustainability initiatives and outcomes, ensuring jobs on and off-the-tracks are featured.

ACTION ➜ The federal government **create incentives for women, minorities, and members of the Indigenous community to join the rail industry**. This may include financial support for students who pursue training opportunities or incentives to potential employers offering apprenticeship programs through funding, programs and tax incentives or other programs geared toward the recruitment of women, minorities, and Indigenous Peoples.

ACTION ➜ The federal government **work with provinces to create a more robust and complete rail training curriculum with colleges across Canada** to reduce the burden on railway, increase awareness of employment opportunities in the rail sector and provide a steady inflow of candidates for railways.