



Railway Association
of Canada

Association des chemins
de fer du Canada

Presentation to the Senate Committee on Energy, the Environment and Natural Resources

*Bill C-74 – An Act to implement certain provisions of
the budget tabled in Parliament on February 27,
2018 and other measures*

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May 8, 2018



Good evening.

It's a pleasure to speak to you today about this important topic. My comments will focus largely on the implications to the RAC's freight railway members.

With clear policy direction established in the Pan-Canadian Framework on Clean Growth and Climate Change, and Minister Garneau's strategic plan for the future of transportation in Canada^{1,2} railways are prepared to reduce transportation-related emissions by increasing the amount of goods and people moved by rail.

With its long-standing commitment to using fuel wisely and reducing its emissions³, Canada's freight rail industry has lowered its emissions by more than a third since 1990 while increasing its workload by 80 per cent over the same period.

The Canadian railway network consists of approximately 44,000 route kilometers across nine provinces and one territory. This network is operated primarily by two Class I railways and roughly 60 shortline railways.

With respect to the proposed bill, several federally regulated railways are already exposed to multiple carbon-pricing policies including the fiscal instruments in British Columbia and Alberta, and the market-based approaches in Ontario and Quebec. These companies are required to meet multiple and often overlapping carbon-pricing requirements to ensure that they can secure a stable fuel supply chain to service their customers.

The introduction of the *Greenhouse Gas Pollution Pricing Act* and supporting regulations will potentially introduce another layer of complexity in an already administrative-heavy carbon-pricing environment. We believe that it's critical for this legislation to recognize the unique aspects of the railway industry and its responsibility to provide a low-cost and efficient service to Canadians.

My comments focus on five areas:

1. Timing of the Greenhouse Gas Pollution Pricing Act

The bill aims to ensure that all jurisdictions have a carbon-pricing system in effect by January 1st, 2019. The railway industry would like assurance that the resulting carbon-pricing systems (either provincial or federal backstop) are not treated as temporary measures.

¹ The Pan-Canadian Framework on Clean Growth and Climate Change, 2016. p.17

² Speaking notes for The Honourable Marc Garneau, Minister of Transport - Transportation 2030. Available at: <http://news.gc.ca/web/article-en.do?nid=1146789>

³ The RAC and its members work voluntarily with the Federal Minister of Transport to reduce locomotive emissions: https://www.railcan.ca/wp-content/uploads/2016/10/TC_RAC_MOU_2011-2015_EN.pdf



This is important as railway companies require an accurate understanding of their fuel costs to understand operational expenses and establish rates.

In the event that the legislative proposal's requirements come into effect, and then change shortly thereafter through the introduction of a new provincial pricing initiative, railways will be faced with the challenge of reviewing their arrangements with their customers in order to comply with new carbon-pricing requirements.

The RAC recommends that the government require relevant provinces to disclose their intentions to accept the *Greenhouse Gas Pollution Pricing Act* before the legislation becomes law.

2. Transparency of fuel charges throughout the supply chain

Existing carbon-pricing structures vary in terms of providing direction to fuel suppliers to disclose compliance costs to large purchasers of fuel such as railways. For example, BC's carbon tax provides a transparent framework that ensures all parties of the fuel supply chain – from producers to distributors to users – understand what the costs of carbon pricing are.

With respect to the proposed bill, **the RAC believes that the appropriate provisions need to be in place to ensure that carbon pricing is transparent so that railways can understand the costs passed on to them by fuel suppliers.**

3. Recognition of renewable diesel and the need for improved transparency

The General Rules of Application item 8(6) provides a quantification methodology for light fuel oil that makes an explicit reference to biodiesel (such as Fatty Acid Methyl Ester (or FAME)) and not renewable diesel (e.g. such as Hydrotreated Vegetable Oil (HVO) and HVO-type Neste Renewable Diesel).

The RAC believes that the bill should be amended to ensure that biodiesel and renewable diesel are treated the same. Both fuels are biogenic and have similar production emissions.

Also, the legislative proposal does not require fuel suppliers to disclose renewable or biodiesel blend rates. **The RAC recommends that a requirement be added to ensure that fuel suppliers disclose all fuel blends so that registered carriers do not overpay nor default their respective warranties with Original Equipment Manufacturers.**

4. Applying the fuel surcharge to fuel imported from provinces where carbon pricing already exists

The legislative proposal indicates that fuel imported into a province where the legislation applies is subject to a fuel charge, while registered carriers can apply for a rebate when they export a portion of that fuel to another province where carbon pricing already exists (e.g. from Saskatchewan and to British Columbia, Alberta, Ontario or Quebec).



While the RAC and its members appreciate the Government's effort to recognize that fuel used for railway operations is not static, it is not clear how the fuel charge (or a corresponding rebate) will apply when a railway imports fuel (for its operations) from a province where carbon pricing already exists.

The RAC is concerned that a railway company may be obliged to pay a carbon price in two jurisdictions for the same shipment of fuel, and **recommends that the legislative proposal includes the appropriate provisions to protect railway companies from overpayment.**

5. Reinvesting carbon-pricing revenues into low-carbon transportation options

While the bill is not intended to establish a policy for how carbon-pricing revenues should be allocated in Canada, we believe that the revenues generated from carbon pricing should be reinvested into rail infrastructure projects for prospective rail customers.

The Government of Québec has recognized the significant GHG savings that rail can deliver, and has directed revenues from its cap and trade system to prospective railway customers⁴ for track, transload facilities and reload centres. No other programs exist at the federal or provincial levels.

We believe the Federal Government can play a pivotal role in demonstrating the leadership required to ensure that goods move by the lowest emitting mode of transportation where feasible.

I would be pleased to answer any questions you may have.

⁴ Through the PREGTI program (formerly PARAGES).