Railway Association of Canada

RAC RESPONSE TO CONSULTATION ON BUILDING A GREEN PRAIRIE ECONOMY ACT

June 30, 2023

Hon. Dan Vandal
Prairies Economic Development Canada
1500 - 9700 Jasper Ave.
Edmonton, AB, T5J 4H7

Dear Minister Vandal,

Thank you for the opportunity to participate in consultations on the *Building a Green Prairie Economy Act* (the *Act*) championed by the late Hon. Jim Carr. Canada's railways are deeply committed to – and interconnected with – the economic and environmental success of the Prairies and all of Canada.

Railway Association of Canada (RAC) members employ over 11,500 Prairie rail workers and support more than 60,000 jobs in the region. These hardworking railroaders move almost two million Prairie-originating carloads each year – from agricultural goods to minerals to energy products.

To move these goods to market safely and efficiently, member railways invest an average of $900 million per year into their Prairie infrastructure (exceeding $1 billion in some years). In addition, these members contribute approximately $400 million annually in taxes paid to provincial authorities in the region.

Operating over 18,500 kilometres of track in the Prairies, our members help move the regional economy. In addition to moving goods produced in Alberta, Saskatchewan, and Manitoba, this includes moving passengers where they need to go and providing them with unique tourism experiences and access. Railways deliver Prairie shippers world-class value, exemplified by recent record grain movements.

Rail is green transportation. Trains, on average, are three to four times more fuel-efficient than trucks. Despite moving 50 per cent of Canada's exports, railways represent only 3.6 per cent of Canadian transportation emissions. Railways are at the forefront of green innovation and continue to invest in fleet modernization and fuel saving technologies while piloting low carbon fuels and alternative propulsion.

Collaboration and investment move supply chains. The rail industry is capital intensive. Adding capacity requires both operational efficiency and investment, not new costs. Railways urge the federal government to prioritize investments in supply chains over pursuing new economic or labour regulation that would hinder, not help efforts to build a green and resilient Prairie economy.

Please see below for the rail industry's responses to the Discussion Questions posed. We look forward to working with you to advance the objectives of the *Act*.

Sincerely,

Marc Brazeau
President and Chief Executive Officer
Railway Association of Canada

SUMMARY OF RECOMMENDATIONS (RAILWAY SPECIFIC)

1. Abandon extended interswitching policy and planned anti-replacement workers legislation
2. Incentivize supply chain investments through accelerated depreciation and other tax measures
3. Ensure the rail sector has access to clean technology investment tax credits
4. Create a dedicated shortline support program, expand and improve the Rail Safety Improvement Program (RSIP), and add other funds to enhance rail infrastructure and supply chain capacity
5. Financially support passenger railways (including tourism railways)
6. Develop policies that enable modal shift to rail
7. Amplify and support industry efforts to increase diversity and rural participation in rail workforces
8. Collaborate to resolve longstanding “grain in the rain” issue
9. Eliminate the Maximum Revenue Entitlement (MRE)
10. Review regulatory processes for efficiency and certainty

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RAC RESPONSES TO DISCUSSION QUESTIONS

1. As the world pivots to a greener economy, what are the opportunities for growth that matter most for your community and the Prairies?

Rail is the greenest mode of ground transportation. A significant opportunity to build a greener Prairie economy is for government leadership to incent a modal shift to rail. Just one locomotive can haul a tonne of goods more than 220 kilometres on a single litre of fuel, while removing upwards of 300 trucks from congested public roads in the process. Each passenger train replaces dozens of passenger vehicles, reducing emissions and improving transit times. Shifting just 10 per cent of freight from trucks to rail, for context, would reduce GHG emissions by approximately four megatonnes of carbon dioxide equivalent – enough to take more than one million cars off the road every year.

For railways and the communities they serve to succeed, the Prairie economy and its key sectors must also succeed. The agricultural sector, for example, must be enabled to flourish and sustainably feed the world. Metals and minerals are a substantial growth category for Class 1 railways. These products are vital to the green economy and to Prairie prosperity more generally. Railways are ready to help the government deliver on its Critical Minerals Strategy. Further, the government should consider how best to assist in attracting new, value-added manufacturing jobs – including those linked to economic drivers like agriculture, mining, and forestry. Prairie shortline railways are well positioned to support the inputs and outputs of these manufacturing processes to help the region grow. Our railways are also well positioned to facilitate the growth of the circular economy.

Railways support the competitiveness of Prairie exporters. Rail freight rates are, on average, the lowest among market economies – 11 per cent lower than the U.S. To move one tonne of goods one mile in Canada, it costs an average of 4.16 U.S. cents. For a tonne of grain, it costs 2.97 U.S. cents. As Prairie provinces develop logistics hubs like CentrePort, for example, Canadian railways are investing to enable more exports and economic growth in the region. Over the past decade, railways have invested more than $20 billion back into their Canadian networks, fleets, and technologies. This includes a combined $1 billion investment by CPKC and CN in high-capacity hopper cars built in Hamilton, Ontario which enabled record grain movement last year. The government should recognize and support – not impede – the rail sector's contributions to economic success on the Prairies.

2. Other countries are actively pursuing the economic opportunities and benefits created by the shift to a greener economy. To stay competitive as a region, what actions are needed now to seize the opportunities that you see for the Prairies?

There are clear actions that the federal government should take to improve competitiveness, incentivize regional economic development, and seize the benefits of a greener economy. Before outlining helpful actions, Canada's railways must first register strong objection to a federal policy that impedes all three.

Extended regulated interswitching introduces inefficiencies and chases jobs and investment to the United States. Extended interswitching adds, on average, one to two days to transit times. It also adds unnecessary greenhouse gas emissions. American railways can soon solicit Canadian traffic at below market rates, without any reciprocity for CN and CPKC to do the same in the U.S. That means fewer available carloads for Canadian railroaders – many of whom work in the Prairie provinces – to move across Canada. It may also mean less available work for port workers if shipments end up in Seattle rather than Vancouver. Extended interswitching has been tried before and it failed. An independent 2016 review found that below market rates hurt railways' ability to reinvest and raised "competitiveness concerns vis-à-vis the United States." To quote Saskatchewan-based AGT Foods CEO Murad Al-Katib: "We're not in favour of supply chain measures that benefit very few shippers yet can have a very serious impact on the supply chain." The government must abandon this irresponsible policy that stands in direct opposition to the *Act*'s objectives.

An investment in Canadian rail is an investment in the green economy. The federal government should encourage these investments through tax policies and accelerated depreciation measures. Capacity-enhancing supply chain projects should be eligible for full immediate depreciation. This approach would complement the National Trade Corridors Fund to quicken the pace of investment in supply chains to help sustainably move more Prairie goods to market. Prairie communities and private landowners (primarily farmers) would also benefit from greater access to government funding to upgrade their portion of safety infrastructure at level crossings. Funding top-ups and accelerated/streamlined approvals as part of the Rail Safety Improvement Program (RSIP) are needed.

The private sector competes for capital. Railways, like all companies, can only invest if they expect a reasonable return. Without this return, railways' ability to maintain infrastructure and, over time, service, will be hampered. The impact of market interventions must be considered holistically to avoid the risk of disincentivizing investments despite other government incentives. Investments, including in green innovation, cannot be realized if there is uncertainty arising from project review and regulatory approval processes or other interventions. PrairiesCan should champion regulatory certainty and efficiency.

New tax credits for clean technology and energy were announced in Budget 2023. Railways welcome these policies but wish to ensure they are accessible to the rail sector. The industry appreciates that the credits, like the Clean Hydrogen Investment Tax Credit for example, reduce investment risks. To maximize usage and benefits, though, they must be available to downstream users such as railway companies consuming hydrogen. Producers need healthy demand if they are to invest and grow. Limiting application to clean production only restricts use potential. The government should help incentivize a switch to alternative fuels and propulsion through inclusive tax mechanisms.

Improving transportation options, including for small communities, is a stated objective of the *Act*. Prairie shortline railways are often located in more remote areas and closer to small communities. They provide critical first-mile, last-mile services that connect customers to Class 1 railways and global markets. Shortlines face many of the same challenges as larger railways but they also have a different scale of resources. They must compete directly with trucks on publicly funded highways for traffic while operating lower density lines than their Class 1 counterparts. Shortlines need better government support to remain a viable alternative to trucking. Greater shortline infrastructure would contribute to regional economic development, improve supply chain fluidity, lower costs for businesses, and enhance safety while lowering emissions and reducing the strain on public infrastructure. The federal government should create a dedicated, multi-year capital funding program to support shortline infrastructure investments similar to other jurisdictions (U.S., Québec).

Passenger railways are a key component of the regional economy. In addition to VIA, which connects communities, the Prairies are home to unique tourism railway operators like Alberta Prairie Railway, Prairie Dog Central Railway, and the Rocky Mountaineer. Governments at all levels should encourage the growth of rural and rail tourism and the economic activity it generates. The federal government should support these railways to bolster their economic and sustainability impacts and allow for recovery from drastic pandemic ridership shocks.

3. **Building a greener economy will require collective effort and leadership. How can the Government of Canada collaborate better with other governments, industry, and Prairie Canadians on the opportunities you have identified? We would like to hear examples of strong partnerships and lessons learned.**

Railways fully agree that building a greener economy will require collective effort and leadership. There is a longstanding partnership between the RAC and Transport Canada on a Memorandum of Understanding (MOU) to collaboratively reduce locomotive emissions in the rail industry. The partnership has delivered measurable results. Since 2005, Canada's freight railways have reduced their GHG emissions intensity – the rail sector's carbon footprint relative to its traffic – by over 25 per cent. The core lesson learned from the MOU is that collaboration, not more regulation, is key to progress.

As part of the MOU, the Rail Pathways Initiative analyzed available pathways to sector-wide emission reductions. The two key pathways are renewable fuels (biodiesel, renewable diesel) and electrification (battery electric, hydrogen fuel cell, and catenary electric). Continued fuel efficiency gains are also fundamental to achieving important science-based milestones.

RAC members are leading green innovation efforts alongside our associate members and others. In Alberta, CPKC is using solar power to produce hydrogen for its fuel cell locomotive pilot project. CN's fuel-efficient technologies, like locomotive telemetry systems and Trip Optimizer, along with blending biodiesel, are contributing to substantial emission reductions. Other railways are also innovating to lower emissions. VIA Rail, for example, is piloting EcoRail – an AI-enabled software that provides driving recommendations to locomotive engineers to reduce fuel consumption. Shortline railways, like Alberta Prairie and Boundary Trail for instance, are customer-focused and efficient – reducing emissions by reducing delays, improving car cycles, and lowering fuel consumption.

Canada's railways welcome further collaboration with government to prudently advance the identified pathways to a low carbon economy. This could include government investments and incentives to build the domestic renewable fuels sector and de-risk private sector investments. We strongly caution against any unilateral policies that would add financial strain to railways or that would disincentivize investment.

4. **Economic growth that works for everyone is a goal we all aspire to. What steps can we take to include the economic participation of under-represented groups and communities across our region? For example, how do we ensure opportunities for Indigenous peoples and rural communities?**

The rail industry offers exciting and rewarding careers, from locomotive engineers to train dispatchers to conductors and beyond. Several RAC members routinely rank among Canada's top employers in recognition of the benefits and breadth of opportunities they provide. The average wage for a Prairie rail worker is approximately $103,500. Despite these compelling reasons to join the dynamic rail sector, there are labour attraction and retention challenges in the industry. These include an aging workforce, higher-than-historical-average job vacancy rates, increased demand for telework, post-training retention, and difficulties recruiting to rural and remote communities (especially for certain skilled professions).

Railways are constantly assessing talent requirements to meet current and future customer demand. We need more people, especially in rural areas. Our members are proactive about employee attraction and retention and are executing commitments to increase sector participation among underrepresented groups. A challenge facing railways is low awareness of the range of opportunities available to these groups. While there has been year-over-year progress in the hiring of women, persons with disabilities, visible minorities, and Indigenous peoples, there is still much more work to be done to ensure these groups realize the benefits of working in Canada's railways.

Access to skilled human capital is essential for railways to adapt to growing service demands and increased capacity requirements. Our Class 1 railway members undertake frequent recruitment and in-house training programs to replenish and augment their respective workforces. In addition, the RAC hosts conferences like Women in Rail, partners with colleges to train new conductors and other recruits, and actively promotes railway careers. These efforts, undertaken alongside our members, are making an impact but significant challenges remain due to the long lead times for on-the-job training and certification as well as lifestyle preferences of new recruits. Railways recommend that the federal government amplify and support ongoing efforts to increase diversity and rural participation in the rail sector. This could include promotional partnerships, incentives for students to complete rail apprenticeships (and/or to employers offering them), and funding programs and tax incentives geared towards the recruitment of diverse and rural employees.

5. **What does success look like for you as we work together to build a greener Prairie economy?**

Collaboration and investments are the recipe for supply chain success. The government will not build a green or resilient Prairie economy by adding economic and labour regulations. Extended interswitching increases emissions, adds inefficiencies, and puts Prairie jobs at risk. Proposed anti-replacement worker legislation could cause severe disruptions to essential supply chains in the event of a labour dispute. Other layering on of costly regulations further jeopardize the very goals of the *Act*.

Canada's railways respectfully urge the government to focus on tangible supply chain solutions that grow the economy for everyone. For example, workers are prevented from loading grain onto vessels in the rain in Vancouver where it rains 165 days per year on average. While railways set records for grain movement, upholding their end of the transportation bargain, trains are delayed at port each year because the grain cannot be loaded onto vessels in the rain. If one train is stuck in Vancouver, others get backed up behind it and the empty railcars take longer to return to Prairie elevators. This hurts farmers, grain terminal operators, marine shippers, and railways. Nearby and competing ports, like Seattle and Portland, are loading grain in the rain. Solutions exist to permit safe loading. Railways are again asking the federal government to play a leadership role in convening stakeholders, including unions, to action reasonable and pragmatic solutions to resolve this perennial issue in a safe and efficient manner.

The Maximum Revenue Entitlement (MRE) is another example of a market intervention that hinders investment and efficiency, ultimately impacting service. The MRE places a ceiling on the total revenue that railways can earn, regardless of volume shipped, for moving western grain to export positions in a crop year. It was originally intended as a transitional step towards a commercial regime (as exists for all other commodities). Railways pay for their locomotives, steel, labour, and all other costs at market rates. There is no policy rationale for one component of grain supply chains to be revenue regulated. Canadian railways may need to invest at least $284 billion in the next 50 years to maintain and strengthen export supply chains. Higher investment leads to even better service, which is what farm groups often say is their highest priority for railways. Eliminating the MRE would unlock investment capital and drive supply chain efficiencies to further improve service for the benefit of farmers and railways alike.

Supply chain investments are necessary to increase capacity and fluidity and unlock green innovation. We have outlined several proposed actions – like immediate depreciation, a dedicated shortline funding program, new passenger rail support, inclusive green tax benefits, and incentives enabling modal shift to rail – that will propel a green and resilient economy on the Prairies. Canada's railways look forward to working together to materially realize the *Act*'s vision.