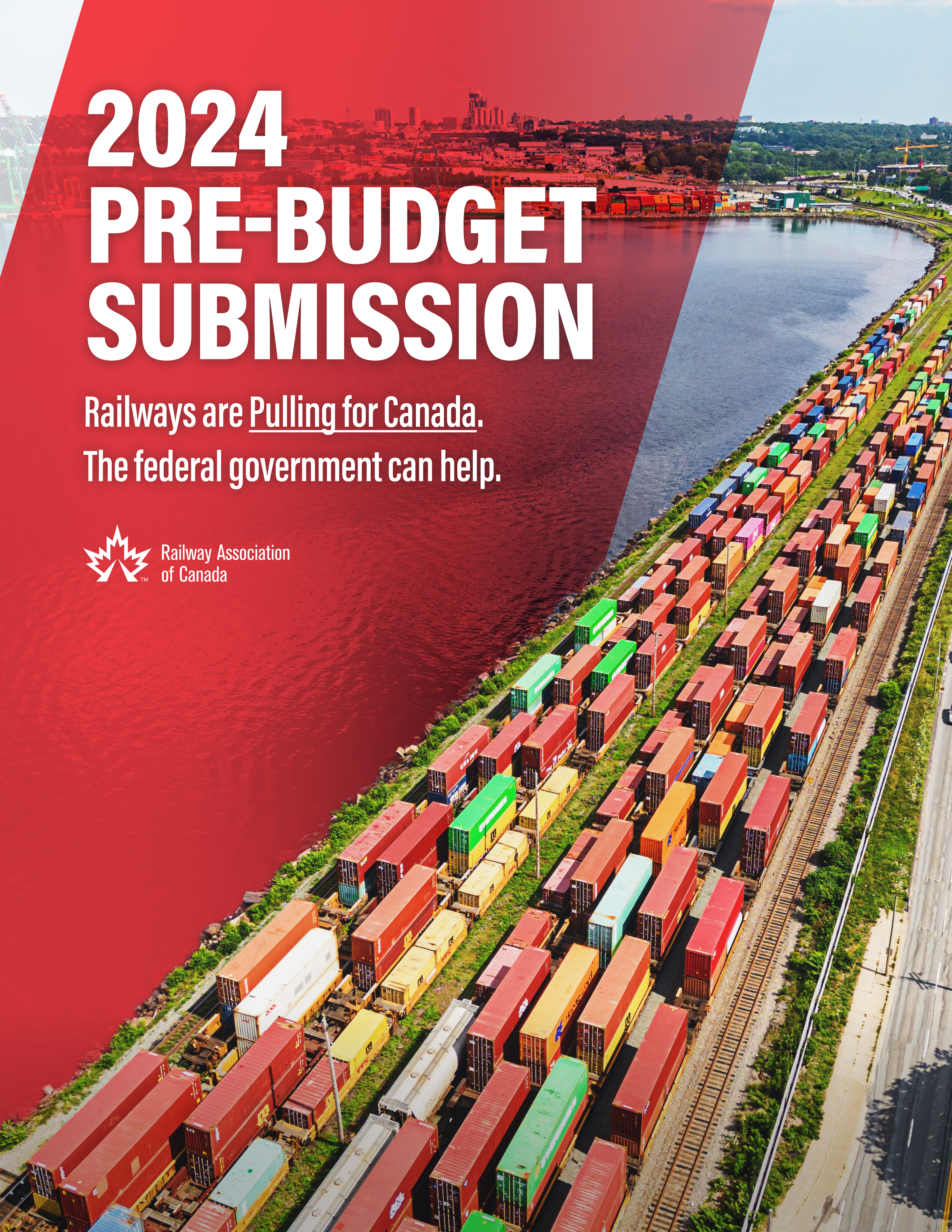

2024 PRE-BUDGET SUBMISSION

Railways are Pulling for Canada.
The federal government can help.

Railway Association of Canada

RECOMMENDATIONS

1. Immediately repeal extended regulated interswitching.

2. Incentivize capacity-enhancing supply chain investments.

3. Create a predictable support mechanism to revitalize shortline railways.

4. Augment operational and capital support for passenger railways.

5. Consider and address the supply chain impacts of incremental labour regulations.

6. Support rail sector decarbonization and climate resiliency.

INTRODUCTION

The Railway Association of Canada (RAC) is pleased to share its 2024 Pre-Budget Submission.

The submission's overarching theme is protecting Canadian competitiveness and ensuring all types of railways (Class 1, shortline, commuter, intercity, tourism) can continue to Pull for Canada.

Canada's railways provide the highest safety performance in North America, industry leading green innovation, and strong service – and they do it at virtually the lowest cost in the world.

Canadian rail freight rates are the lowest on average among major market economies – 11% lower than the United States.[1] Average Canadian rates are less than half that of Germany and India. They are just over a third of Japan's average rail freight rates, as another comparison.[2]

Freight railways enable Canadian businesses to compete effectively in markets in North America and around the world. They also continue to act as reliable links in complex global supply chains.

To illustrate rail's reliability, a recent study found that the transit time for containerized consumer goods transported from Shanghai to Ontario and Quebec increased by 13.8 days (or 52%) during the pandemic, from 2019 to 2022.[3] 99% of this increase happened before the container had even been loaded onto a railcar.

Meanwhile, the total transit time for Saskatchewan grain to reach Asian markets in 2022 was one day shorter than in 2019. Canada's railways were the biggest contributors to this reduction, despite the challenges of a global pandemic and public health restrictions.

Passenger railways are continuing to see an overall rise in ridership, but significant financial pressures remain. Ongoing and augmented government support is required.

Canadian rail is green and getting greener. Railways are three to four times more fuel efficient than trucks. Just one locomotive can haul a tonne of goods more than 220 kilometres on a single litre of fuel. Just one train can remove upwards of 300 trucks from congested public roads.

More than 34,000 women and men across Canada work around the clock to bring Canadian goods safely and sustainably to global markets and people to their destinations. Canadian railways carry half of Canada's exports. They move $350 billion of goods each year and bring millions of passengers where they need to go.

Over the past decade, railways have invested more than $20 billion – nearly 25% of every dollar earned – to enhance the fluidity and resiliency of Canada's 43,000 km rail network. These investments include innovative, safety-enhancing technologies like wayside detectors, predictive analytics, track geometrics, and machine visioning.

They also include capacity-enhancing investments like a combined $1 billion investment by CN and CPKC in new, high-capacity hopper cars built in Hamilton, Ontario which helped them move record amounts of grain last crop year.

The Canadian economy pulses through the veins of the rail network. The federal government should help, not hurt, our vital sector and its mostly unionized Canadian workers.

1. IMMEDIATELY REPEAL EXTENDED REGULATED INTERSWITCHING.

Extended regulated interswitching can drive unionized jobs and investment to the United States. The extended interswitching "pilot project" – introduced in Budget 2023 – is a Team USA policy.[4] It can also needlessly increase transit times, emissions, and costs for consumers.

Under extended interswitching, Canadian rail shippers – in this case mostly global grain companies – are financially incentivized to contract with an American railway instead of "home team" CPKC or CN.

This is because those shippers, if they use extended interswitching, will get a below market (regulated) rate for the first 160 km. Extended interswitching intentionally gives away work that would otherwise be done by unionized Canadian railroaders and port workers to a U.S. railway.

The process that led to this policy decision was entirely insufficient and lacked both consultation and analysis. It ignored the lessons learned from the previous interswitching trial (2014-17), including Transport Canada's conclusion, in line with the Emerson Report, that the extension of the regulated interswitching distance was "having unintended consequences on the competitiveness of our railways vis-à-vis the U.S. railways."[5]

There is no policy rationale to support the intentional disadvantaging of Canadian railways to the benefit of U.S. competitors. In fact, the Montreal Economic Institute called this situation "a sad spectacle of self-sabotage."[6]

In an environment where a) it remains critical for Canada to stay competitive with its largest trading partner, b) tax and other policies already favour rail investments in the U.S. over Canada, and c) the current government replaced extended interswitching with Long-Haul Interswitching (LHI) in 2017, the RAC appeals to the federal government to choose Team Canada once again.

Canada's railways urge the federal government to acknowledge the harms of extended regulated interswitching and, as it did in 2017, repeal it.[7] Canadian railways, their workers, and ultimately the Canadian economy will be better off for it.

Canadian railways are Pulling for Canada. On this issue, the federal government should too.

2. INCENTIVIZE CAPACITY-ENHANCING SUPPLY CHAIN INVESTMENTS.

The Canadian rail network needs billions of dollars in investment in the coming years to stay resilient and handle the anticipated growth in volumes of people and goods.

Federal tax policies do not promote increased investment and are misaligned with other jurisdictions like the United States as well as other, less efficient, modes of transportation. Put simply, the current class rates and depreciation rules are not supportive of investment in the green and innovative rail industry. These low rates constrain investments that could be made to reduce emissions, enhance safety, and benefit Canadian supply chains and the broader economy.

The federal government should implement accelerated (or 100% immediate) depreciation for all supply chain participants that make investments to maintain or expand capacity. This is one of the best tried and tested options for the federal government to boost private sector investment. Please see the RAC's paper "Railways, Taxation, and the COVID-19 Recovery" for more details on the tax imbalance and how to address this situation which is incompatible with Canada's clean growth objectives.[8]

Accelerated depreciation and other tax measures would complement the successful National Trade Corridors Fund (NTCF) as well as the Rail Safety Improvement Program (RSIP). These programs should be augmented to quicken the pace of investment in supply chains to help safely and sustainably move Canadian goods to international and domestic markets.

The funds provided through these critical programs towards key projects and programs unlock a multitude of other economic benefits across interconnected supply chains. Some trade-enabling projects need a government contribution to make them economically feasible and get to "yes." The NTCF has been effective in getting many nationally beneficial projects to yes.

Fiscal measures like accelerated depreciation and NTCF funding may help generate investments by grain terminal operators to address the longstanding and fixable problem of the lack of grain loading onto vessels in inclement weather at the Port of Vancouver. This would increase capacity and fluidity and thereby help reduce the negative impact of prolonged anchorages at the Port.

Canada's railways are the safest in North America and consistently getting safer. Safety is job one for every railway and every railroader. Safety is also a shared responsibility that calls for further investment from the federal government.

Collaboration is needed to ensure that grade crossings comply with the *Grade Crossing Regulations* and the associated *Grade Crossing Standards* for everyone's safety. Private landowners (primarily farmers) would benefit from greater access to government funding to upgrade their portion of safety infrastructure at level crossings. Additionally, funding or in-kind support will be needed for effective implementation of Enhanced Train Control.

Whether it is infrastructure upgrades, track maintenance, technology deployment, training, awareness programs, or otherwise, investments in safety and a strong safety culture are non-negotiable for railways big and small. Through RSIP, the federal government's support makes available additional resources for railways to build economy-moving capacity. New funds should be made available through RSIP, and approvals should be accelerated and streamlined.

These actions, taken together, would have materially positive supply chain impacts that cascade throughout the Canadian economy. The Canadian government should implement these well-considered, prudent measures in Budget 2024 to help railways (and all supply chain participants) deliver safely, efficiently, and sustainably for Canada.

3. CREATE A PREDICTABLE SUPPORT MECHANISM TO REVITALIZE SHORTLINE RAILWAYS.

Shortline railways are those earning under $250 million in annual revenues. These railways provide critical first-mile, last-mile services that connect rural communities and businesses to Class 1 railways and global markets. One in five freight carloads originate on a shortline in Canada.

High fixed costs, aging infrastructure, commodity volatility, and policy imbalances with other jurisdictions and among other transport modes, combined with the tax and expanding regulatory burden, are threatening the sustainability of shortline operations.

The immense challenges facing shortline railways and the corresponding lack of support in Canada are well documented, including in the Emerson Report.[9]

Shortlines need government support to remain a viable alternative to trucking. Yet there is no dedicated funding or incentive for shortline railways at the federal level despite their outsized impacts. A support program for shortline railways has been recommended at multiple committees of the House of Commons. This was the subject of a joint letter from various associations in 2020.[10]

The United States is supporting their shortline railways. Federal grants under the Consolidated Rail Infrastructure and Safety Improvements (CRISI) Program alone amount to approximately $20,000 CAD per mile of track per year for U.S. shortlines.

Half of the $1.4 billion in annual CRISI grants were awarded to shortlines. This figure does not include support provided through the permanent U.S. Section 45G tax credit ($3,500 USD per mile of track per year) or state-level support which can be significant.

The NTCF and RSIP accept applications by Canadian shortlines. But the overall level of shortline grant support in Canada is far below the level of U.S. shortline grant support under CRISI alone.

One consequence of this lack of support is that global investors, international transportation service companies, and infrastructure managers may direct greater investment to U.S. shortlines at the expense of Canadian ones. Our tax regime also makes it comparatively more attractive to invest in other modes of freight transportation as well as in manufacturing and processing.

Bolstered 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. Therefore, the Canadian government should take one or both of the following actions in Budget 2024 to ensure the sustainability of Canadian shortlines:

1. Create a Railway Track Maintenance Tax Credit (comparable to U.S. Section 45G)

2. Create a permanent, dedicated support fund for shortline railways.

The U.S. 45G allows a credit of 40 cents for each dollar invested in track and bridge improvements. Since the credit became effective on January 1, 2005, it has spurred over $5 billion USD in shortline infrastructure investment. Studies show that the U.S. tax credit, by reducing the user's cost of capital, is associated with a 47% increase in investment.[11] Safety benefits are also significant. The credit became permanent in 2020 with bipartisan support in the U.S. Congress.

A 2018 Review of U.S. Shortline Railway Funding conducted by respected consultancy CPCS found that there are 106 programs across the U.S. that shortlines could be (or have been) eligible for.[12] 21 programs were at the federal level and 85 were at the state level.

Canada has options for tax credit and program design. We would be pleased to discuss in detail.

4. AUGMENT OPERATIONAL AND CAPITAL SUPPORT FOR PASSENGER RAILWAYS.

Passenger railways connect communities and provide unique tourism experiences that showcase Canada. More than 15 RAC members offer passenger rail services. These railways move millions of passengers safely and sustainably across Canada every year. They directly employ over 5,000 Canadians and support thousands more jobs in regional economies from coast-to-coast-to-coast.

The COVID-19 pandemic had a drastic impact on passenger rail ridership. While ridership levels are improving on balance, they remain below 2019 levels for all three passenger rail segments (tourism, commuter, and intercity) and huge financial challenges remain. The commuter segment has been particularly hard hit.

It is critical that the federal government support these railways in their ongoing recovery by bolstering operational and capital support.

Tourism rail operators have historically lacked attention from a funding perspective. Canada's railways applaud the announcement in Budget 2023 of $108M over three years to create a Tourism Growth Program. Tourism rail operators of all sizes should be eligible to access this funding so that they may grow their operations to meet future demands of tourists.

Separate, dedicated rail lines, for passenger and freight respectively, are necessary in densely populated economic regions. If we are serious as a country about our ambition to build dedicated tracks in the Toronto-Quebec City Corridor, we must also be serious about funding it appropriately. And we must be serious about strategic planning and investments to support multi-modal connectivity.

The federal government has a key role to play in working with all levels of government to better coordinate passenger services across Canada. Different modes of transportation must be viewed together at a systems level rather than different, competing modes. Better coordinated planning for multi-modal integration will enhance passenger access, reliability, and the tourist experience.

VIA Rail is a lifeline to hundreds of communities, many of which are Indigenous, where alternative, affordable transportation choices are either limited or unavailable. VIA provides access to essential services only available in urban centres. The fleet used to provide this access is aging well beyond the industry norm, with cars reaching 65 years or older. It will need to be retired by 2032.

A new Long Distance, Regional, and Remote (LDRR) fleet is needed to maintain these essential services, support Canada's Tourism Growth Strategy, and offer a fully accessible travel option and experience. RAC encourages the federal government to work in a timely and prudent manner with VIA and all stakeholders to replace the LDRR fleet. The federal government should make this commitment now given it takes approximately 10 years for new train cars to begin service. RAC commends the government's investment in modern, accessible trainsets in the Corridor.

It must be noted that any new passenger rail service must not compromise the current and future freight rail capacity that is required to support Canada's growing economy.

5. CONSIDER AND ADDRESS THE SUPPLY CHAIN IMPACTS OF INCREMENTAL LABOUR REGULATIONS.

Railways comply with thousands of safety laws, regulations, rules, and requirements. The rail sector is one of – if not the most – highly regulated in Canada.

On top of the comprehensive sets of safety regulations, the federal government is layering additional labour regulations that harm the competitiveness and, in some cases, the sustainability of Canadian railways – an outcome that is contrary to stated government objectives. For instance, additional paid medical leave minimum requirements and other changes can, without consideration of existing benefits, negatively impact productivity and supply chains.

Canada's railways urge the government to clarify that new regulated leave requirements are not to be stacked atop existing leave benefits that have been negotiated under collective agreements in good faith over decades. The leave and other benefits offered by railways is one of the reasons that RAC members are consistently ranked as among Canada's top employers.

The federal government should amend its Interpretive Guideline to clearly state that 10 medical leave days cannot be stacked on existing employee medical leave programs.

Canada's railways are carefully assessing the legislation proposing to ban replacement workers. In general, prohibiting the use of replacement workers is a problem in search of a solution.[13]

Supply chain labour disputes are bigger than one employer and union; they have wide-ranging impacts on Canadian families and businesses. They affect the entire economy. Government needs new tools to avoid/shorten work stoppages in sectors critical to Canadian wellbeing.

In particular, the federal government should be able to compel binding arbitration to resolve bargaining impasses. The government needs authority to protect Canadians from damaging work stoppages, while respecting collective bargaining.

A replacement worker ban could make a bad situation worse, leading to more frequent and longer labour disruptions. It could threaten supply chain stability and lead to more government interventions; undercutting the important principle of dealmaking "at the table."

Canada's railways urge the government to consider and address the cumulative supply chain implications of incremental labour (and other) regulations. Further, the government should help grow the rail industry, including by supporting industry efforts to increase diversity and rural participation in our sector.

Financial support for employee training and development, beyond cost deductions for tax purposes, would be impactful as would promotional partnerships and incentives for students to complete rail apprenticeships (and/or to employers offering them). We need more Canadians to be aware of the dynamic opportunities available in our sector. The federal government can help.[14]

6. SUPPORT RAIL SECTOR DECARBONIZATION AND CLIMATE RESILIENCY.

Half of Canada's exports move by rail. Yet the rail sector accounts for less than 4% of Canada's transportation emissions. This is a testament to rail's fuel efficiency.

An investment in rail is an investment in the green economy. Railways believe that building a greener economy requires collective effort and leadership. That is why the RAC has partnered with Transport Canada since 1995 on a Memorandum of Understanding (MOU) to collaboratively reduce emissions in the rail industry. Negotiations towards a renewed MOU are underway.

This partnership between industry and government has delivered measurable results. Since 2005, Canada's freight railways have reduced their greenhouse gas emissions intensity – the rail sector's carbon footprint relative to its traffic – by over 25 per cent. The core lesson 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.[15] The two key pathways are low carbon 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. Net-zero technology for locomotives is not yet commercially nor operationally viable.

RAC members are leading green innovation efforts. CPKC is using solar power to produce green hydrogen for its fuel cell locomotive pilot project. CN has ordered a battery-powered locomotive for a trial and is testing low carbon fuel blends. VIA Rail is piloting EcoRail – an AI-enabled software providing driving recommendations to locomotive engineers to reduce fuel consumption. Shortline railways, like the Southern Railway of British Columbia, are also trialling low carbon fuels – including 100% biodiesel.

To achieve even deeper decarbonization of the rail sector, Canada's railways seek further collaboration with government to prudently advance progress towards national climate goals. This could include government investments and incentives to build the domestic low carbon fuel sector, de-risk private sector investments, and support rail's transition. The RAC strongly cautions against any unilateral policies that would add financial strain to railways or disincentivize investment.

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 producing and 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. A funding program should also be established to support fleet renewal, net-zero trials, and the use of low carbon fuels.

Climate resiliency and adaptation is another important priority for railways. In line with Canada's National Adaptation Strategy, Transport Canada's Rail Climate Change Adaptation Program (R-CCAP) provides funding to help Canada's rail sector research, develop, and implement innovative technologies, tools, and approaches to address these climate risks.

Given the effectiveness of and interest in the R-CCAP program under RSIP, the government should double its funding envelope to $10 million. This will support the rail sector's adaptation initiatives to better mitigate the impacts of severe weather events.

ABOUT RAC

The Railway Association of Canada (RAC) 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. As part of the fifth largest rail network in the world, RAC members are the backbone of Canada's transportation system.

CONTACT

Comments and questions can be directed to **Kevin Mason**, Director of Policy, Advocacy, and External Relations at kmason@railcan.ca.

ENDNOTES

1 Online: https://www.railcan.ca/wp-content/uploads/2023/02/International-Comparison-of-Railway-Freight-Rates.pdf

2 This conclusion is consistent with a similar study of the OECD published in 2016. See: OECD Economics Department Working Papers No. 1322, C. Luu, "Strengthening competition in network sectors and the internal market in Canada," 2016, page 31.

3 Online: https://www.railcan.ca/wp-content/uploads/2023/05/SPARK-RAC-CTRF-REPORT-2023-EN7.pdf

4 Online: https://www.nationalnewswatch.com/2023/06/13/why-is-the-government-choosing-team-usa-on-interswitching/

5 Online: https://www.ourcommons.ca/DocumentViewer/en/42-1/tran/meeting-67/evidence

6 Online: https://financialpost.com/opinion/ottawa-extension-forced-interswitching-no-way-run-railways

7 Online: https://www.railcan.ca/wp-content/uploads/2023/05/RAC-Submission_FINA_April-27-2023_FINAL.pdf

8 Online: https://www.railcan.ca/wp-content/uploads/2022/01/Railways-Taxation-the-COVID-19-Recovery-RAC-Tax-White-Paper.pdf

9 Online: https://tc.canada.ca/sites/default/files/migrated/ctar_vol1_en.pdf

10 Online: https://www.railcan.ca/wp-content/uploads/2023/10/Supporting-Canadas-Shortline-Railways-03-12-20.pdf

11 Online: aslrra.org/aslrra/document-server/?cfp=aslrra/assets/File/public/advocacy/pwc-aslrra-final-report.pdf

12 Online: https://www.railcan.ca/wp-content/uploads/2023/10/7.US-Shortline-Funding-Final-Report_RAC.pdf

13 Online: https://www.railcan.ca/wp-content/uploads/2023/02/RAC-Replacement-Worker-Submission-January-2023-FINAL.pdf

14 Online: https://www.railcan.ca/wp-content/uploads/2023/06/Ten-recommendations-to-grow-the-Prairies-economy.pdf

15 Online: https://www.railcan.ca/wp-content/uploads/2022/12/Rail-Pathways-Decarbonization-Roadmap.pdf