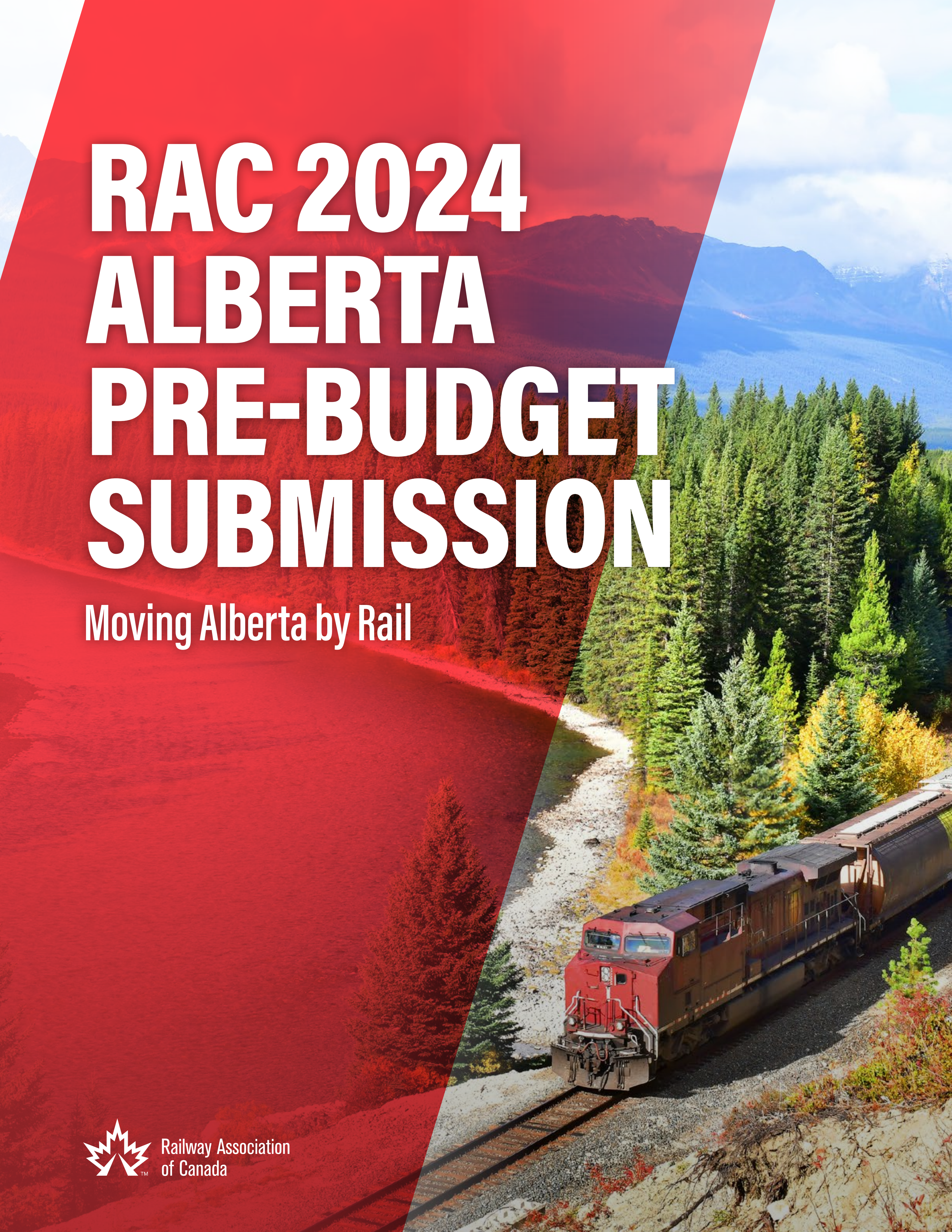
RAC 2024 ALBERTA PRE-BUDGET SUBMISSION

Moving Alberta by Rail



Railway Association of Canada

RECOMMENDATIONS

RECOMMENDATIONS:

Urge the federal government to immediately repeal extended regulated interswitching.

Advocate federally and among relevant stakeholders for a swift and safe resolution of the "grain-in-the-rain" bottleneck at the Port of Vancouver.

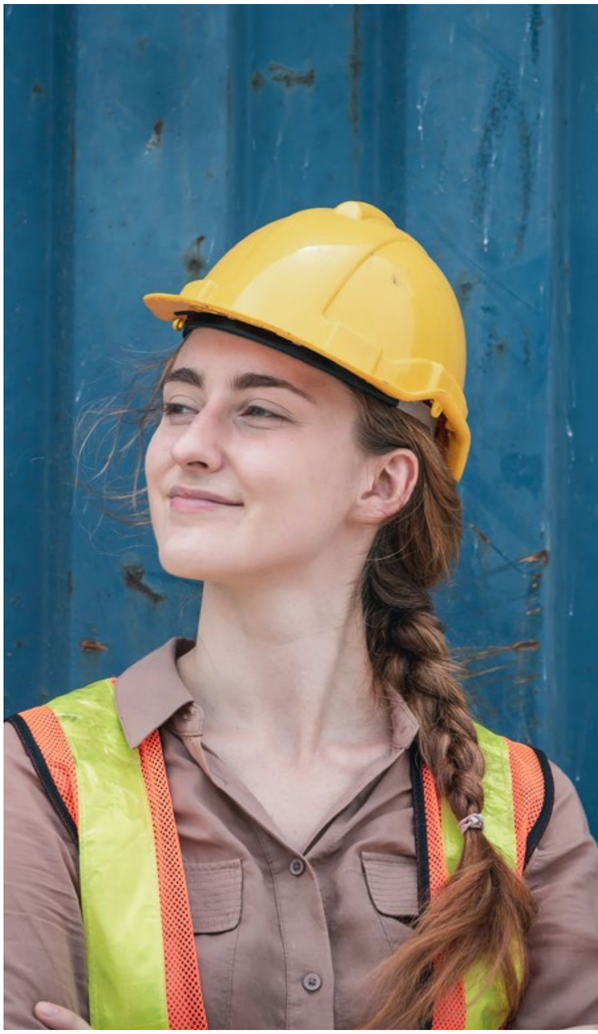
Create a Railway Track Maintenance Tax Credit to support shortline investments.

Protect essential freight rail capacity for Alberta's economy while studying any potential commuter rail services and supporting provincial tourism rail operators.

Adopt RAC-FCM proximity standards and ensure they are adhered to by land-use planning authorities.

INTRODUCTION

The Railway Association of Canada (RAC) is pleased to share its 2024 Pre-Budget Submission. This submission provides recommendations for the Alberta government to support the vital role of every type of railway in Moving Alberta.



Canadian freight railways carry half of Canada's exports (much of which originate in Alberta). They move $380 billion worth of goods annually while Alberta's passenger railways bring thousands of passengers where they need to go. More than 35,000 Canadian railroaders work around the clock to bring Canadian goods safely and sustainably to global markets and people to their destinations.

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 and far lower than other comparable jurisdictions.[1] [2] Freight railways enable Alberta 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. Comparatively, 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 COVID-19 and public health restrictions.

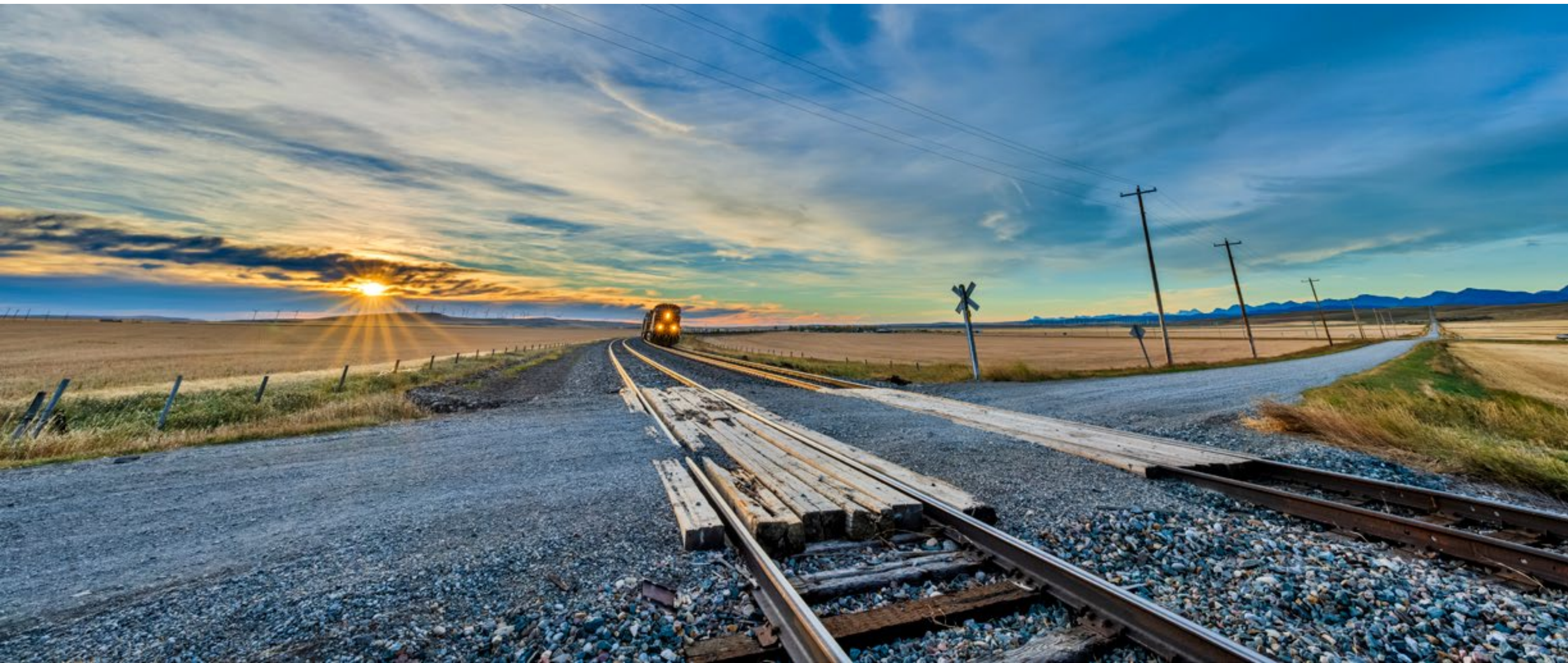
Canadian rail is green and getting greener. Freight railways reduced emissions intensity by more than 25% from 2005-2021. Railways are three to four times more fuel efficient than trucks. Just one locomotive can haul a tonne of goods more than 220 kilometres on a single litre of fuel. Just one train can remove upwards of 300 trucks from congested public roads, reducing the deterioration and cost of infrastructure maintenance. RAC commends the government's investments, through Emissions Reduction Alberta, in innovative initiatives like CPKC's hydrogen locomotives that further reduce sector emissions. Intercity passenger railways reduced emissions intensity by 31% from 2005-2019[4] while growing ridership and continuing to get even safer.

Over the past decade, railways have invested more than $21.5 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 recent combined $1 billion investment by CN and CPKC in new, high-capacity hopper cars built in Hamilton, Ontario.

Railways applaud the Alberta government's plans to design a ministry-specific job-attraction strategy. RAC requests to be included and consulted to develop actions that amplify industry recruitment efforts and meaningfully expand the talent pool accessible to railways in the province.

Alberta should resist federal policies against Alberta's economic interests. Such policies include extended regulated interswitching and legislation to prohibit the use of replacement workers during a lockout or strike.[5] It should also advocate federally for tangible supply chain and other actions, like resolving the perennial "grain-in-the-rain" bottleneck at the Port of Vancouver.

The government should take the below actions to help build Alberta by strengthening the railways that support the province.



RECOMMENDATION 1: URGE THE FEDERAL GOVERNMENT TO IMMEDIATELY REPEAL EXTENDED REGULATED INTERSWITCHING.

The federal government's extended interswitching "pilot project" – introduced in Budget 2023 – risks driving jobs and investment to the United States.[6] It can slow down supply chains and raise costs for Alberta exporters, importers, and consumers.

Imagine adding a layover and switching airlines when a direct flight is available. The trip takes longer and increases both costs and emissions. This is extended regulated interswitching.

It is essential for Alberta's economic growth that the rail network remains fluid. Extended regulated interswitching undermines that objective while putting Alberta jobs and investment at risk. This is why railways, unions, transportation experts, industry leaders, and others oppose the policy.

Under extended interswitching, Canadian rail shippers in Alberta, Saskatchewan, and Manitoba – 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 up to 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.

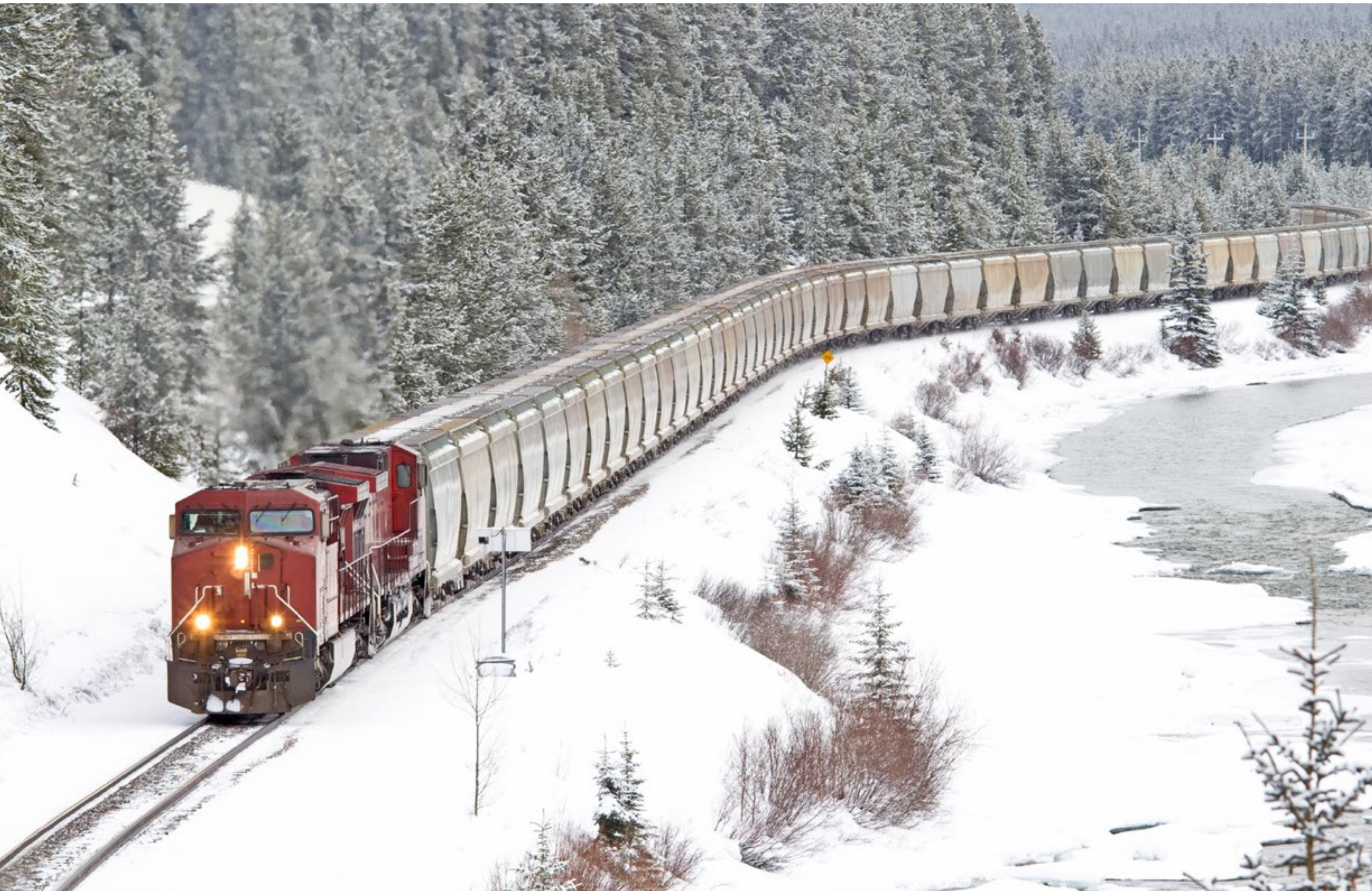
The process that led to this federal policy decision was entirely insufficient and lacked both consultation and analysis. It ignored the lessons learned from the previous interswitching trial (2014-17), including Transport Canada's conclusion, in line with the Emerson Report, that the extension of the regulated interswitching distance was "having unintended consequences on the competitiveness of our railways vis-à-vis the U.S. railways."[7]

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."[8]

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 federal government replaced extended interswitching with Long-Haul Interswitching (LHI) in 2017, the RAC appeals to the Alberta government to urge federal counterparts to choose Team Canada once again.

There has yet to be an explanation from the federal government or anyone else as to why a group of large grain companies should receive special treatment over other shippers, especially when they already enjoy a distinct advantage through antiquated grain revenue caps which do not exist for any other commodity. Alberta has a diverse, export-dependant shipping community, from chemicals and crude to minerals, intermodal, and beyond. Certain grain shippers and their allies are seeking lower-than-globally-low rates at the expense of all other users of the rail network.

The Alberta government should stand up for hardworking Alberta railroaders and formally communicate to the federal government that extended regulated interswitching is against Alberta's – and Canada's – economic interests and must be repealed on an expedited basis.



RECOMMENDATION 2: ADVOCATE FEDERALLY AND AMONG RELEVANT STAKEHOLDERS FOR A SWIFT AND SAFE RESOLUTION OF THE "GRAIN-IN-THE-RAIN" BOTTLENECK AT THE PORT OF VANCOUVER.

Vancouver port terminals do not load grain in the rain in a city where it rains 165 days per year on average. As railways set records for grain movement, trains get delayed at port because their grain cannot be loaded onto vessels in the rain – creating backlogs throughout the grain supply chain.

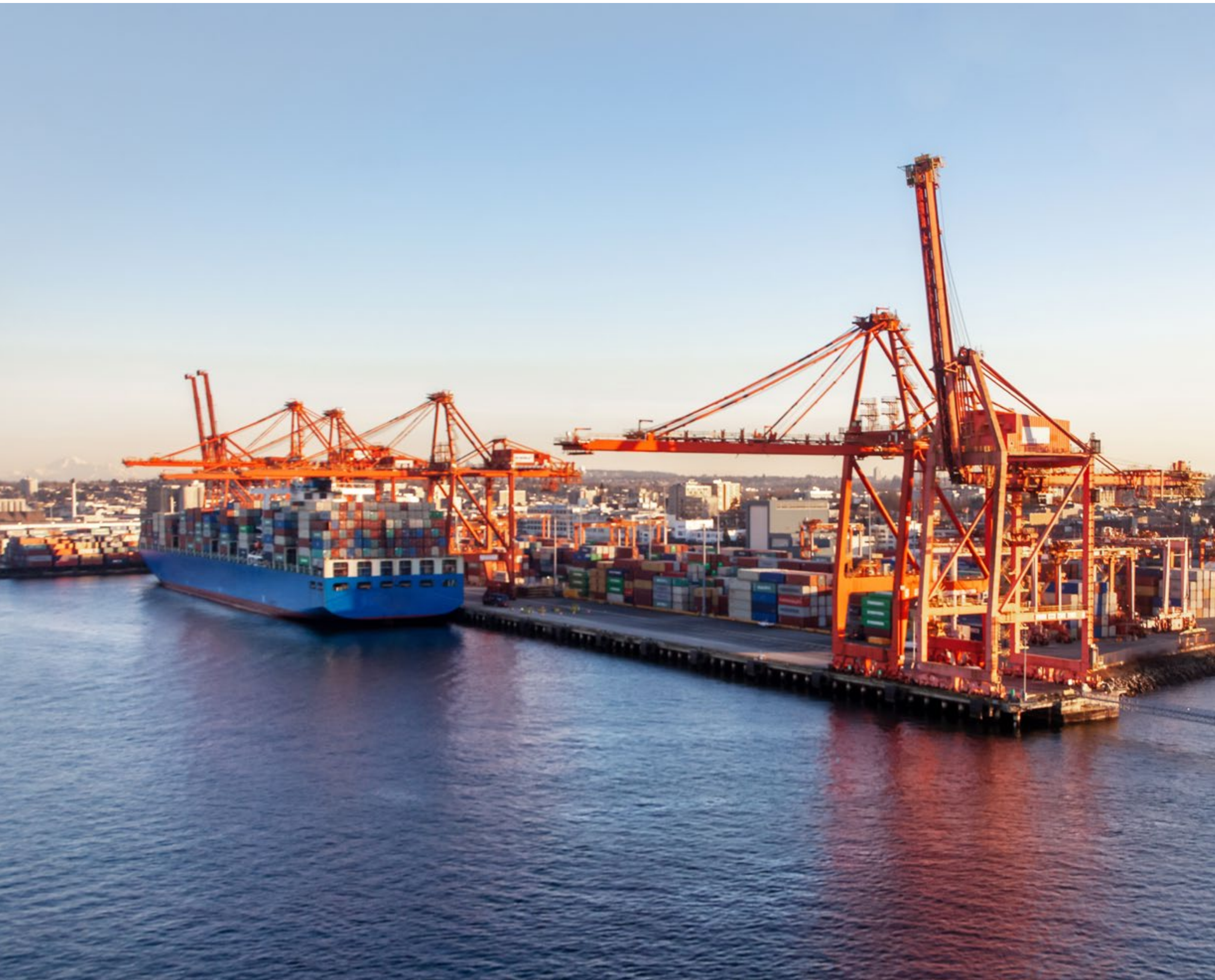
The rainy season is also peak grain export season. Each year, crucial shipping capacity is lost at the worst possible time because grain is not loaded onto vessels in inclement weather despite the availability of safe solutions. Similar ports are moving grain in the rain. Seattle, another rainy port city and direct competitor to Vancouver, regularly loads grain in the rain. Portland is another example. If one train is stuck in Vancouver, others get backed up behind it. Empty railcars also take longer to return to Alberta elevators. This hurts farmers, grain terminal operators, marine shippers, and railways.

While port dwell times increased substantially during the pandemic years, rail dwell times remained consistent with historical norms. Canadian Class 1 railways' average terminal dwell time remained below eight hours. For comparison, Canadian ports' average terminal dwell time more than doubled, from 72 hours in 2019 to 158 hours in 2022, and global marine vessel on-time performance decreased from 78% to 42%. The need for tangible solutions to reduce marine dwell times and increase overall supply chain fluidity for the benefit of Alberta's diverse array of importers, exporters, and producers is clear.

The supply chain ramifications are unavoidable and well documented. For a full week in October 2022, it rained in Vancouver. Grain terminals were backed up and railways could not send any more trains into the area for unloading because terminals were unable to accept more grain. This left several trains loaded with thousands of tonnes of prairie grain stuck at origin or along the route. Other trains were held at the inland terminal. The rainy week came during a bumper crop, rising food inflation, and significant investment by Canadian Class 1s to timely deliver unprecedented volumes of grain.

Supply chain capacity is determined by its weakest link. When one link breaks, the entire chain is impacted. Canada's railways have been asking the federal government to play a leadership role in convening stakeholders, including unions, to action reasonable and pragmatic solutions to resolve this issue in a safe and efficient manner.

The Alberta government should raise this issue with the federal government as an urgent priority. A swift and safe resolution of this perennial and unnecessary bottleneck in Canada's grain supply chain is needed.



RECOMMENDATION 3: CREATE A RAILWAY TRACK MAINTENANCE TAX CREDIT TO SUPPORT SHORTLINE INVESTMENTS.

Shortline 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. There are six shortline railways in Alberta.

High fixed costs, aging infrastructure, commodity volatility, and policy imbalances with other jurisdictions and among other transport modes (e.g., competing with trucks operating on public roads), combined with insurance obligations and the tax and expanding regulatory burden, are threatening the sustainability of shortline operations in Alberta and across the country.

Shortline revenues narrowly outpace expenses. The average operating expense to revenue ratio for a shortline is 90%. This high operating ratio limits the ability for shortline railways to invest in enhancing the capacity and fluidity of Alberta supply chains, and their ability to connect Alberta businesses to the continental rail network. The immense challenges facing shortline railways and the corresponding lack of support in Canada are well documented, including in the 2015 Emerson Report.[9]

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

The United States is supporting their shortline railways at both the federal and state levels. 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.[11] 21 programs were at the federal level and 85 were at the state level.

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. Most recently, 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. Track Maintenance Tax Credit ($3,500 USD per mile of track per year) or state-level support which can be significant.

Some Canadian (federal) programs accept shortline applications, but no dedicated funding stream exists. The overall level of shortline support in Canada (and notably in Alberta as a jurisdiction with no dedicated shortline support mechanism) is far below the level of support in the U.S.

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.

The federal tax regime, including depreciation rules and class rates, also makes it comparatively more attractive to invest in other modes of freight transportation, such as trucking, where maintenance is borne by the taxpayer. [12]

Strengthened 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 Alberta government should create a Railway Track Maintenance Tax Credit in Budget 2024.

This tax credit should be modelled on the U.S. policy which provides a tax credit for investments in track and bridge improvements. At a per-mile value of $7,500 CAD ($4,660 per kilometre), this measure would equate to a maximum investment by the Alberta government of up to approximately $2 million per year (if the credit is fully utilized). This per-mile amount considers the USD-CAD conversion and recent high levels of inflation.[13]

At 50%, the credit and per-mile cap are set at a level that will enable Alberta shortline railways to catch up to other jurisdictions (including Quebec and Saskatchewan) that have enjoyed financial support for years, ensure Alberta shortlines' financial viability, enhance both safety and network capacity, better allow seamless integration with Class 1 railways, and deliver significant benefits to Alberta's supply chains and economy.[14] [15]

Track maintenance includes, for example: track, rail ties, bridges, crossings, tunnels, ballast, and culverts.

Since the U.S. 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.[16]

Safety benefits are also substantial. The marked increase in shortline purchases of rail ties following the introduction of the U.S. credit contributed to a 50% improvement in the safety of American shortlines (as measured by the Federal Railroad Administration's rate of train derailments). The credit became permanent in 2020 with bipartisan support in the U.S. Congress.

The proposed tax credit is easy to administer, transparent, and provides certainty for shortlines. It would unlock investment and create jobs in Alberta. While modest in terms of dollar amount, this tax credit would make a real difference for Alberta rail workers and their families as well as the Alberta businesses that rely on the province's shortlines.

RECOMMENDATION 4: PROTECT ESSENTIAL FREIGHT RAIL CAPACITY FOR ALBERTA'S ECONOMY WHILE STUDYING ANY POTENTIAL COMMUTER RAIL SERVICES AND SUPPORTING PROVINCIAL TOURISM RAIL OPERATORS.

Any proposal to co-locate a passenger rail service with freight railways must demonstrate that freight capacity to handle current and future anticipated volumes can be preserved. This is essential for Alberta's economy, including the agricultural and energy sectors that rely on freight railways to move grain and other products to ports for export. The continued economic well-being of Albertans depends on a freight rail system that can safely and efficiently move the province's trade and commerce.

Passenger railways play an important and unique role in Alberta's tourism industry. Tourism rail operators, such as Alberta Prairie Railway, Battle River Railway, Rocky Mountaineer, and VIA, recently welcomed the announcement in the 2023 federal budget of $108 million over three years to create a Tourism Growth Program. The Alberta government should advocate for its tourism railways to be eligible for this program.

These railways contribute to regional economic development by offering unforgettable experiences that draw passengers from all over the world to appreciate the beauty of Alberta.

VIA Rail supports Alberta tourism and community access on its Long Distance, Regional, and Remote (LDRR) fleet. This fleet is aging well beyond the industry norm, with cars reaching 65 years or older. It will need to be retired by 2032.

A new fleet is needed to maintain community access, support Alberta tourism, and offer a fully accessible travel option and experience. RAC requests that the Alberta government encourage federal counterparts to work in a timely and prudent manner with VIA and all stakeholders to replace the current fleet. A federal commitment is needed now because it takes approximately 10 years for new train cars to begin service.

RECOMMENDATION 5: ADOPT RAC-FCM PROXIMITY STANDARDS AND ENSURE THEY ARE ADHERED TO BY LAND-USE PLANNING AUTHORITIES.

Alberta's population is growing. To accommodate this growth, some Alberta municipalities have begun rezoning or are seeking to designate land near railways for the purpose of building housing.

Canada's railways recognize the real need for more housing in the province and across the country. In fact, a lack of appropriate housing options has been cited as a barrier to hiring for our members. But the implications of building housing close to rail lines must be properly considered.

In partnership with the Federation of Canadian Municipalities (FCM), the RAC developed the RAC-FCM Proximity Guidelines (Guidelines) to ensure the safety and livability of residents and businesses situated near a rail line.

Over 25 Alberta municipalities (160 in Canada) including Calgary are referencing the Proximity Guidelines in their development processes. The feedback has been that:

1. Safety outcomes are proactively addressed.
2. Resident livability is improved.
3. Developments are more compatible and sustainable with existing railway operations.

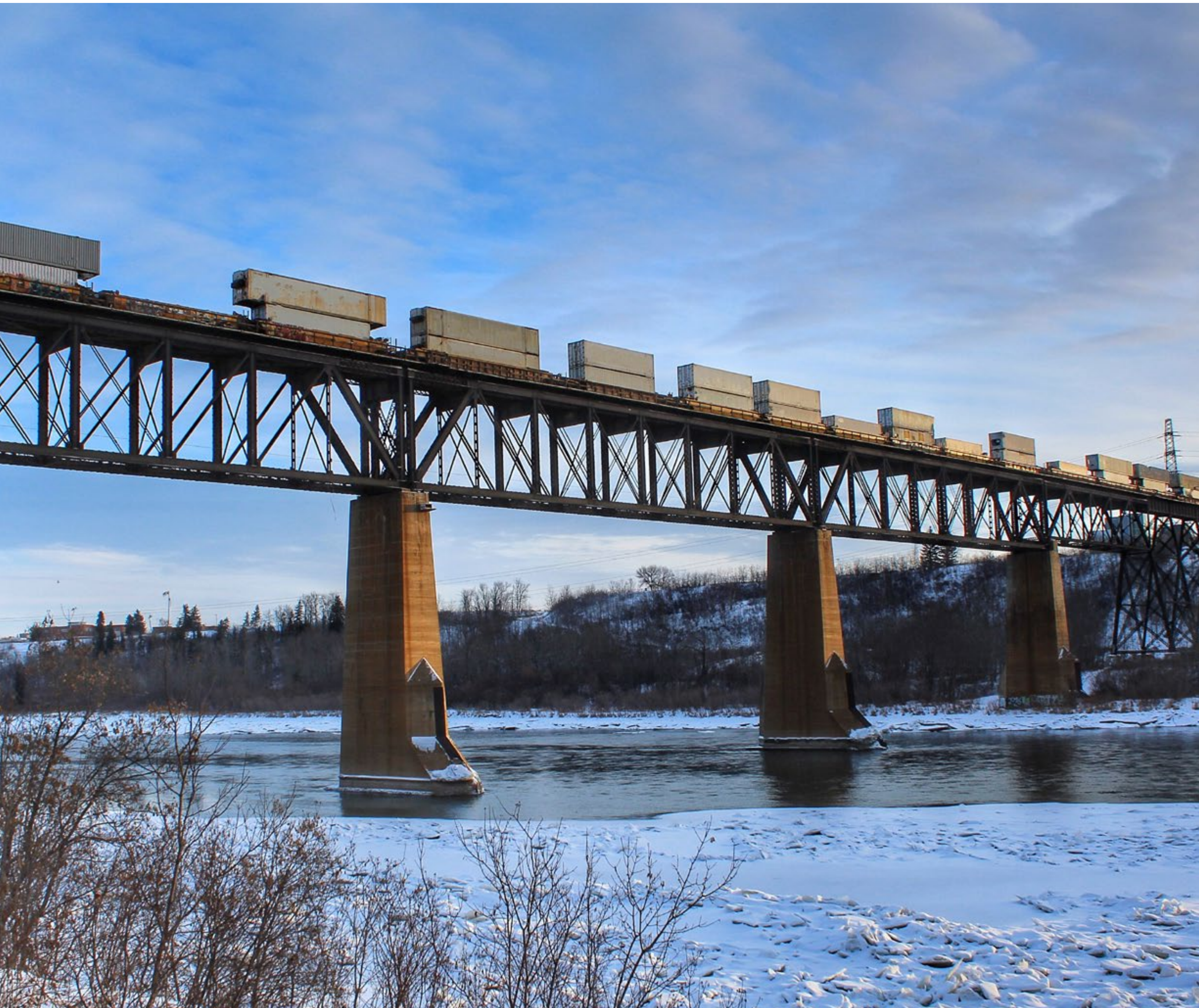
Greater adherence to the Guidelines is needed to ensure these results are achieved consistently throughout the province.

The Guidelines provide a suite of mitigation options such as recommended setback distances, noise and vibration studies, installation of fencing, and building design, among others. Adhering to the Guidelines means properly considering safety measures, livability for residents, and supporting the sustainable growth of transportation systems throughout Alberta.

Our member railways are concerned that these comprehensive best practices are being overlooked by some municipalities as they rezone industrial areas for other uses – such as housing or daycare centres, for example – near rail infrastructure.

RAC urges the Alberta government to make adherence to the Guidelines mandatory in municipal land planning processes. Further, the government should require that official community plans include a statement committing to safe and sustainable developments near railway infrastructure. This would no doubt further support the Alberta government's desire for strategic land use designation to support economic corridors and the growth that follows.

Canada's railways would be pleased to work with the government to prudently enact these requirements. This would help ensure railways can continue to deliver safely while proximity issues are avoided at the front end of land use planning processes.



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.

Over 30,000 Alberta jobs are supported by the rail industry. RAC members operate 6,343 km of freight track in Alberta. In 2022, railways contributed $116 million in taxes to the Alberta government and invested $296 million in the province.

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 After 2019, the pandemic impacted the trend in passenger rail efficiency metrics.

5 RAC’s submission on replacement worker legislation (January 2023), accessed online at: https://www.railcan.ca/wp-content/uploads/2023/02/RAC-Replacement-Worker-Submission-January-2023-FINAL.pdf

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

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

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

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

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

13 Online: The U.S. credit was set at $3,500 USD per mile in 2005.

14 Online: https://www.transports.gouv.qc.ca/fr/aide-finan/programmes-aide/programme-transport-ferroviaire/Pages/psitfim.aspx#:~:text=Ultimement%2C%20le%20

15 Online: https://www.saskatchewan.ca/government/news-and-media/2023/june/08/government-grants-lead-to-railway-improvements-for-saskatchewan-short-lines

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