RAC 2024 ONTARIO PRE-BUDGET SUBMISSION

Railways: Helping Ontario Grow

Railway Association of Canada

RECOMMENDATIONS

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

Augment operational and capital support for passenger railways.

Urge the federal government to immediately repeal extended regulated interswitching.

Require that RAC-FCM proximity standards be adhered to by land-use planning authorities under Ontario's *Planning Act*.

INTRODUCTION

The Railway Association of Canada (RAC) is pleased to share its 2024 Pre-Budget Submission. This submission provides recommendations for the Ontario government to support the vital role of every type of railway (Class 1, shortline, commuter, intercity, tourism) in Building Ontario.

Canadian freight railways carry half of Canada's exports (much of which originate in Ontario). They move $380 billion worth of goods annually while Ontario's passenger railways bring millions of passengers where they need to go.

Canada's freight railways provide the highest safety performance in North America, industry leading green innovation, and strong service 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 Ontario 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. More intermodal rail traffic is sent to Ontario than any other province.

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

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.

Canadian rail is green and getting greener. Railways are, on average, 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. Freight railways reduced emissions intensity by 25% from 2005-2021. Intercity passenger railways reduced emissions intensity by 31% from 2005-2019[4] while growing ridership and continuing to get even safer.

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

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. Not only do these investments include expanded and upgraded tracks and more fuel-efficient locomotives, but also innovative, safety-enhancing technologies like wayside detectors, predictive analytics, track geometrics, and machine visioning. CN and CPKC recently invested a combined $1 billion in new, high-capacity hopper cars built in Hamilton.

Over 35,000 women and men across Canada bring Canadian goods safely and sustainably to global markets and people to their destinations. Almost 50,000 Ontario jobs are supported by the rail industry. The RAC represents more than 20 railways in Ontario, which is the province with the most freight track operated of any province at 9,774 km. In 2022, railways contributed $214 million in taxes to Ontario authorities and invested $557 million in the province.

Ontario's economy pulses through the veins of the rail network. The Ontario government should take the below actions to support railways in Building a Stronger Ontario.

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

RECOMMENDATION 1: 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. About $7 billion worth of Ontario-made goods start on a shortline.

There are 13 RAC shortline member railways in Ontario including Agawa Canyon, Barrie-Collingwood, Essex Terminal, GIO Railways (3), Goderich-Exeter, Huron Central, Nipissing Central, Ontario Northland, Ontario Southland, Ottawa Valley, and Southern Ontario Railway.

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 the tax and expanding regulatory burden, are threatening the sustainability of shortline operations in Ontario and across the country.

Shortline revenues narrowly outpace expenses. The average operating expense to revenue ratio for a shortline is ~90%. A high operating ratio limits the ability for shortline railways to invest in enhancing the capacity and fluidity of Ontario supply chains, including their ability to connect Ontario 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 Emerson Report.[5]

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.[6]

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.[7] 21 programs were at the federal level and 85 were at the state level.

5 Online: https://tc.canada.ca/sites/default/files/migrated/ctar_vol1_en.pdf
6 Online: https://www.railcan.ca/wp-content/uploads/2023/10/Supporting-Canadas-Shortline-Railways-03-12-20.pdf
7 Online: https://www.railcan.ca/wp-content/uploads/2023/10/7.US-Shortline-Funding-Final-Report_RAC.pdf

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 currently exists. The overall level of shortline support in Canada (and notably in Ontario as a jurisdiction with no dedicated shortline support mechanism) is far below the level of U.S support.

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 infrastructure maintenance is borne by the taxpayer.[8]

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 Ontario 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 Ontario government of up to approximately $15 million per year (if the credit is fully utilized). This per-mile amount considers the USD-CAD conversion and recent high levels of inflation.[9]

At 50%, the credit and per-mile cap are set at a level that will enable Ontario railways to catch up to other jurisdictions (including Quebec and Saskatchewan) that have enjoyed financial support for years, ensure Ontario shortlines' financial viability, enhance both safety and network capacity, better allow seamless integration with Class 1 railways, and deliver significant benefits to Ontario's supply chains and economy.[10] [11] Track maintenance includes, for example: track, rail ties, bridges, crossings, tunnels, ballast, and culverts.

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

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

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

11 Online: https://www.transports.gouv.qc.ca/fr/aide-finan/programmes-aide/programme-transport-ferroviaire/Pages/psitfim.aspx#:~:text=Ultimement%2C%20le%20programme%20a%20pour,jusqu'au%2031%20mars%202023

As Ontario looks to develop the Ring of Fire, a Shortline Railway Track Maintenance Tax Credit could support the economics of developing a sustainable rail link to the area. Some shortlines need major infrastructure upgrades to accommodate anticipated EV customer demand growth.

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.[12]

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 Ontario. This tax credit would make a real difference for Ontario rail workers and their families as well as the Ontario businesses that rely on them.

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

RECOMMENDATION 2: AUGMENT OPERATIONAL AND CAPITAL SUPPORT FOR PASSENGER RAILWAYS.

Passenger railways connect communities and provide unique tourism experiences that showcase Ontario. Seven RAC members offer passenger rail services in Ontario. These railways move millions of passengers safely and sustainably across the province every year.

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.

The Ontario government has been a strong partner to the rail industry, especially through its significant investments in passenger rail. The RAC applauds Ontario's investments to restore Northlander passenger service between Toronto and Timmins as one example. We also applaud the government's historic investments in Metrolinx projects (e.g., Lakeshore East Line extension, GO Transit electrification). The support for Huron Central Railway, which links Sudbury and Sault Ste-Marie, is also to be commended.

It is critical that the Ontario government continue to support passenger railways in their ongoing recovery by bolstering operational and capital support. This should include unlocking funds to further enhance rail safety for all types of railways.

Separate, dedicated rail lines, for passenger and freight respectively, are necessary in densely populated economic regions. If we are serious 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 Ontario government has an important role to play in this regard.

The Ontario government should work with the federal government, municipalities, and all stakeholders to further improve coordination of passenger services in Ontario. 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 both a critical enabler of intercity travel and tourism and a lifeline to Ontario communities (some of which are Indigenous). VIA provides some Ontario communities with access to essential services that are often only available in urban areas. 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. This is a risk to essential services and to Ontario's tourism ambitions.

A new Long Distance, Regional, and Remote (LDRR) fleet is needed to maintain these essential services, support Ontario tourism, and offer a fully accessible travel option and experience. The current LDRR fleet serves the Toronto-Northern Ontario and Sudbury-White River segments. The RAC requests that the Ontario government encourage federal counterparts to work in a timely and prudent manner with VIA and all stakeholders to replace the LDRR fleet. A federal commitment is needed now because it takes approximately 10 years for new train cars to begin service.

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 Ontario's growing economy.

RECOMMENDATION 3: URGE THE FEDERAL GOVERNMENT TO IMMEDIATELY REPEAL EXTENDED REGULATED INTERSWITCHING.

Imagine adding a layover and switching airlines when a direct flight is available. The trip takes longer and increases both costs and emissions. That's extended regulated interswitching. The federal government's extended interswitching "pilot project" – introduced in Budget 2023 – can slow down supply chains and raise costs for Ontario exporters, importers, and consumers. It is a Team USA policy that can drive jobs and investment to the United States. [13]

Under extended interswitching, Canadian rail shippers in Prairie provinces – in this case mostly multi-national 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."[14]

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."[15]

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

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

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

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

While the “pilot project” is only applicable in the Prairie provinces, in a network operation such as Canada’s national freight railways and shortlines, no province is immune to the negative consequences outlined above. There are about 1,000,000 rail carloads that originate in Ontario every year, with large volumes of Ontario-made goods that must move through the Prairie provinces to the ports of Vancouver and Prince Rupert.

As the biggest provincial destination for intermodal traffic in Canada, Ontario businesses and consumers (big and small) rely on timely rail shipments travelling west-east. It is vital for Ontario’s economic growth that the rail network remains fluid from coast-to-coast-to-coast. Extended regulated interswitching undermines that objective and must be immediately repealed.

The Ontario government should formally communicate to the federal government that extended regulated interswitching is against Ontario’s – and Canada’s – economic interests and must be repealed on an expedited basis.

REQUIRE THAT RAC-FCM PROXIMITY STANDARDS BE ADHERED TO BY LAND-USE PLANNING AUTHORITIES UNDER ONTARIO'S *PLANNING ACT*.

Since the passage of Bill 23, many 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. The Guidelines were created to prevent issues that could arise between the railways and residents by providing a strategy to reduce misunderstandings, enhance safety, and avoid conflict arising from community-railway proximity.

Over 160 municipalities across Canada (63 in Ontario) 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 Ontario.

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.

The Government of Ontario should endorse the Guidelines through a formal statement of endorsement. An endorsement, perhaps in a joint statement from the Minister of Transportation and Minister of Municipal Affairs and Housing, would provide clear direction to municipalities, developers, and others that these best practices must be followed.

Municipalities look to the provincial authority for guidance and visions for growth. Municipalities experience regular turnover (e.g., elections, retirements, staff movement). Ongoing education of proximity issues and the Guidelines is needed. The government should require, for the long-term benefit of communities, that official community plans include a statement committing to safe and sustainable developments near railway infrastructure.

The RAC further urges the Ontario government to require, through regulations under the *Planning Act*, that all developments near railways demonstrate how the developer will mitigate rail proximity issues. This should be a condition of approval established by the province for all municipalities.

Canada's railways would be pleased to work with the Ontario government to prudently enact this requirement. 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.

The 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

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