RAC 2024 QUEBEC PRE-BUDGET SUBMISSION

Moving Quebec by Rail

Railway Association of Canada

RECOMMENDATIONS

WE RECOMMEND:

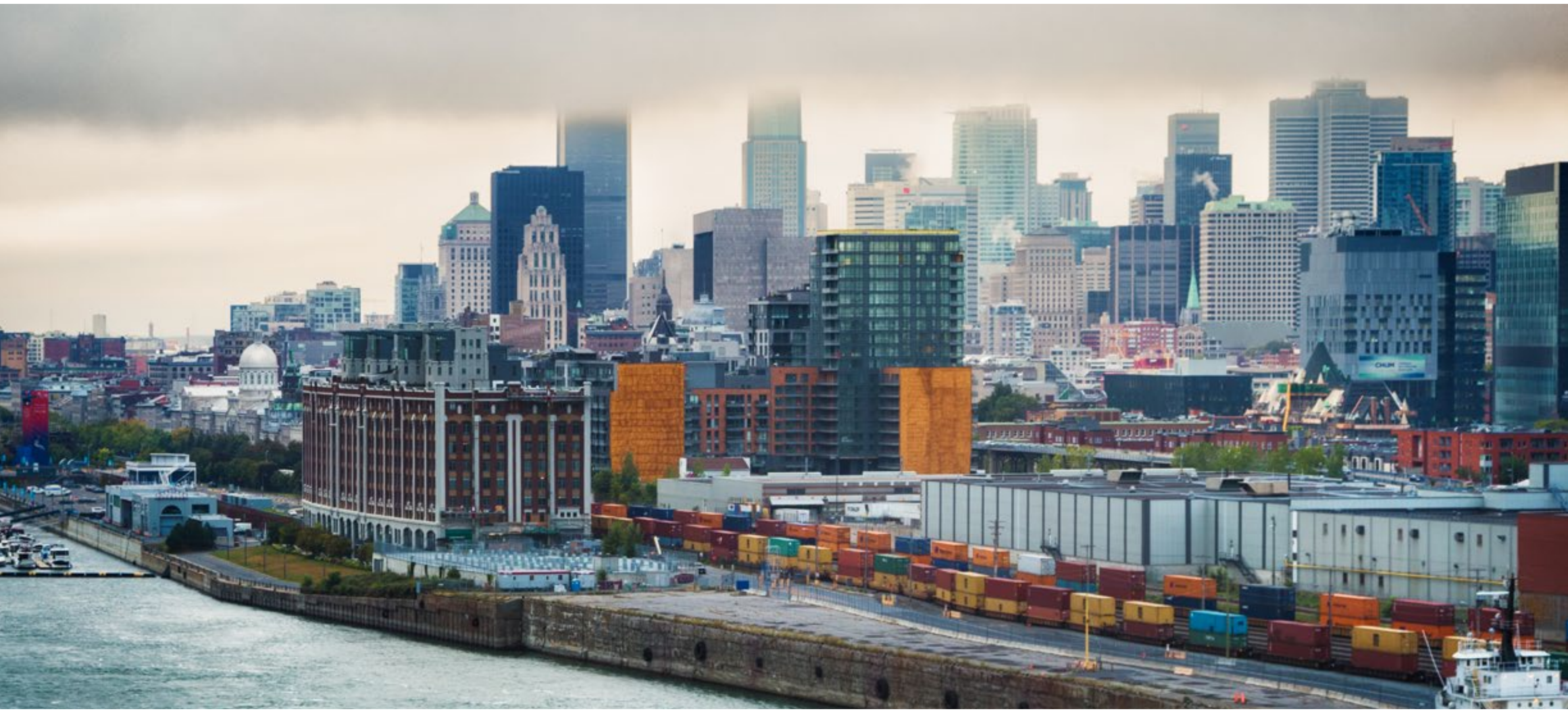
1. Urge the federal government to immediately repeal extended regulated interswitching, which is against Quebec's economic interests.
2. Support and grow passenger rail through dedicated tracks and strategic planning and investment.
3. Build upon the success of the Rail Transport Infrastructure and Modal Integration Support Program.
4. Adopt RAC-FCM proximity standards and ensure they are adhered to by Quebec's land-use planning authorities.
5. Ensure railways have access to the skilled labour needed to deliver on Quebec's economic potential.

INTRODUCTION

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

Canadian freight railways carry half of Canada's exports. Over $56 billion worth of Quebec goods start on a railway, while Quebec's passenger railways bring millions of passengers where they need to go. More carloads of freight start on a railway in Quebec than in any Canadian province. Over 7,682 Quebecers work around the clock, often in harsh weather conditions, to bring Quebec goods safely and sustainably to global markets and people to their destinations. RAC members including CN, Genesee & Wyoming, and VIA are based in Quebec.

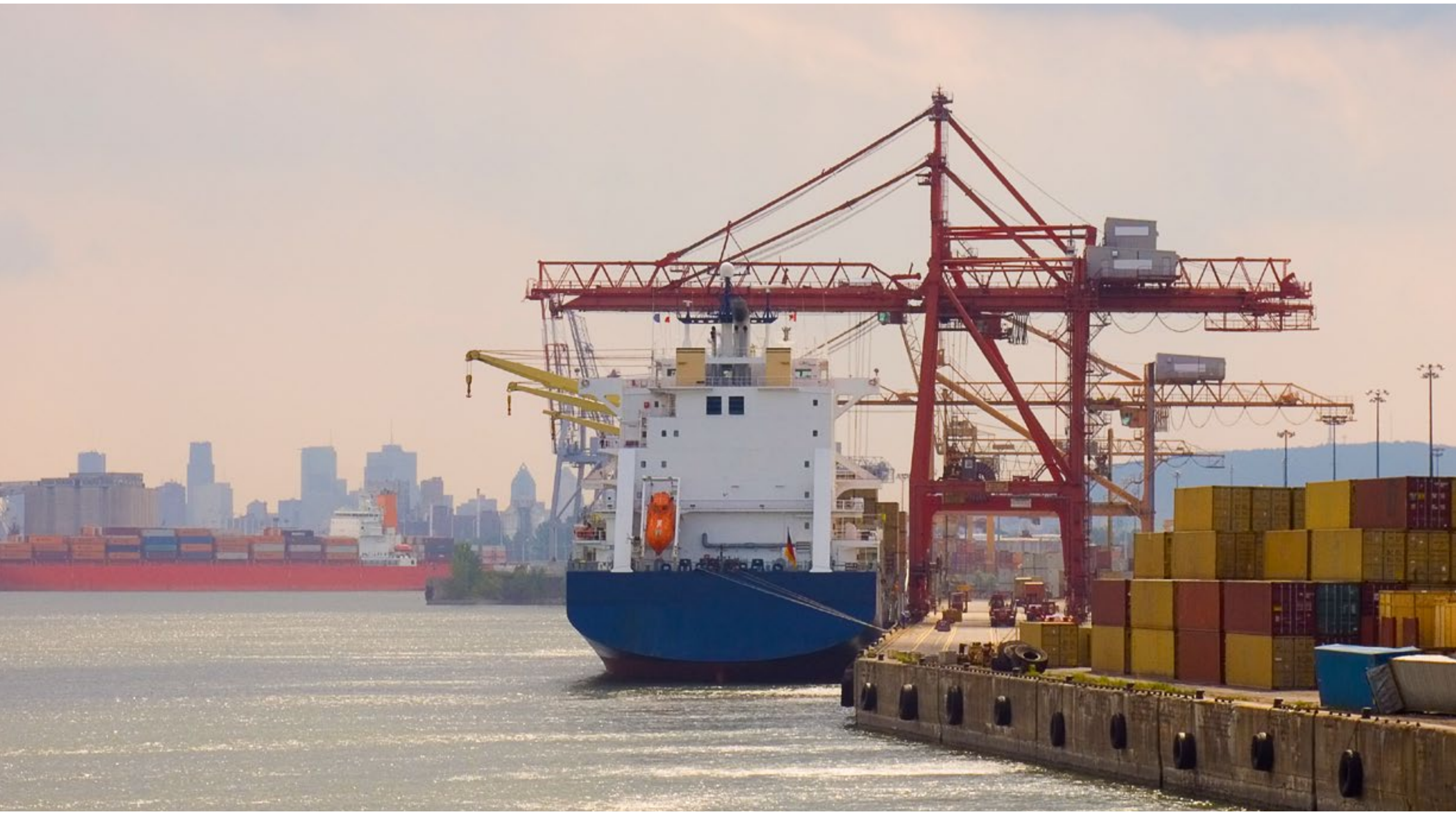
Canada's railways provide the highest safety performance in North America, industry leading green innovation, and strong service – and they do it at virtually the lowest cost in the world. Canadian rail freight rates are the lowest on average among major market economies – 11% lower than the United States and far lower than other comparable jurisdictions.[1 2] Freight railways enable Quebec businesses to compete effectively in markets in North America and around the world. With multiple rail-served ports and other gateways, Quebec is a critical transportation hub.

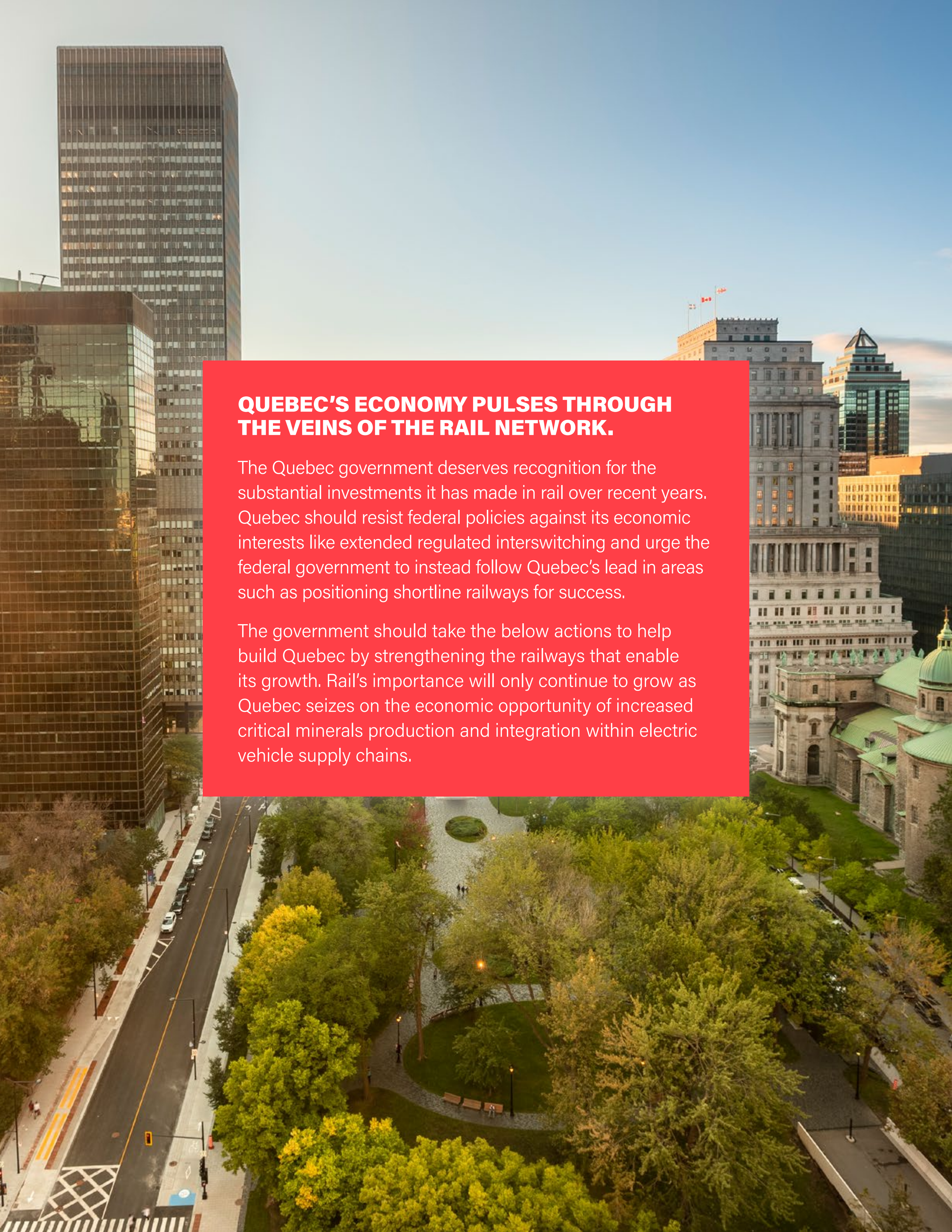


To illustrate rail's reliability, a recent study found that the transit time for containerized consumer goods transported from Shanghai to Ontario and Quebec increased by 13.8 days (or 52%) during the pandemic, from 2019 to 2022.[3] 99% of this increase happened before the container had even been loaded 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. A locomotive can haul a tonne of goods more than 220 kilometres on a single litre of fuel. One train can remove upwards of 300 trucks from congested public roads, reducing the deterioration and cost of infrastructure maintenance. 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 safety, 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 Canada.





QUEBEC'S ECONOMY PULSES THROUGH THE VEINS OF THE RAIL NETWORK.

The Quebec government deserves recognition for the substantial investments it has made in rail over recent years. Quebec should resist federal policies against its economic interests like extended regulated interswitching and urge the federal government to instead follow Quebec's lead in areas such as positioning shortline railways for success.

The government should take the below actions to help build Quebec by strengthening the railways that enable its growth. Rail's importance will only continue to grow as Quebec seizes on the economic opportunity of increased critical minerals production and integration within electric vehicle supply chains.

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.[5] It can slow down supply chains and raise costs for Quebec 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 Quebec's economic growth that the national rail network remains fluid. Extended regulated interswitching undermines that objective while putting 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 the prairie provinces – 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." [6]

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." [7]

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 Quebec 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. Certain grain shippers and their allies are seeking lower-than-globally-low rates at the expense of all other users of the rail network.

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 1,250,000 rail carloads that originate in Quebec every year, with large volumes of Quebec-made goods that must move through the prairie provinces to the ports of Vancouver and Prince Rupert. Quebec businesses and consumers (big and small) also rely on timely rail shipments travelling west-east.

The Quebec government must stand up for hardworking Quebec railroaders and formally communicate to the federal government that extended regulated interswitching is misaligned with Quebec's policy agenda and against its economic interests. The policy must be quickly repealed.

RECOMMENDATION 2: SUPPORT AND GROW PASSENGER RAIL THROUGH DEDICATED TRACKS AND STRATEGIC PLANNING AND INVESTMENT.

Quebec is home to an array of passenger railways, from commuter to intercity to tourism.

Exo Rail brings Montrealers where they need to go. Indigenous owned and operated Tshiuetin Rail brings thousands of passengers annually from Sept-Îles to Emeril and Schefferville, connecting these communities (and others) while supporting tourism opportunities in Northern Quebec. This summer, the Train de Charlevoix provided tourists with views of Quebec's beautiful landscapes aboard the first ever hydrogen passenger train in North America, powered by green hydrogen.

The Quebec government has been supportive of the rail industry and all its component parts in recent years. RAC and its members have appreciated our productive dialogue with the Quebec government on matters such as shortline support and resisting damaging federal regulations.

Quebec has been rightfully seized with planning for current and future infrastructure needs. This is a pressing issue. Passenger rail ridership is growing at a time when Canada's exporters and producers need freight rail services more than ever. Quebec and Canada's economic prosperity and social wellbeing depend in no small measure on our collective ability to build big projects and get goods and people where they need to be safely and efficiently.

Separate, dedicated rail lines, for passenger and freight respectively, are necessary – especially in densely populated economic regions. If Canada is serious about its stated ambition to build dedicated tracks in the Quebec City-Toronto Corridor, the federal government must also be serious about funding it appropriately. All governments and stakeholders must be equally serious about strategic planning and investments to support multi-modal connectivity.

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. As Quebec considers actions to expedite major transportation projects, including rail projects, RAC offers its expertise through consultation.

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

In addition to serving Corridor routes, VIA Rail supports Quebec 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 non-Corridor Quebec tourism, and offer a fully accessible travel option and experience. RAC requests that the Quebec 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.

It must be noted that 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 Quebec's economy, including all the companies relying on freight railways to move their products – from aluminum to grain to lumber and beyond.

RECOMMENDATION 3: BUILD UPON THE SUCCESS OF THE RAIL TRANSPORT INFRASTRUCTURE AND MODAL INTEGRATION SUPPORT PROGRAM.

Shortline railways provide critical first-mile, last-mile services that connect rural communities and businesses to Class 1 railways and global markets.

Shortline railways also play a critical role in Quebec's regional economic development, particularly in Northern Quebec. Nearly three in four freight carloads originate on a shortline in Quebec. There are 15 RAC member shortline railways in Quebec, the most of any Canadian jurisdiction.

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 across Canada.

Shortline revenues narrowly outpace expenses. The average operating expense to revenue ratio for a shortline is around 90%. This high operating ratio limits the ability for shortline railways to invest in enhancing the capacity and fluidity of supply chains, and their ability to connect 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.[8]

In Quebec, unlike at the federal level or in other provinces, there is a funding mechanism in place which meaningfully assists Quebec shortlines in remaining a viable alternative to trucking. It is time for the federal government to follow Quebec's lead and complement, with its own program, the Rail Transport Infrastructure and Modal Integration Support Program. The Quebec government should also continue to explore additional ways to increase its support for shortlines, including making its program (or a bolstered version) permanent.

Multiple committees of the House of Commons have recommended federal support for shortline railways. There is no dedicated funding or incentive for shortline railways at the federal level despite their outsized impacts.

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.[9] 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 federal programs accept shortline applications, but no dedicated funding stream exists. The overall level of shortline support in Canada is far below the level of support in the U.S (including in Quebec). 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.[10] This is something the Quebec government should seek to redress with federal counterparts.

Further 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.

The Quebec government should communicate to federal counterparts that a federal Shortline Track Maintenance Tax Credit is required to build on the success of Quebec's shortline program. This tax credit should be modelled on the U.S. policy which provides a tax credit for investments in track and bridge improvements.

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.[11]

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 Quebec. RAC and its members would be pleased to discuss how to communicate this federal proposal and other ways for Quebec to continue leading in supporting the growth of shortlines and their customers.

RECOMMENDATION 4: ADOPT RAC-FCM PROXIMITY STANDARDS AND ENSURE THEY ARE ADHERED TO BY QUEBEC'S LAND-USE PLANNING AUTHORITIES.

RAC was pleased to contribute to last summer's consultations by the Ministry of Municipal Affairs and Housing on zoning and land-use rules.

Quebec's population is growing. To accommodate this growth, some Quebec municipalities have begun rezoning or are seeking to designate land near railways for the purpose of building housing, potentially increasing risks for safety and livability.

Canada's railways recognize the real need for more housing in Quebec and across Canada. 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 48 Quebec municipalities (160 in Canada) including Montreal 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 Quebec. 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 across Quebec.

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 Quebec 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.

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.

RECOMMENDATION 5: TAKE STEPS TO ENSURE RAILWAYS HAVE ACCESS TO THE SKILLED LABOUR NEEDED TO DELIVER ON QUEBEC'S ECONOMIC POTENTIAL.

Access to skilled human capital is essential for railways to adapt to growing service demands and increased capacity requirements. RAC noted with interest the Quebec government's investment in "fast-tracking" training courses for certain construction trades.

Railways are encouraged by the government's actions to develop Quebec's skilled workforce. RAC seeks to engage in discussions and potentially partner on actions that amplify rail industry recruitment efforts and meaningfully expand the talent pool accessible to railways in Quebec.

The rail industry offers exciting and rewarding careers, from locomotive engineers, train dispatchers, and conductors to marketers, technology specialists, 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 salary of a Quebec railroader is $108,000.

Despite the many reasons to join the rail industry, railways face challenges in recruiting and retaining certain groups of workers. Such challenges include, for example, an aging workforce and attracting skilled workers to rural and remote communities.

Railways are constantly assessing talent requirements to meet current and future customer demand. Railways need more people, especially in rural areas. Our members are proactive about employee attraction and retention. Class 1 railway members, for instance, undertake frequent recruitment and in-house training programs to replenish and augment their respective workforces. RAC hosts conferences like Women in Rail, partners with colleges to train new conductors and other recruits, and actively promotes railway careers.

Canada's railways recommend that the Quebec government amplify and support ongoing efforts to attract and retain skilled workers. 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 rural employees, among others. Moreover, Quebec should consider offering similar "fast-track" training options for other skilled trades and review NOC codes to ensure the rail industry has the skilled labour access it needs.

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 40,000 Quebec jobs are supported by the rail industry. More than 20 RAC members operate 5,800 km of total freight track in Quebec. In 2022, railways contributed more than $134 million in taxes to the Quebec government and invested $565 million (the most of any Canadian jurisdiction in 2022).

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

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

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

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

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

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

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