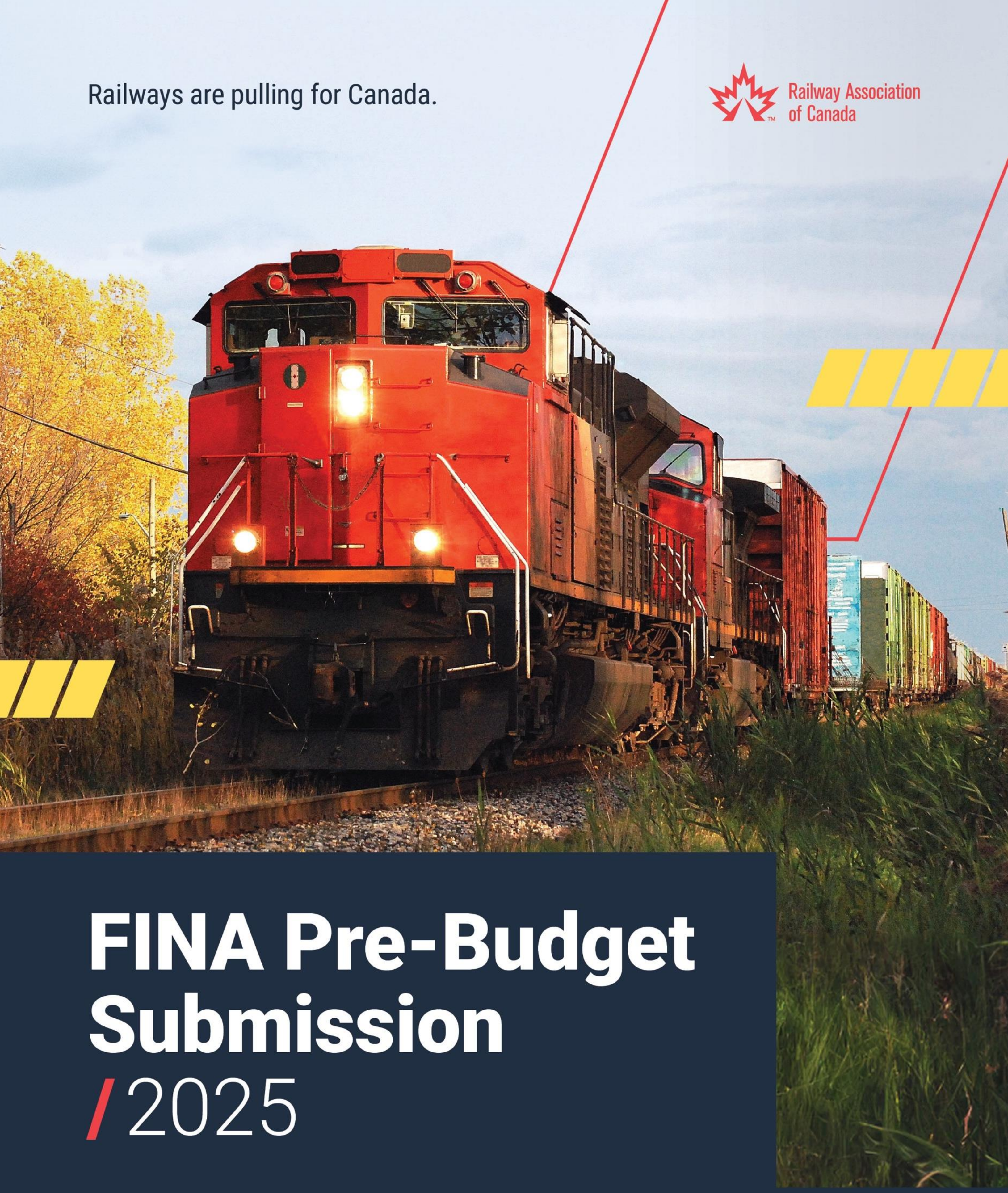
Railways are pulling for Canada.

Railway Association of Canada



FINA Pre-Budget Submission

/ 2025

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railcan.ca

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 economic impact of labour disruptions and incremental labour regulations.

6. Support rail industry decarbonization and climate resiliency.

Introduction

The Railway Association of Canada (RAC) is pleased to share its 2025 Pre-Budget Submission with the House of Commons Standing Committee on Finance (FINA). The submission's overarching theme is continuing to improve Canadian competitiveness and ensuring all types of railways (Class 1, shortline, commuter, intercity, tourism) can continue pulling for Canada.

Over the past decade, railways have invested more than $21.5 billion in Canada to enhance the fluidity and resiliency of the country's 43,000 km rail network. These investments include innovative, safety-enhancing technologies like wayside detectors, predictive analytics, track geometrics, and machine visioning. Canadian railways are the safest in North America, driving innovation, reducing emissions, and providing world-class service at virtually the lowest cost in the world.

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

The Canadian economy relies on the efficiency and resiliency of a strong rail network. More than 35,400 railroaders 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; moving $380 billion of goods each year and bringing millions of passengers where they need to go.

Freight railways play a crucial role in helping Canadian businesses stay competitive in both North American and global markets. They continue to act as reliable links in complex global supply chains. Meanwhile, passenger railways are experiencing a steady increase in ridership, although they still face substantial financial challenges.

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

1. IMMEDIATELY REPEAL EXTENDED REGULATED INTERSWITCHING.

Extended regulated interswitching drives unionized jobs and investment to the United States. The extended interswitching "pilot project" introduced in Budget 2023 increases transit times, emissions, and costs for consumers.[3]

Under extended interswitching, Canadian rail shippers – in this case mostly large grain companies – are incentivized to contract with an American railway instead of Canadian Class 1 railways CN and CPKC.

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.

There are reasons Canada's rail unions are concerned about this policy. According to Teamsters Canada, extended interswitching "will lead to the exportation of valuable Canadian union jobs to the United States, including those in the railway and port sectors." As such, Teamsters Canada recommended that the federal government "abandon any plans, both current and future, to expand interswitching distances in Canada."[4] Unifor similarly warns that "extending the interswitching limit has opened up the Canadian rail service to unbalanced competition with U.S.-based companies, squeezing wages and working conditions."[5]

Every carload of freight diverted to the United States as a consequence of extended interswitching means less work for Canadian rail workers and possibly others in supply chains. Canada's railways commend Senator Jean-Guy Dagenais for standing up for Canadian railroaders by introducing Bill S-287 to repeal extended interswitching in the Senate. We call on all parliamentarians to support his Senate Public Bill.

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 (2014-2017), 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 and their workers to the benefit of U.S. competitors. In fact, the Montreal Economic Institute called this situation "a sad spectacle of self-sabotage."[7] Extended interswitching does not create a single new competitive option for grain or any other shipper.

Canada needs policies that incentivize investment in our supply chains, not divert it. The Canadian rail system is world-class, with some of the lowest freight rates globally. Let's build on this success and leave failed policies behind.

RECOMMENDATION:

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 urges the federal government to support Canadian workers and supply chains by immediately repealing extended regulated interswitching.

2. INCENTIVIZE CAPACITY-ENHANCING SUPPLY CHAIN INVESTMENTS.

The Canadian rail network will require billions of dollars in investment in the coming years to stay resilient and handle the anticipated growth 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 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]

The introduction of bonus depreciation under the U.S. Tax Cuts and Jobs Act in 2017 significantly altered the competitive landscape in North America. Although bonus depreciation is being phased out, U.S. railways have enjoyed an investment advantage for several years and will continue to do so for several more. To ensure that Canadian railways remain competitive and can continue to invest at a high rate, tax changes in Canada are necessary. Without these changes, important economic opportunities and investments may be lost. Changes should be made to the capital cost allowance rates to support the increased investment demands of supply chains.

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, including in smaller communities. Some trade-enabling projects need a government contribution to make them economically feasible. The NTCF has been effective in making nationally beneficial projects a reality.

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 2025 to help railways (and all supply chain participants) deliver safely, efficiently, and sustainably for Canada.

RECOMMENDATION:

The federal government should implement accelerated depreciation measures, including allowing Canadian railway companies to deduct the full amount of capital expenditures immediately. This approach, in addition to greater NTCF and RSIP funding, would further enable railways to continue making the necessary investments to maintain and grow a resilient railway network. Such measures will help railways continue to safely support the needs of the Canadian economy.

3. CREATE 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 transportation methods like trucking, combined with the tax and expanding regulatory burden, are threatening the sustainability of shortline operations.

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

Shortline railways need government support to remain viable alternatives to trucking, yet there is no dedicated federal funding or incentives in Canada despite their significant impact. Various committees of the House of Commons have recommended a support program for shortlines, and a joint letter from multiple associations highlighted this need in 2020.[10]

In contrast, the United States actively supports its shortlines. In FY 2022, half of the $1.4 billion in federal grants under the Consolidated Rail Infrastructure and Safety Improvement (CRISI) Program went to shortlines, equating to approximately $20,000 CAD per mile of track. This does not include the U.S. Section 45G tax credit ($3,500 USD per mile annually) or state-level support. The CRISI funding envelope increased by 74% to $2.5 billion for FY 2023-2024.

While the NTCF accepts applications from Canadian shortlines, the support level is far below that of the U.S. This disparity may lead global investors and infrastructure managers to favour U.S. shortlines over Canadian ones. Additionally, Canada's tax regime makes investment in other freight transportation modes and manufacturing more attractive.

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.

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 this in detail.

RECOMMENDATION:

The Canadian government should take one or both of the following actions in Budget 2025 to ensure the viability 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.

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.

We welcome the announcement of government funding for the largest fleet renewal in VIA Rail's history, which is essential for maintaining and enhancing vital services to communities across Canada. 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 Rail connects those living in rural and remote areas to essential services that are only available in urban centres.

Additionally, we welcome the launch of the Canada Public Transit Fund, a new investment over the first ten years to expand public transit and make it more accessible across the country. However, there is more work to be done to improve passenger rail in Canada.

The COVID-19 pandemic had a drastic impact on passenger rail ridership. While ridership levels are improving on balance, 2023 ridership was below 2019 levels for all three passenger rail segments (tourism, commuter, and intercity), and huge financial challenges remain.

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

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 as different, competing modes. Better coordinated planning for multi-modal integration will enhance passenger access, reliability, and the tourist experience.

RECOMMENDATION:

Separate, dedicated rail lines for passenger and freight are necessary in areas where there is significant freight and passenger rail activity. 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. We must ensure strategic planning and investments to support multi-modal connectivity.

5. CONSIDER AND ADDRESS THE ECONOMIC IMPACT OF LABOUR DISRUPTIONS AND INCREMENTAL LABOUR REGULATIONS.

Railways comply with thousands of safety laws, regulations, rules, and requirements. The rail industry 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 leave requirements should not be stacked atop existing benefits negotiated in good faith over decades. These benefits are why Canada's railways are consistently ranked 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.

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 (e.g., railways, ports). 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.

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.

RECOMMENDATION:

1. 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.

2. The federal government should implement a statutory authority in the *Canada Labour Code* for the federal cabinet to impose binding arbitration and prevent or terminate a work stoppage if a negotiated agreement cannot be reached in sectors that are essential to Canada's supply chains, such as railways and ports.

3. Further, the government should help grow the rail industry, including by supporting industry efforts to increase diversity and rural participation in our industry.

6. SUPPORT RAIL INDUSTRY DECARBONIZATION AND CLIMATE RESILIENCY.

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

Investing in rail supports a greener economy, leveraging its environmental advantages in transportation. The RAC has partnered with Transport Canada since 1995, under a Memorandum of Understanding (MOU), to reduce rail industry emissions. The latest MOU, covering 2023-2030, was signed in December 2023.

This collaboration has yielded positive results, with the rail industry reducing greenhouse gas emissions intensity by over 25% since 2005. The key takeaway from the MOU is that progress is driven by collaboration rather than regulation.

The Rail Pathways Initiative has identified two main strategies for further industry-wide emission reductions: low carbon fuels (such as biodiesel and renewable diesel) and electrification (including battery electric, hydrogen fuel cells, and catenary electric).[13] Continued improvements in fuel efficiency are crucial for meeting science-based milestones.

RAC members are leading in green innovation efforts. CPKC is using solar power to produce green hydrogen for a fuel cell locomotive pilot. CN is testing a battery-powered locomotive and low carbon fuel blends, while VIA Rail's EcoRail software helps reduce fuel consumption through AI recommendations. Shortline railways, like the Southern Railway of British Columbia, are trialing 100% biodiesel.

To advance national climate goals, further government collaboration is needed, including investments and incentives to develop the domestic low carbon fuel sector, support modal shift to rail, and reduce investment risks. The RAC warns against unilateral policies that could impose financial burdens or deter investment.

While the Clean Technology Manufacturing and Clean Hydrogen investment tax credits in Budget 2024 are welcomed, similar incentives for rail are needed to mitigate investment risks.

RECOMMENDATION:

To support rail sector decarbonization and climate resiliency, the government should prioritize investments and incentives to develop the domestic low carbon fuel sector, support modal shift to rail, and reduce investment risks.

About the 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: Katarina Stipanovic, Manager of Government Relations at kstipanovic@railcan.ca.

END NOTES

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.nationalnewswatch.com/2023/06/13/why-is-the-government-choosing-team-usa-on-interswitching/
4. Teamsters Canada Submission to the 2024 Treasury Board Supply Chain Regulatory Review.
5. Unifor Submission to the House of Commons Standing Committee on Finance on the 2024 Federal Budget.
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://www.railcan.ca/wp-content/uploads/2022/01/Railways-Taxation-the-COVID-19-Recovery-RAC-Tax-White-Paper.pdf
9. Online: https://www.ourcommons.ca/DocumentViewer/en/42-1/tran/meeting-67/evidence
10. https://www.railcan.ca/wp-content/uploads/2023/10/Supporting-Canadas-Shortline-Railways-03-12-20.pdf
11. Online: https://www.aslrra.org/aslrra/document-server/?cfp=aslrra/assets/File/public/policy/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/2022/12/Rail-Pathways-Decarbonization-Roadmap.pdf

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