

## **The Railway Association of Canada**

### **Responses**

#### **1. Economic Recovery and Growth**

*Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?*

The Railway Association of Canada believes that a responsible fiscal framework provides Canada with an absolute competitive advantage and must be maintained. Further, respect for the competitive commercial marketplace is an important underpinning for the ongoing economic recovery and for continuing enhanced economic growth. With respect to specific federal measures, the Railway Association of Canada recommends: The federal government should use the tax system to promote the utilization of new technologies including making changes, such as allowing refunding, to the SR&ED Tax Credit and allow tax credits for the deployment of new technologies. Canada's railway's have recognized that the way forward in terms of increasing productivity and capacity, improving safety, service reliability, and customer service, and reducing the environmental footprint is the development and deployment of technology. Although certain technologies have been tested, implemented and proven, others are still in the pre-commercial stage and need additional development and testing. The rail industry is only beginning to know the art of the possible given the exponential and explosive nature of new technology and its practically limitless application. The direct challenge is related to the cost of developing, testing and adopting technology in operating conditions. The government has a significant role to play in supporting R&D around technology developments and also facilitating the process between research, commercialization and deployment of technologies. New technologies will require significant investment in communications to network trackside assets and IT back office systems to house and analyze significant amount of data. The ability of the railways to handle significantly increased volumes in the future will require major investment in infrastructure within key corridors. The capital requirements to make such changes will be significant. Given the broader economic benefits that will be realized through such investments, the federal government should implement additional incentives, such as tax credits and capital cost allowances, to promote capital spending on new technologies. Currently, railways have direct experience with the SR&ED tax credit program. In general terms, the experience with the administration of the program has been positive. A primary issue that would improve the federal program would be to make the tax credits refundable for all corporations, not just small business. For example, the Government of Alberta offers a refundable SR&ED tax credit for larger companies. This will enable funding earlier when it is need as opposed to years in the future. The SR&ED program could also be expanded beyond research and development to allow the tax credits for the deployment of new technologies. The Railway Association of Canada further recommends: Increase the Capital Cost Allowance rate for all rail rolling stock to at least 30%. This rate should be applicable to railway companies, rail leasing companies and private car owners. The railway industry is highly capital intensive. Canadian railways are required to invest approximately \$2.5 billion on an annual basis in order to maintain their infrastructure and ensure that they can move their goods in a safe and cost effective manner. In Budget 2008, the Government announced an increase in the Capital Cost Allowance (CCA) Rate for rail locomotives from 15 to 30 per cent. This announcement was welcomed by Canada's railway industry and is already paying dividends for railway companies, locomotive manufacturers, the rail supply sector, and the Canadian transportation system. The RAC fully supports the Standing Committee on Finance's 2007 Report calling for the Government to fully

implement the tax measures contained within the Industry Committee's unanimous 2007 report entitled Manufacturing: Moving Forward – Riding to the Challenge. A specific tax measure in this report recommends that the "Government of Canada raise the capital cost allowance rate for rolling stock, locomotives, and inter-modal equipment to 30% using the declining balance depreciation method."

## **2. Job Creation**

*As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?*

Canada's economic growth and well-being have always depended on trade and transportation that enables efficient, secure and reliable movement of goods, resources and people. Canada now faces a global economy that is changing quickly with both rapid growth in trade and new trade patterns—driven by reductions in transport costs, especially rail, improved technology and trade liberalization. In particular, the growth of containerization has seen a major shift towards intermodal trade traffic. Railways are an important part of the Canadian economy, as they move approximately 72 percent of total surface freight by volume to domestic, North American and international markets, employ more than 35,000 people, and pay more than \$1 billion in federal and provincial taxes. The RAC believes open trade and support of commercial markets are the best ways to secure a global recovery and create jobs. The RAC supports the timely conclusion of comprehensive economic partnership negotiations with the European Union, Japan and India and a favourable conclusion to the new Trans-Pacific Partnership negotiations which will help to strengthen commercial relations with the economies of the Pacific Rim and further advance the Asia Pacific Gateway and Trade Corridor. Rapid growth in trade with Asia, and especially China, is placing intense and increasing demands on Western Canada's ports and transportation networks. In order to ensure Canada's rail system continues to be well positioned as a facilitator of international trade for North America, the RAC recommends that the federal government must further strengthen and accelerate funding for the development of rail and intermodal infrastructure within all identified trade gateways and corridors. With global demand for energy increasing, Canada's energy and related supply sector has the potential to be a significant contributor to economic prosperity and job creation. The federal government has an important role to play in establishing and maintaining a policy environment that supports the timely and responsible development of Canada's energy assets as well as investments in related infrastructure serving both new and existing markets. The railways' growing "rail pipeline services" are also providing an important strategic alternative to US markets for Canadian oil products. There are several major initiatives that should be focused on to increase both domestic and international trade, critical to investment and long-term job creation. The RAC recommends: that Government should simplify regulations and regulatory approvals for new products, processes, and projects. The Government should ensure regulatory stability and could also move to increase regulatory consistency and application between provinces and with federal standards while ensuring consistency with international commitments. Furthermore, improved trade infrastructure (including short line investments) with key trade partners, especially the United States and Asia, will go a long way towards facilitating economic growth and the creation of new jobs.

### **3. Demographic Change**

*What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?*

Labour and skills shortages are among the rail industry's top concerns. The RAC recommends that the Government should develop a more robust Labour Market Information (LMI) system that includes comprehensive regional intelligence, information on displaced workers and institutional requirements to provide LMI in schools and post-secondary institutions. The current information gap makes it difficult for prospective employees, particularly students, to gain a realistic appreciation of career, education, and training options and opportunities. This will encourage individuals to acquire the skill sets they need to succeed in a dynamic marketplace. In addition, there is a lack of programming to facilitate the movement of armed forces personnel into the private sector, upon completion of duty. The RAC recommends that the Government initiate new efforts to coordinate military recruiting in order to hire talented veterans or those leaving the armed forces to find a new career. Aboriginal people represent the fastest-growing demographic group in Canada, with a median age significantly below the national average. Unfortunately, the unemployment rate among aboriginals remains significantly higher than the national average. Every effort must be made to improve education and skill levels within the aboriginal population and to expand opportunities for aboriginal peoples to participate fully in the economy. The RAC recommends: that the Government support partnerships between the rail sector and aboriginal associations to entice more students into the rail skills training programs offered at community colleges across the country.

### **4. Productivity**

*With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?*

Over the last 20 years Canada's railways have made significant progress in improving their productivity, which has been a key driver in improving Canada's economic competitiveness given the country's reliance on trade. Going forward, the industry needs to further adopt technologies due to the limitations of what can be achieved by physical and human capital alone. Specifically, Canadian rail labour productivity growth has outpaced the Canadian economy by a factor of 8; and significant savings have been shared with Canadian shippers. Having said this, it can be expected that there will be continued rail growth through the development and deployment of new information and communication technologies that will improve the efficiency and productivity of rail assets. This is a critical area of rail innovation and history has proven that the application of technologies and R&D activities have significantly improved the safety and operational performance of the industry. A typical challenge the rail sector faces in the adoption and application of technology is the regulatory framework in which the industry operates under; in many cases it does not allow for the full benefits of a technology to be realized. In an effort to maximize the economic and social objectives of freight and passenger railways a number of high priority research areas – including railroading in cold and changing environments – have been identified. The RAC recommends that the Government work with the rail sector to harmonize R&D efforts in Canada with ongoing R&D in the US and provide increased financial support and further rail research collaboration between the Canadian industry and Transport Canada, NRC and the University of Alberta, which has established a new rail research lab.

## **5. Other Challenges**

*With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?*

At the beginning of 2007, there were more than 2,700 Free Trade Zones (FTZs) around the world, providing employment for more than 63 million people. In general, normal trade barriers such as tariffs and quotas are eliminated in FTZs and bureaucratic requirements are lowered to attract new business and foreign investment. Companies operating within a FTZ may also be granted certain host country income tax breaks or holidays as an additional incentive. These zones are often located at or near a port of entry to facilitate import and export activities. The common expected economic benefits that may be associated with FTZs are foreign exchange earnings, employment creation and income generation, attraction of foreign direct investment, and technology transfer and knowledge spill-over. The Government of Canada currently has programs such as Duty Deferral Program, the Export Distribution Centre Program, and Exporters of Processing Services Program, that are intended to provide similar incentives as those in FTZs. However, the limitations associated with the programs, as compared to true FTZs, have resulted in lower than anticipated participation by business. In addition, the programs are operated by different government agencies (Canada Border and Services Agency and Canada Revenue Agency) which increase the regulatory complexity for businesses that wish to participate in more than one program. A new approach is required as the existing programs do not meet the needs of firms, as evidenced by lack of participation, engaged in global trade. The establishment of competitive FTZs will improve Canada's economic standing, attract foreign capital and create employment. The RAC recommends that: the Federal Government develops a new policy, supported by new programs, to establish competitive Foreign/Free Trade Zones (FTZs) in Canada.