# Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

By: Railway Association of Canada

**The Railway Association of Canada (RAC) recommends that the Government:**

1. Launch VIA Rail's High Frequency Rail (HFR) project, as it represents a key infrastructure initiative that will contribute to a more sustainable economic recovery for Canada;

2. Create a federal capital funding program to support shortline infrastructure investment;

3. Implement tax policy changes to incentivize railway infrastructure investment to ensure that the sector can maintain a robust supply chain and facilitate future volume growth;

4. Take additional steps to ensure that tourism rail operators have immediate access to capital and create a task force to develop a long-term recovery plan for Canada's tourism sector; and

5. Increase capital funding to help restore jobs, connect people, and keep transit central to a lower-carbon economy and more sustainable urban life.

**Introduction:**

Rail is the backbone of Canada's economy and, even in challenging times, Canadians continue to benefit from resilient freight and passenger railway services. The Railway Association of Canada (RAC) and its rail member companies remain committed to innovating and maintaining best practices in safety, innovation, environmental stewardship and economic growth.

As evidenced recently, railways are central to Canada's economy and interact with all facets of society: consumers, suppliers, shipping groups and communities from coast to coast to coast.

Freight railways support economic prosperity by connecting local businesses to domestic and international markets and provide Canadians with the goods required to stay healthy and safe.

Passenger railways ensure that millions of Canadians, including essential workers, can safely travel by rail to and from work and remain connected with their family and friends in an environmentally friendly way.

And tourism railways are a critical component of Canada's vibrant tourism industry and its annual $100 billion economic footprint.

**Facts & Figures**

Canada's rail network transports approximately $328 billion of Canadian-originated goods annually, with freight rail moving 50 per cent of exported goods. Each year, approximately 3,800 locomotives and 32,800 dedicated railroaders transport goods and people across 44,000 kilometers of rail track across Canada and several points in the United States. These tracks require maintenance and upkeep to ensure efficient deliveries, as well as the safety of rail employees and the communities in which they operate.

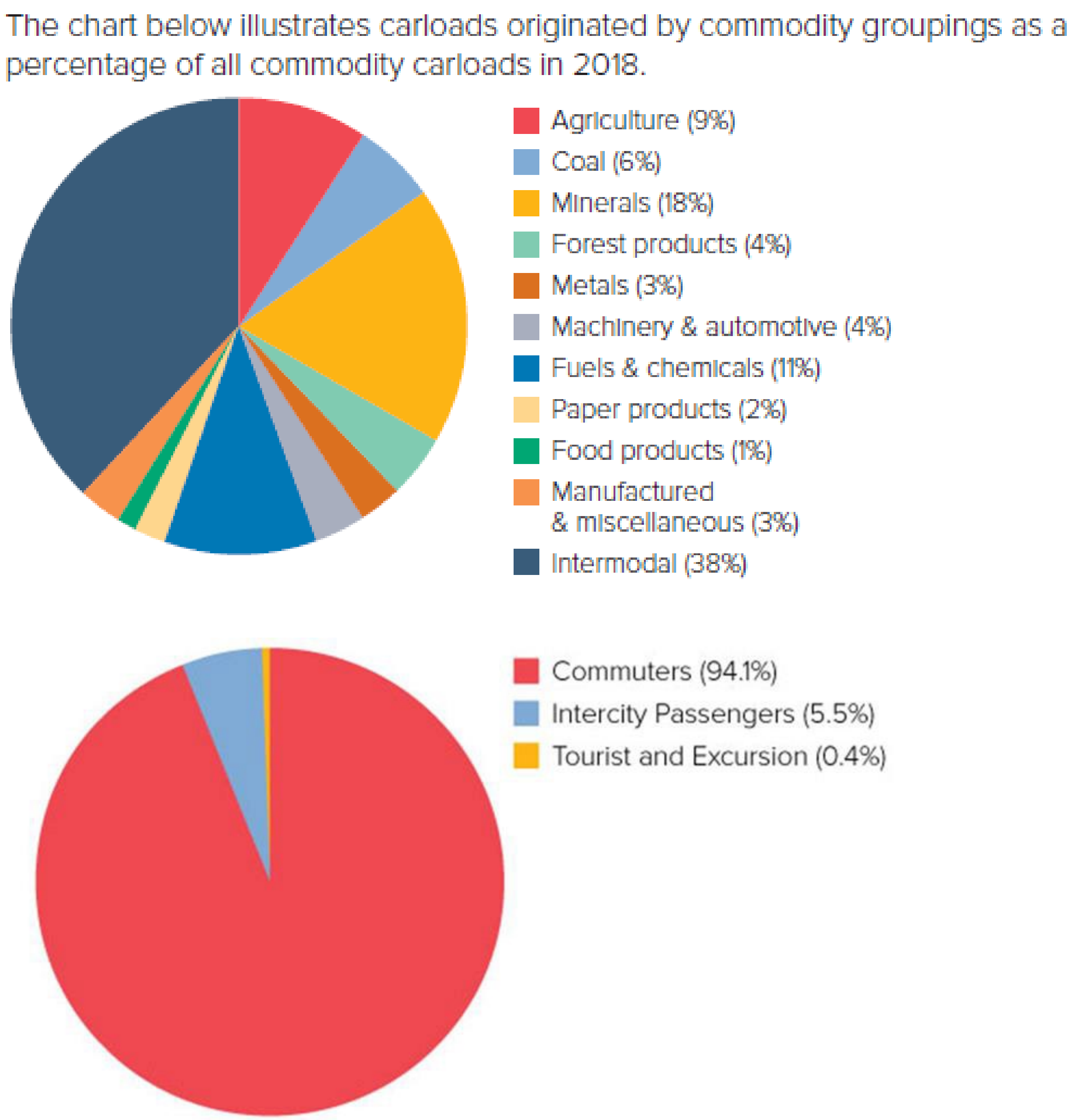
Rail is one of Canada's most capital-intensive industries. Canadian railways are vertically integrated, including ownership of the track, real estate, and locomotives and rolling stock, which illustrates the need for significant investments. On average, Canadian railways invest between 20 and 25 per cent of their own revenues back into their networks each year — more than $32 billion in Canada alone since 1999. These significant annual investments into rail infrastructure, support the strong and growing demand for Canadian products and supports the fluidity of getting Canadian products to global markets.

Canada's railway industry is also doing its part to help reduce greenhouse gas (GHG) emissions, while supporting the economy and enabling trade. Railways are among the lowest industrial emitters in Canada, accounting for just 1% of GHG emissions. Since 1990, freight railways have reduced their GHG intensity by more than 40%, while experiencing an 80% increase in workload, and intercity passenger railway emissions have decreased by 55%, while ridership has increased by 25%.

Freight rail is four to five times more fuel efficient than truck, while passenger rail is three times more fuel efficient than the average car. For instance, just one locomotive can haul a tonne of goods more than 210 kilometers on a single litre of fuel, while a single freight train can remove more than 300 trucks from Canada's roadways. Similarly, each passenger train replaces dozens of cars, reducing emissions, and improving transit time for commuters.

The Pan-Canadian Framework on Clean Growth and Climate Change and Transport Canada's Transportation 2030 both highlight the value and importance of moving more goods and people by rail. In fact, shifting just 10% of truck traffic to rail would reduce emissions by 3.7 Megatonnes (Mt) of $CO_2e$ per year. By taking vehicles off the road, not only are railways helping reduce environmental impacts; trains are also helping limit the degradation of publicly funded infrastructure.

**Figure 1: Rail Traffic in Canada**




RAC and its members believe that investments into the rail-based supply chain can generate long-term value for Canada and ensure that Canadians continue to benefit from resilient freight and passenger railway services.

## Recommendations

### #1 – Commitment to High Frequency Rail (HFR)

RAC encourages the Government to launch VIA Rail's High Frequency Rail (HFR) project once the exploratory work and additional analysis are completed, as it represents a key infrastructure initiative that will contribute to a more sustainable economic recovery for Canada.

HFR is a shovel-worthy project that will boost Canadian's economic growth while reducing GHG emissions by 10 Mt (or 14 Mt if electric) over 30 years, which is equivalent to removing 10% of cars from the road for one year in Canada.

By implementing and operating this new service within its entire network, VIA will better connect Canadians in the most populous region of the country by increasing train frequencies, shortening trip times, and providing more reliable service.

**Recommendation: Launch VIA Rail's HFR project in order to create employment, stimulate sustainable growth and leverage the environmental benefits of moving more passengers by rail.**

### #2 – Support for Shortline Railways in Canada

Shortline railways perform a vital role in Canada's rail-based supply chain, providing crucial first-mile, last-mile service that connects customers and rural economies to the world. In fact, approximately 20 per cent of carloads in Canada originate on a shortline railway. As such, RAC believes the federal government can and should do more to support shortline railways and their customers.

Statutory reviews of the Canada Transportation Act and Railway Safety Act underscored a demonstrable role for Government to support the shortline railway sector.

To date, neither the New Building Canada Plan nor the National Trade Corridor Fund have been a significant source of funding for shortline railways. Conversely, shortline railways in the U.S. continue to enjoy multiple federal and state-level funding programs that include grants, tax credits and low-interest loans.

**Recommendation: Create a capital funding program of $365 million over 6 years (effective in 2021 and ending in 2026) to support shortline infrastructure investment.**

### #3 – Tax Policy and Canadian Freight Railway Competitiveness

Canada needs a competitive tax framework to further incent railway infrastructure investment to ensure that the sector can maintain a robust supply chain and facilitate future volume growth.

Recent U.S. tax reforms have altered the competitive landscape in North America. Tax changes in Canada are required to ensure that railways remain competitive and can continue to invest at a rate comparable to previous years and proportionate to their American competitors.

With a lower after-tax-cost in the U.S., Canadian railways and customers, who invest in their own rail infrastructure, are at a significant tax disadvantage to U.S. railways. If this tax imbalance persists, important economic opportunities and investments in Canada may be lost. Simply put, Canadian railways should not be penalized for operating a North American railway network.

The following tables highlight: (1) the differences between the Canadian and U.S. tax regimes as they relate to railway capital cost allowance (CCA) spending and (2) the tax treatment of railways versus other capital-intensive industries in Canada.

### Table 1: Canadian vs. U.S. Tax Depreciation Regimes for Rail*

| Canadian Railways | | | | U.S. Railways | | | |
|---|---|---|---|---|---|---|---|
| | Class Rates | CCA $ Claimed | % Claimed | | Class Rates | CCA $ Claimed | % Claimed |
| Track Infrastructure | | | | | | | |
| Year 1 | 10% | $15 | 15% | Year 1 | 100% | $100 | 100% |
| Total by year 4 | | $38 | 38% | Total by year 4 | | $100 | 100% |
| Rail Yard Facility (Building) | | | | | | | |
| Year 1 | 4% | $6 | 6% | Year 1 | 100% | $100 | 100% |
| Total by year 4 | | $17 | 17% | Total by year 4 | | $100 | 100% |
| Railcars | | | | | | | |
| Year 1 | 15% | $23 | 22.5% | Year 1 | 100% | $100 | 100% |
| Total by year 4 | | $52 | 52% | Total by year 4 | | $100 | 100% |
| Locomotives | | | | | | | |
| Year 1 | 30% | $45 | 45% | Year 1 | 100% | $100 | 100% |
| Total by year 4 | | $81 | 81% | Total by year 4 | | $100 | 100% |

*For $100 of capital spending

### Table 2: Railways vs. other industries in Canada*

| Canadian Railways | | | Manufacturing and Processing ("M&P") Industry | | | Trucking Industry | | |
|---|---|---|---|---|---|---|---|---|
| | Class Rates | CCA% Claimed | | Class Rates | % Claimed | | Class Rates | % Claimed |
| Track Infrastructure | | | M&P Plant | | | N/A** | | |
| Year 1 | 10% | 15% | Year 1 | 10% | 15% | | | |
| Total by year 4 | | 38% | Total by year 4 | | 38% | | | |
| Railcars | | | Specific M&P Building (Kiln, tank, or vat) | | | Trailers | | |
| Year 1 | 15% | 22.5% | Year 1 | 100% | 100% | Year 1 | 30% | 45% |
| Total by year 4 | | 52% | Total by year 4 | | 100% | Total by year 4 | | 81% |
| Locomotives | | | M&P Equipment | | | Hauling Trucks | | |
| Year 1 | 30% | 45% | Year 1 | 100% | 100% | Year 1 | 40% | 60% |
| Total by year 4 | | 81% | Total by year 4 | | 100% | Total by year 4 | | 91% |

*For $100 of capital spending.
**As infrastructure used to move freight (inter-provincial roads) for the trucking industry is already fully funded by the Government.

While the federal government addressed this issue for certain industries in its 2018 Fall Economic Statement, Canadian railways remain at a major disadvantage to U.S. railways and other Canadian capital-intensive industries, which is further enticing Canadian railways to invest in the U.S. rather than in Canada.

Enhancing tax policy and freight railway competitiveness would not only help support the needs of the Canadian economy and create jobs, but also ensure that an appropriate fiscal framework is in place to move more goods and people by rail in an environmentally friendly way.

**Recommendation: Implement accelerated depreciation measures, including allowing Canadian railway companies to deduct the full amount of capital expenditures immediately, so they can continue to make the investments required to maintain and grow a resilient railway network. Such measures will enable railways to continue supporting the needs of the Canadian economy and help reduce the costs associated with rail safety requirements such as grade crossing upgrades.**

**#4 – Supporting Canada's Tourism Railways**

Tourism railways are a critical component of Canada's vibrant tourism industry and its annual $100 billion economic footprint.

Each year, RAC tourism members complete approximately 340,000 passenger trips that generate more than $325 million (M) in revenues and support approximately 1,000 well-paying, seasonal workers located in rural and remote communities across Canada. Our members' annual capital expenditures envelope hovers at approximately $45 M while they pay approximately $15 M in taxes to governments annually.

Moving tourists by rail drives local and regional economic activity by creating demand for local service providers such as hotels, restaurants, retail and excursion companies.

Closures related to the COVID-19 pandemic have reduced the revenues necessary to offset the substantive operational and capital costs required to provide a tourism railway service. Seasonal tourism rail operators have been forced to drastically reduce their services, suspend capital expenditures, lay off employees and in some cases cancel their operations entirely for the season. As such, more needs to be done to support tourism railways so that they can continue to serve Canadians and international customers now and into the future.

**Recommendation: Take additional steps to ensure that tourism rail operators have immediate access to capital and create a task force to develop a long-term recovery plan that rebuilds confidence and repositions Canada as an attractive tourist destination for international visitors. Furthermore, at a time when international travel remains restricted, the RAC recommends further efforts to promote domestic tourism, in order to drive economic growth and job creation in all regions of the country.**

**#5 – Public Transit / Commuter Rail**

A recent commitment by the Government of Canada to cost-match approximately $1.8 billion in provincial and territorial investments to support any additional contributions toward public transit was welcome news to commuter rail operators across Canada who have seen a catastrophic drop in ridership and revenues in recent months.

At the height of the COVID-19 pandemic, ridership on commuter railways was down by as much as 95 per cent, and operators were forced to reduce service and initiate layoffs. The recovery phase will require commuter rail operators to find innovative and creative ways to safely serve ridership while swiftly reacting to fluctuating demand.

Commuter railways and municipalities continue to face huge financial challenges and require additional government support to fund the operating and capital costs necessary to increase efficiency and maintain service.

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| **Recommendation: Provide additional capital funding to ensure transit is part of Canada's economic recovery. This financial support will help restore jobs, connect people, and keep transit central to a lower-carbon economy and more sustainable urban life.** |

**Conclusion:**

As the Government explores ways of restarting the Canadian economy in the wake of the COVID-19 pandemic, investments into the rail-based supply chain can generate long-term value for Canada and ensure that Canadians continue to benefit from resilient freight and passenger railway services.

Despite a challenging year of trade disputes, a labour disruption, rail blockades, and a global health pandemic, Canada's rail operators continue to persevere and deliver.

Railroaders' resiliency in these deeply uncertain times will help our country recover from the pandemic's impacts more quickly, and increased capacity will help get more businesses reopened and more people back to work.

RAC members already have the people power to deliver as we always do — safely and reliably. With the right supports, including the implementation of the recommendations included in this pre-budget submission, Canada's railways will be well equipped to carry an even greater load in our country's post-pandemic economic recovery.

**Contact:**

Thank you for your time and consideration. The Railway Association of Canada would welcome the opportunity to appear before the House of Commons Standing Committee on Finance undertakes its consultations.

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