



Railway Association
of Canada

Association des chemins
de fer du Canada

2017 Ontario Pre-Budget Consultations

A submission by the Railway Association of Canada

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Table of Contents

1.0 Introduction.....	4
2.0 Property Tax Reform in Ontario	4
3.0 How investments in rail support Government objectives.....	5
3.1 Reduced emissions and air pollution	5
3.2 Improved competition and market access for Ontario shippers.....	5
3.3 Improved transportation safety, less wear and tear on roads.....	6
4.0 Recommendations.....	6
5.0 Closing	8

List of Appendices

APPENDIX A: POTENTIAL SHORTLINE RAILWAY PROJECTS



Acronym Table

GHG	Greenhouse Gas Emissions
RAC	Railway Association of Canada



1.0 Introduction

Please accept these comments on behalf of the Railway Association of Canada (RAC). The RAC represents more than 60 freight and passenger railway companies that move 80 million (M) people and \$280 billion (B) worth of goods in Canada each year. We advocate on behalf of our members and associate members to ensure that the rail sector remains globally competitive, sustainable, and safe.

Ontario's freight railways operate more than 10,000 kilometers of privately-owned track in addition to rail yards, transload facilities and intermodal hubs all designed to service a diverse customer base across the province. Last year our members moved more than 950,000 originated carloads representing approximately \$85 B in value on behalf of Ontario's shippers from the manufacturing, agricultural, natural resources, chemical and retail sectors. In addition to the movement of freight by rail, more than 55 M Ontarians elect to travel to work by commuter rail.

Railways maintain a payroll of approximately \$775 M and employ more than 8,200 people in Ontario, and paid \$120 M in taxes to the provincial government in 2015. Moreover, in 2015 alone railways invested approximately \$345 M in their infrastructure in Ontario, benefitting local service providers and suppliers.

2.0 Property Tax Reform in Ontario

The Government is currently looking at moving towards increased property tax program flexibility that will enable municipalities to better tailor their programs (rebate and reduction) to reflect community needs and circumstances, and to reduce the perceived negative impact of vacant land on neighbouring property.

As referenced in the introductory paragraphs to this submission, railways occupy a substantive amount of land in Ontario. This includes extensive quantities of land that are required for existing and potential rail transportation or other activities. This cannot change, regardless of a municipality's initiatives.

The placing of railway yards and excess lands in the Vacant Land or Excess Land subclasses in the *Ontario Assessment Act Regulations 282/98* was to minimize the additional property tax burden that the railways were facing when the Province eliminated business taxes for the provincial 1998 reassessment.

We ask you to maintain this regulation and the current rebate structure for railway corridors and yards.

Another fiscal concern is that some municipalities within the Northwestern Ontario Municipal Association are asking for additional revenues through a tonnage-based assessment.

Railways, should not be seen by municipalities as an additional revenue source to resolve local cash flow problems. In 2014, railways paid some \$30 M in property tax, in addition to other taxes, and receive little benefit in return. We are not utility companies that can adjust "user fees" to address increased expenses. We operate in a very competitive business environment that limits our ability to increase our rates for providing transportation services.

Again, we ask that you do not amend the existing property tax regime as it relates to railways.



3.0 How investments in rail support Government objectives

The movement of goods and people by rail can support a number of government objectives associated with reducing greenhouse gas emissions (GHG) and pollution, congestion, transportation safety and delivering economic prosperity to Ontarians.

While the Government must be applauded for its efforts to support transit and enhance the province's commuter rail system, government investments into freight rail infrastructure have been minimal. The RAC believes that government investments into rail can leverage private sector investments and support a number of government objectives including, but not limited to:

3.1 Reduced emissions and air pollution

Railways can support the government's objectives to reduce emissions by 37 per cent below 1990 levels by 2030. With dedicated programs and strategies to manage GHG, rail is a fuel-efficient and emission-friendly mode of transportation¹.

Railways move one tonne of freight more than 200 kilometres on a litre of fuel². They produce four to five times fewer emissions than trucking (depending on the commodity), and a single freight train can replace several hundred trucks from the country's congested highway and road network.

While transportation-related GHGs in Ontario hover around 35 per cent, railways continue to demonstrate their ability to reduce emissions while increasing their workload. In fact, since 1990 railways have reduced their GHG intensity by more than 40 per cent while their workload has increased by more than 80 per cent³. In Ontario, railway GHGs are less than 1 per cent of all emissions.

Railways are strongly positioned to work in cooperation with the Government to reduce emissions immediately. As noted in the recently published Pan-Canadian Framework on Clean Growth and Climate Change, modal shift provides an exceptional opportunity to transfer truck traffic to rail⁴. In fact if just 15 per cent of truck traffic in Canada was moved by rail, emissions would decrease by 5.6 megatonnes⁵.

3.2 Improved competition and market access for Ontario shippers

Ontario's extensive railway network services a number of valued customers including Toyota, Honda, GM, Chrysler, Canadian Tire, Home Dept, Wal-Mart, Tembec, Cascades, Domtar, Dow Chemical, OOCL, Hapag-Lyod, Hyundai, K Line Cargill, ADM, Viterra, Essar and Arcelor. In many cases these companies maintain facilities in rural and remote locations that are serviced by the province's shortline railway sector. These customers fully depend on shortline railways to connect them to the high velocity, high through-put mainlines operated by CN and CP.

¹ Since 1995, Canada's railways have maintained a series of Memorandum of Understanding with the Federal Minister of Transport to establish voluntary emission reduction requirements. Additional information is available at:

<http://www.railcan.ca/publications/emissions>

² TC/RAC Emissions Monitoring Program (p.18):

http://www.railcan.ca/assets/images/publications/LEM/LEM_2014/2014_LEM_Report.pdf

³ Ibid (p.26): http://www.railcan.ca/assets/images/publications/LEM/LEM_2014/2014_LEM_Report.pdf

⁴ For additional information, see (p.17): <https://www.canada.ca/content/dam/themes/environment/documents/weather1/20170113-1-en.pdf>

⁵ For additional information, see:

http://www.railcan.ca/assets/images/news/mediareources/JPGS/RailCan_infographic_ClimateSolution_rev5.jpg



However, provincial investments into the shortline railway sector are sparse, while investments into the highways and roads used by the commercial trucking sector continue to be extensive. In fact, in 2015 the Government allocated approximately \$3.3 B to transportation of which approximately 46 per cent was directed to transit, 44 per cent to roads and less than 4 per cent to freight rail, which we estimate was allocated to a crown corporation⁶. We are concerned that this trend will continue into the future as the recent BuildON 2017 Infrastructure Update provides little indication that shortline railways are part of the Government's long-term investment strategy⁷.

Shortline railways compete directly with the subsidized trucking sector. While these railways are capable of investing approximately 10 to 12 per cent of their revenues back into their capital, additional resources are required to modernize their operations, capitalize on growth opportunities and to compete with trucking.

We greatly appreciate that the Government has committed to allocate \$15 M to \$20 M to study the competitiveness of the province's shortline railway sector⁸. Investments into shortline infrastructure are necessary to maintain the viability of these critically important railways (see Recommendation #2 below).

3.3 Improved transportation safety, less wear and tear on roads

Canada's railways are among the safest in North America. The industry has invested more than \$20 billion since 1999 to ensure the safety of its infrastructure—including investments in innovative safety technologies that have led to significantly lower accident rates. Between 2011 and 2015, Canada's freight rail accident rate declined by 2.4 per cent, while its passenger rail accident rate fell by 6.1 per cent. Since 2006, the freight sector's accident rate has fallen by 36.4 per cent, or an average of more than 4 per cent each year⁹.

In many cases, the railway sector's safety performance has made it the preferred choice of transportation for moving products safely. For example, the Chemistry Industry Association of Canada and its members most often elect to move their products by rail as a means to fulfilling their commitments to transport goods safely under their Responsible Care[®] initiative¹⁰.

In addition to the safety benefits referenced above, rail alleviates congestion and reduces wear and tear from the provincial highway and road system.

4.0 Recommendations

The RAC believes that investments into railway infrastructure can provide exceptional value for money by leveraging private sector resources to meet multiple Government objectives. Moreover, investments into freight rail provide one of the few opportunities for the Government to combat climate change and deliver economic prosperity to Ontarians simultaneously.

⁶ Transportation in Canada 2015. Statistical Addendum, Table G6.

⁷ For additional information, see: <https://www.ontario.ca/page/buildon-2017-infrastructure-update>

⁸ Ontario's Five Year Climate Change Action Plan (p.64): http://www.applications.ene.gov.on.ca/ccap/products/CCAP_ENGLISH.pdf

⁹ Rail Trends 2016 (p.4). Available at: http://www.railcan.ca/assets/images/publications/Rail_Trends_2016/Rail_Trends_2016.pdf

¹⁰ For additional information see: https://www.canadianchemistry.ca/library/uploads/CIAC_-_Partners_in_Transportation_Safety.pdf



The RAC recommends that:

1. Revenues collected from the cap and trade initiative are made available to prospective rail customers.

RAC and its members recommend that Ontario direct the revenues collected from the cap and trade initiative to rail - **just like the Government of Quebec has done in shaping its Green Fund**. Quebec has recognized the significant GHG savings that freight rail can deliver and has assured that revenues generated from its cap and trade system are directed towards Quebec's Green Fund. These revenues are made available to prospective rail customers to offset the costs associated with building the infrastructure necessary to provide them with direct or improved rail access. In other words, these investments incent modal shift.

In Quebec these programs are:

- the program for the reduction or avoidance of greenhouse gas emissions through the development of intermodal transport (**PREGTI**, formerly PARAGES); and
- the program to improve the efficiency and emissions of maritime, air and rail transportation (**PETMAF**, formerly PEET) ¹¹.

PREGTI aims to reduce GHGs freight transportation emissions by creating intermodal projects that promote the use of freight rail transportation. Recent projects sponsored by the Government include investments into railway track, transload facilities and reload centres. From 2011 to 2015, \$30.4 M was awarded to rail and intermodal infrastructure projects, resulting in reductions of approximately 210,000 tonnes of CO_{2e} per year. **This works out to a cost per tonne reduction of \$14 over a 10-year project period.**

By contrast, **PETMAF** strives to reduce GHGs generated from rail transportation (and other modes including marine and air) by facilitating improvements to locomotives and other assets to improve fuel efficiency and emission performance. Over time, the program has provided funding to Class I and shortline freight railways to support emerging fuel efficient and emission reduction technologies.

The RAC encourages the Government to allocate \$50 million over three years to develop a program in parallel to PREGTI. A program of this nature will provide assurance that Ontario's exports destined to Asia will generate the fewest amount of GHGs possible. Additional funding would be required to model a program similar to PETMAF.

2. Funds are earmarked for rail infrastructure investments in 2019

Ontario should also consider providing support to shortline railways as a means to leveraging private sector capital and enhancing shortline railway assets and infrastructure. These investments would stimulate regional economic development and identify additional opportunities to transfer truck traffic to rail. These investments would also ensure that shortline railways can continue to provide efficient and emission friendly services to their existing customer base. In fact, if Ontario's shortline traffic was transferred to truck, transportation-related emissions would **increase by approximately 75 kilotonnes of CO_{2e} per year.**

¹¹ For additional information see: <http://www.mddelcc.gouv.qc.ca/changementsclimatiques/programmes.htm>



The RAC encourages the Government to create a shortline infrastructure program that would provide \$75 M over 6 years to the sector. As means to leveraging private sector revenues, shortline railways would need to demonstrate their ability to invest in order to obtain Government resources. We recommend that the program is implemented by regional development offices. It is envisioned that a program of this nature could be combined with Phase 2 of the federal Investing in Canada Infrastructure Plan.

We also recommend that the funds are made accessible through a tax credit mechanism (limited to the lesser of 50 per cent of the eligible investment in the infrastructure or \$15,000 per mile of track of the network during the first two years, and to \$5,000 per mile for the following five years). This fixed funding amount per track mile would be similar to the precedent established by an existing (and highly successful) U.S. program for shortlines¹², but should be accelerated for the first two years to foster shovel-ready projects.

Appendix A provides a list of projects that could be funded immediately.

5.0 Closing

As a critical component to growing the economy, and with a long-standing commitment to reducing emissions, Ontario's railway industry can deliver prosperity while becoming part of the province's climate change solution. Now is the time for the government to act and reinvest the revenues from its cap and trade program into rail.

The precedent has been set in Quebec, where cap and trade revenues are used to offset the infrastructure costs required to move goods by rail, and ensure that rail equipment can achieve optimal performance. With their exceptional fuel economy and long-term commitment to reducing emissions, Ontario's railways can be part of the province's climate change solution immediately.

For additional information, please contact Michael Gullo, Director Policy, Economic and Environmental Affairs at 613 564 8103 or mgullo@railcan.ca.

¹² Known as the 45G Railroad Track Maintenance Credit.



APPENDIX A – POTENTIAL SHORTLINE RAILWAY PROJECTS

Orangeville Brampton Railway

The Orangeville Brampton Railway (OBRY) is owned by the Town of Orangeville through the Orangeville Railway Development Corporation (ORCD). The railway spans 34 track miles interchanging in Streetsville, ON with CP.

The ORDC, since the purchase of the line, licensed Orangeville Brampton Rail Access Group (OBRAG) to manage and maintain the OBRY. OBRAG members include PolyOne Canada, The Clorox Co. of Canada Ltd., Rochling Engineering, Direct Plastics, Vulsay Ltd., and Industrial Thermo Polymers. This direct rail service provides local business with a competitive advantage that helps them sustain and grow their businesses across North America and internationally.

Currently the rail line is maintained to a Class 2 standard, although rail car weight restrictions are imposed as a result of 1920's vintage 85 lbs. jointed rail. Restrictions on car loads are limited to a maximum 268,000 axel loading whereas railway standards are 286,000 lbs axle loads. In addition to infrastructure challenges, the railway traverses 44 public grade crossings, of which eight crossings maintain passive warning systems, as well as a well-used industrial spur that requires the locomotive and cars to pull back across Broadway, formerly Hwy. 9 in the Town of Orangeville.

Collectively these issues could be addressed with government support targeted at three initiatives:

1. Upgrade 85 lbs rail segments to 100 lbs to allow 286,000 lbs. axel loading (\$4,000,000);
2. Upgrade 4 passively warned crossings with automatic warning devices (\$800,000); and
3. Reverse the switch access to the industrial spur and eliminate the crossing at Broadway (\$750,000).

Collectively these projects will improve the efficiency of railway operations, safety and access for Ontario's shippers. Total investment is expected to be \$5.45 M

Most customers on the OBRY line are plastic producers in some form or other and are receiving their raw material from the southern U.S. Without rail access, transportation costs of raw material would most likely not be a viable operation for these organizations in their current locations. If these organizations left the municipality, there would be a substantial negative effect on the tax base and employment availability, which would have an adverse effect on a smaller community such as Orangeville.

Aside from the freight side of the railway, the OBRY also offers the Credit Valley Explorer tour train which is Dufferin County's and Orangeville's largest tourism generator with an economic impact of over \$2 million per year. With more than 15,000 passengers per year, the Credit Valley Explorer attracts day trip and overnight customers from across Southern Ontario including Kingston, Sudbury, London, Kitchener-Waterloo and the GTA.

Barrie-Collingwood Railway

The current operating portion of the Barrie-Collingwood Railway (BCRY) is owned by the City of Barrie and operated by Cando Rail Services Ltd. serving customers in Essa Township, Barrie and Innisfil. The City of Barrie and the Town of Collingwood purchased the rail property and its 71 miles of track, and the railway has been in operation since 1998. The railway provides traffic loading and switching services, and offers a connection with Canadian Pacific, interchanging grain, lumber products, clays, chemicals and industrial products.



The rail line is classified as a Class 1 track with speeds limited to 10 MPH and weight restrictions that limit car loads to 263,000 pounds. The railway also intersects 21 level grade crossings of which 13 operate with active protection (e.g. flashing lights, bells, crossbucks, advance warning signs, pavement markings and in one case gates) and eight with passive protection (e.g. crossbucks, advance warning signs, pavement markings).

The BCRY has identified two initiatives where infrastructure improvements are required:

1. Upgrade the rail line to Class 2 track (25 MPH) and thus improving the road bed to allow 286,000 pound cars on the line (\$6,600,000); and
2. Upgrade the passive crossings with automatic warning devices (\$1,200,000).

Total investments required to upgrade the railway are \$7.8 M.

The ability of the BCRY to offer online freight service to local industry as well as trans-load capabilities at its Utopia Yard for off-line customers is an integral part of developing an industrial base within Simcoe County and the City of Barrie. With connecting track to Canadian Pacific Railway, raw material and finished goods can be shipped to or received from anywhere in North America.

The Class 1 railroad operations in the area do not lend themselves to servicing local industry and operate more as a trans-continental line. Industrial development in Simcoe County relies on a robust transportation network and the ability to develop in “rural business parks.” The BCRY is located in the midst of an expanding rural business park in Essa Township. The BCRY also exists as an important corridor for future extensions of Metrolinx rail service into Simcoe County.

Essex Terminal Railway

The Essex Terminal Railway (ETR) operates on 33.5 miles of track within the strategic Windsor-Detroit Gateway. This railway is a vital transportation artery between Canada and the United States at North America's busiest International Crossing.

The railway recently completed a comprehensive asset review and rail bridge needs analysis confirming that two bridges require rehabilitation in the short-term. These bridges traverse the Canard River and Long Marsh Drain and serve as a connector to a vital customer and hundreds of acres of shovel ready heavy industrial property in the Town of Amherstburg. The costs associated with repairing the bridges are estimated to be approximately \$900,000, and funding support is required to ensure that rail service to Amherstburg, ON is maintained and ongoing.

Total investments required to upgrade the railway are \$900,000.00

Securing funding for rehabilitation of the (2) rail bridges would have the following regional economic benefits:

- Increased capacity of rail cars eliminating or reducing trucks traffic on local roads
- Improved efficiency and reduction of greenhouse gases and other negative environmental impacts
- Minimizing environmental risks and hazards to surrounding water courses and environmentally significant wetlands
- Increased service levels to local industry and current customer(s)
- Increased marketability of shovel ready heavy industrial land to attract investment requiring strong rail infrastructure



- Investment in integral transportation network that provides vital services to regional and remote markets; and
- Increased rail safety performance and responsible asset management program

Huron Central Railway

The Huron Central Railway (HCRY) is a 173-mile short line freight railroad that operates between Sault Ste. Marie and Sudbury, interchanging traffic with CN and Canadian Pacific. Commodities transported include pulp and paper products, forest products, chemicals, petroleum products, steel and scrap.

Economic conditions have slowed the growth and export of Canadian steel and lumber across Canada, but particularly in Northwest Ontario. Traffic volumes from 2011 – 2015 on the HCRY have declined steadily by more than 2% each year, limiting the railway's ability to generate the revenues required to maintain its network, and more particularly the eastern portion of the rail line near Sudbury.

Historically federal and provincial government funding has supported railway maintenance and rehabilitation costs, however these resources have been exhausted, and additional funding is required to maintain the railway so that it can serve the region's shippers when the markets return. Rail line, bridges culverts and supporting facilities are all in need of repair.

HCRY estimates that approximately \$18 M is required from 2016 to 2021 to maintain and upgrade the railway as required.