Railway Association of Canada

FINA Pre-Budget Submission

/2025

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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. 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 emphasizes boosting Canadian competitiveness by supporting all rail sectors—Class 1, shortline, commuter, intercity, and tourism.

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]

The Canadian economy relies on the efficiency and resiliency of a strong rail network. Moving $380 billion of goods each year, 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.

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.[2]

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.

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." They recommended the federal government "abandon any plans, both current and future, to expand interswitching distances in Canada."[3] Unifor similarly warns "extending the interswitching limit has opened up the Canadian rail service to unbalanced competition with U.S.-based companies, squeezing wages and working conditions."[4]

The process that led to this policy decision was insufficient and lacked consultation and analysis. It ignored 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." [5]

Every carload of freight diverted to the United States because 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 with Canadian railroaders by introducing Bill S-287 to repeal extended interswitching.

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 supply chain 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.

The federal government should implement accelerated (or 100% immediate) depreciation for all supply chain participants that make investments to maintain or expand capacity.

To ensure Canadian railways remain competitive and can continue to invest at a high rate, tax changes in Canada are necessary. 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. Such measures 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; increasing capacity and fluidity and thereby helping reduce the negative impact of prolonged anchorages at the Port.

Safety is job one for every railway and every railroader. 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.

Safety is a shared responsibility that calls for further investment from the federal government. Collaboration is needed to ensure 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.

RECOMMENDATION:

1. Implement accelerated depreciation measures, including allowing Canadian railway companies to deduct the full amount of capital expenditures immediately. This, in addition to greater NTCF and RSIP funding, would further enable railways to make the necessary investments to maintain and grow a resilient railway network.

2. Funding or in-kind support will be needed for effective implementation of Enhanced Train Control.

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, combined with the tax and expanding regulatory burden, are threatening the sustainability of shortline operations.

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.

Currently, there is no dedicated federal funding or incentives in Canada. Various House of Commons committees have recommended a support program for shortlines, and a joint letter from multiple associations highlighted this need in 2020.[6]

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.

RECOMMENDATION:

Create a Railway Track Maintenance Tax Credit (comparable to U.S. Section 45G) and permanent support for shortline railways.

4. AUGMENT OPERATIONAL AND CAPITAL SUPPORT FOR PASSENGER RAILWAYS.

Passenger railways connect communities and provide unique tourism experiences, showcasing Canada. They move millions of passengers safely and sustainably every year, and employ over 5,000 Canadians, supporting thousands more jobs in regional economies.

We welcome the announcement of government funding for the largest fleet renewal in VIA Rail's history, and 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 Canada.

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

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.

5. 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.

Canada's railways urge the government to clarify that new paid medical 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.

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), while respecting collective bargaining.

RECOMMENDATION:

1. Amend the Interpretive Guideline to clearly state that 10 medical leave days cannot be stacked on existing employee medical leave programs.

2. 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.

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.

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).[7]

RAC members are leading in 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, and Southern Railway of British Columbia is trialing 100% biodiesel.

RECOMMENDATION:

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, with a growing number of industrial railways and railway supply companies in its associate membership.

CONTACT

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END NOTES

1. Online: https://www.railcan.ca/wp-content/uploads/2023/02/International-Comparison-of-Railway-Freight-Rates.pdf
2. Online: https://www.nationalnewswatch.com/2023/06/13/why-is-the-government-choosing-team-usa-on-interswitching/
3. Teamsters Canada Submission to the 2024 Treasury Board Supply Chain Regulatory Review.
4. Unifor Submission to the House of Commons Standing Committee on Finance on the 2024 Federal Budget.
5. Online: https://www.ourcommons.ca/DocumentViewer/en/42-1/tran/meeting-67/evidence
6. Online: https://www.railcan.ca/wp-content/uploads/2023/10/Supporting-Canadas-Shortline-Railways-03-12-20.pdf
7. Online: https://www.railcan.ca/wp-content/uploads/2022/12/Rail-Pathways-Decarbonization-Roadmap.pdf

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