Railway Association of Canada

Ontario Pre-Budget Submission / 2025

Railways are Enabling Ontario’s Growth

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Recommendations:

1. **Create a Railway Track Maintenance Tax Credit to support shortline investments.**

2. **Augment operational and capital support for passenger railways.**

3. **Formally request that the federal government's damaging extended interswitching policy permanently sunset.**

4. **Require that RAC-FCM Proximity Guidelines be adhered to by land-use planning authorities under Ontario's *Planning Act*.**

Introduction

The Railway Association of Canada (RAC) is pleased to share its 2025 Pre-Budget Submission. This submission provides recommendations for the Ontario government to support the critical role of every type of railway (Class 1, shortline, commuter, intercity, tourism) in Building Ontario.

Canadian railways power progress — reliably, efficiently, and with the strength to meet every challenge. Canada's railways move $380 billion worth of goods and millions of passengers to their destination each year.

They provide the highest safety performance in North America, industry leading green innovation, and strong service at virtually the lowest cost in the world.

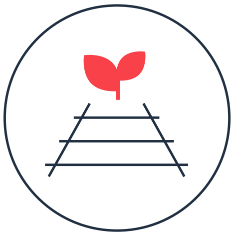
Canadian rail freight rates are the lowest on average among major market economies — 11% lower than the United States.[1] Average Canadian rates are less than half that of Germany and India. They are just over a third of Japan's average rail freight rates, as another comparison.[2]

Freight railways, both Class 1s and shortlines, enable Ontario businesses to compete efficiently in North American and global markets, serving as reliable links in complex supply chains. In the current trade environment, marked by shifting policies, economic uncertainty, and evolving global dynamics, enhancing competitiveness is critical. By working together, we can ensure Ontario businesses remain resilient and well-positioned to thrive in the face of these challenges.

To illustrate rail's reliability, a 2023 study found that the transit time for containerized consumer goods transported from Shanghai to Ontario and Quebec increased by 13.8 days (or 52%) during the pandemic, from 2019 to 2022.[3] 99% of this increase happened before the container had even been loaded onto a railcar. More intermodal rail traffic is sent to Ontario than any other province.

1 Online: https://www.railcan.ca/wp-content/uploads/2023/02/International-Comparison-of-Railway-Freight-Rates.pdf
2 Online: https://www.railcan.ca/wp-content/uploads/2023/02/International-Comparison-of-Railway-Freight-Rates.pdf
3 Online: https://www.railcan.ca/wp-content/uploads/2023/05/SPARK-RAC-CTRF-REPORT-2023-EN7.pdf

OVERVIEW OF THE RAIL INDUSTRY



Over 37,000 railroaders across Canada bring Canadian goods safely and sustainably to global markets and people to their destinations. More than 50,000 Ontario jobs are supported by the rail industry. RAC represents more than 20 railways in Ontario, which is the province with the most freight track operated of any province at 9,871 km. In 2023, railways contributed $244 million in taxes to Ontario authorities and invested $781 million in the province.

Rail is the most fuel-efficient mode of ground transportation. Railways are, on average, three to four times more fuel efficient than trucks. One train can remove upwards of 300 trucks from congested, publicly funded roads. One locomotive can haul a tonne of goods more than 220 kilometres on a single litre of fuel. Freight and intercity passenger railways have both reduced their emission intensities by more than 25% since 2005.[4]

Passenger railways are continuing to see an overall rise in ridership from pandemic lows, but significant financial pressures remain.

Over the past decade, Canada's railways have invested $22.7 billion to enhance the fluidity and resiliency of Canada's nearly 43,000 km rail network. Not only do these investments include expanded and upgraded tracks and more fuel-efficient locomotives, but also innovative, safety-enhancing technologies like wayside detectors, predictive analytics, track geometrics, and machine visioning.

During the past decade, Canadian Class 1 freight railways have consistently invested back into their networks around 20 cents of every dollar of revenue earned, an impressive figure which exceeds the level of investment by U.S. railways. In the past 5 years, they invested a combined $1 billion in new, high-capacity hopper cars built in Hamilton.

> **Investing in Ontario's rail sector means creating jobs and strengthening supply chains, helping Ontario businesses grow.**
>
> **The Ontario government should prioritize the following actions to support railways in Enabling Ontario's Growth.**

4 Online: https://www.railcan.ca/resources/locomotive-emissions-monitoring/

Recommendation 1: Create a Transferable Railway Track Maintenance Tax Credit to Support Shortline Investments.

Shortline railways provide critical first-mile, last-mile services that connect businesses and rural communities to Class 1 railways and global markets. One in five freight carloads originate on a shortline in Canada. About $7 billion worth of Ontario-made goods start on a shortline.

There are 13 RAC shortline member railways in Ontario including Agawa Canyon, Barrie-Collingwood, Essex Terminal, GIO Railways (3), Goderich-Exeter, Huron Central, Nipissing Central, Ontario Northland, Ontario Southland, Ottawa Valley, and Southern Ontario Railway.

Shortline railways play a crucial role in Canada's trade and supply chains, yet they face a growing competitiveness gap compared to their U.S. counterparts. In the United States, targeted tax incentives and infrastructure support—such as the 45G tax credit—help shortlines invest in track upgrades and efficiency improvements. Meanwhile, Ontario shortlines operate without similar federal or provincial support, limiting their ability to compete in North American and global markets. Without policy action, this disparity will continue to put Canadian businesses, exporters, and supply chains at a disadvantage.

Shortline revenues narrowly outpace expenses, with the average operating expense-to-revenue ratio for a shortline being approximately 90%. This high operating ratio limits the ability of shortline railways to allocate resources toward other expenditures, such as capital investments and capacity expansion. The immense challenges facing shortline railways and the corresponding lack of support in Canada are well documented, including in the 2015 Emerson Report.[5]

High fixed costs, aging infrastructure, commodity volatility, and policy imbalances with other jurisdictions and among other transport modes (e.g., competing with trucks operating on public roads), combined with the tax and expanding regulatory burden, are threatening the sustainability of shortline operations in Ontario and across the country.

One consequence of this lack of support is that groups that invest in shortlines, international transportation service companies, and infrastructure managers may direct greater investment to U.S. shortlines at the expense of Canadian ones. The federal tax regime, including depreciation rules and class rates, also makes it comparatively more attractive to invest in other modes of freight transportation, such as trucking, where infrastructure maintenance is borne by the taxpayer.[6]

Shortlines need a predictable government support mechanism to support local businesses, jobs, communities, and remain a viable alternative to trucking. Yet there is no dedicated funding or investment incentive for shortline railways at the federal or provincial level despite their outsized impacts. Multiple committees of the House of Commons have recommended bolstered support for shortline railways. This was the subject of a joint letter from various industry associations in 2020.[7]

5 Online: https://tc.canada.ca/sites/default/files/migrated/ctar_vol1_en.pdf
6 Online: https://www.railcan.ca/wp-content/uploads/2022/01/Railways-Taxation-the-COVID-19-Recovery-RAC-Tax-White-Paper.pdf
7 Online: https://www.railcan.ca/wp-content/uploads/2023/10/Supporting-Canadas-Shortline-Railways-03-12-20.pdf

We commend the Government of Ontario for its leadership in recognizing the critical role of shortline rail. The government's efforts in the 2024 Budget and the 2024 Fall Economic Statement (FES) underscore a strong commitment to ensuring Ontario's supply chains remain efficient, reliable, and globally competitive.

> **As stated in the Budget, "Ontario is committed to exploring ways to support shortline rail, which plays an integral role in providing safe and efficient transport of goods and people throughout the province." The FES reaffirms that "This will include engaging the federal government on the potential development of a tax credit and exploring tax credit transferability, or alternatively, considering another form of support."**

As the United States escalates protectionist policies and threatens new tariffs, Ontario cannot afford to fall behind. The U.S. is aggressively investing in shortline rail as a cornerstone of its trade and economic strategy, while Canada — without similar commitments — risks losing ground.

We appreciate ongoing collaboration with Ministers' offices and departments. Working together, now is the time for action. The U.S. is not waiting, and neither should we.

This proactive leadership is essential, especially given the current political uncertainty in Ottawa and the challenges in the broader trade environment. Moving forward independently does not preclude federal action; instead, it strengthens Ontario's position while paving the way for potential federal engagement or the adoption of a national credit. The government should quickly implement these proposals and strengthen shortline rail as the backbone of Ontario's safe, sustainable, efficient, and resilient supply chains.

Some Canadian (federal) programs accept shortline applications, but no dedicated funding mechanism or support currently exists. The overall level of shortline support in Canada (and notably in Ontario as a jurisdiction with no dedicated shortline support mechanism) is far below the level of U.S support.

A 2018 Review of U.S. Shortline Railway Funding conducted by the respected consultancy CPCS, found that shortline railways in the United States could access, or have previously accessed, 106 different programs at the federal and state levels.[8] 21 programs were at the federal level and 85 were at the state level.

Federal grants under the Consolidated Rail Infrastructure and Safety Improvements (CRISI) Program alone amount to approximately $20,000 CAD per mile of track per year for U.S. shortlines. In fiscal year 2022, half of the $1.4 billion in annual CRISI grants were awarded to shortlines. In the combined funding for fiscal year 2023 and 2024, the shortline industry garnered $1.29 billion (52%) of the total $2.5 billion in funding.[9] These figures do not include support provided through the permanent U.S. Track Maintenance Tax Credit ($3,500 USD per mile of track per year) or state-level support which can be significant.

Since the U.S. 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.[10] Safety benefits are also substantial. The marked increase in shortline purchases of rail ties following the introduction of the U.S. credit contributed to a 50% improvement in the safety of American shortlines (as measured by the Federal Railroad Administration's rate of train derailments). The credit became permanent in 2020 with bipartisan support in the U.S. Congress.

Ontario should model its own tax credit on the U.S. policy which provides a tax credit for investments in track and bridge improvements. At a per-mile value of $7,500 CAD ($4,660 per kilometre), this measure would equate to a maximum investment by the Ontario government of up to

8 Online: https://www.railcan.ca/wp-content/uploads/2023/10/7.US-Shortline-Funding-Final-Report_RAC.pdf
9 Online: https://www.aslrra.org/policy/federal-short-line-grant-funding/crisi/
10 Online: 2018 Final Report

approximately $15 million per year (if the credit is fully utilized). This per-mile amount considers the USD-CAD conversion and recent high levels of inflation.[11]

At 50%, the credit and per-mile cap are set at a level that will enable Ontario railways to catch up to other jurisdictions (including Quebec and Saskatchewan) that have enjoyed financial support for years, ensure Ontario shortlines' financial viability, enhance both safety and network capacity, better allow seamless operational integration with Class 1 railways, and deliver significant benefits to Ontario's supply chains and economy.[12,13] Track maintenance includes, for example: track, rail ties, bridges, crossings, tunnels, ballast, and culverts.

As Ontario looks to develop the Ring of Fire, a Shortline Railway Track Maintenance Tax Credit could support the economics of developing a sustainable rail link to the area. Some shortlines, especially those in Southwestern Ontario, need major infrastructure upgrades to accommodate anticipated EV customer demand growth.

Strengthened shortline infrastructure would contribute to regional economic development, improve supply chain fluidity, and enhance safety while lowering emissions and reducing the strain on public infrastructure. Therefore, the Ontario government should create a Railway Track Maintenance Tax Credit in Budget 2025.

Recommendation:
Create a permanent Railway Track Maintenance Tax Credit (comparable to U.S. Section 45G).

11 The U.S. credit was set at $3,500 USD per mile in 2005. However, current Bills S. 5008 and H.R. 9522 in the U.S. Congress aim to increase the annual limit on the tax credit for qualified railroad track maintenance expenses.

12 Online: https://www.saskatchewan.ca/government/news-and-media/2023/june/08/government-grants-lead-to-railway-improvements-for-saskatchewan-short-lines

13 Online: https://www.transports.gouv.qc.ca/fr/aide-finan/programmes-aide/programme-transport-ferroviaire/Pages/psitfim.aspx#:~:text=Ultimement%2C%20le%20%20%20programme%20a%20pour,jusqu%E2%80%99au%2031%20mars%202023

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Recommendation 2: Augment Operational and Capital Support for Passenger Railways.

Passenger railways connect communities and provide unique tourism experiences, showcasing Ontario. They move millions of passengers safely and sustainably every year, and employ over 5,000 Canadians, supporting thousands more jobs in regional economies. Seven RAC members offer passenger rail services in Ontario.

The COVID-19 pandemic had a drastic impact on passenger rail ridership. While ridership levels are improving on balance, they remain below 2019 levels and huge financial challenges remain. The commuter segment has been particularly hard hit.

The Ontario government has been a strong partner to the rail industry, especially through its significant investments in passenger rail. RAC applauds Ontario's investments to restore Northlander passenger service between Toronto and Timmins as one example, and the government's nearly $70 billion historic investments in Metrolinx projects (e.g., Lakeshore East Line extension, GO Transit electrification). The support for Huron Central Railway, which links Sudbury and Sault Ste-Marie, is also to be commended.

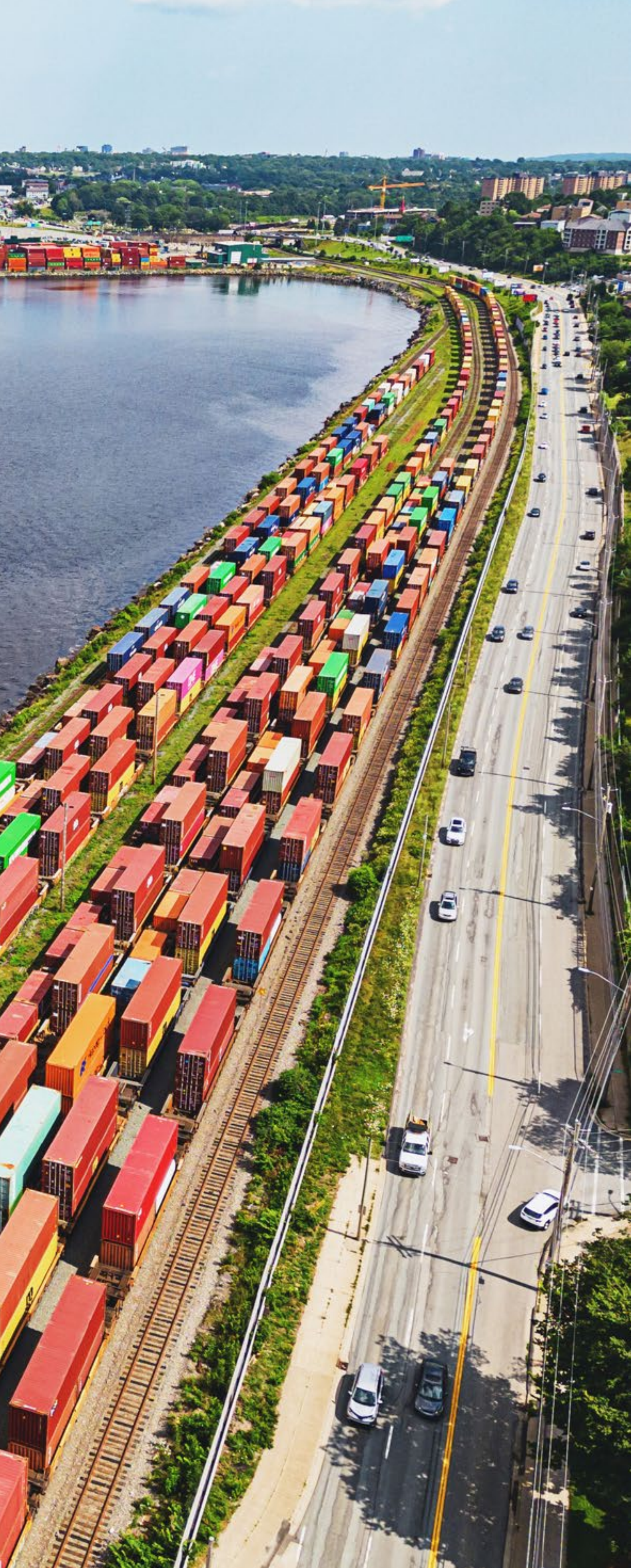
It is critical that the Ontario government continue to support passenger railways in their ongoing recovery by bolstering operational and capital support. This should include unlocking funds to further enhance rail safety for all types of railways.

RAC also welcomes the announcement of federal government funding for the largest fleet renewal in VIA Rail's history, which includes the replacement of the Long Distance, Regional, and Remote (LDRR) fleet. This investment, supported by the launch of the Canada Public Transit Fund, is a critical step in expanding passenger rail and improving accessibility across Canada.

The replacement of the aging LDRR fleet, which serves the Toronto-Northern Ontario and Sudbury-White River segments, is critical to maintain essential services, supporting Ontario's tourism ambitions, and providing a fully accessible travel experience. With some cars reaching 65 years or older and requiring retirement by 2032, this renewal ensures that these services can continue without disruption and align with Ontario's broader economic and tourism goals.

A fundamental principle in the contemplation of passenger rail or any other relevant project is the need to fully protect the current and future freight capacity required to move Ontario's economy. Separate, dedicated rail lines, for passenger and freight, are necessary. If we are serious about our ambition to build dedicated tracks in the Toronto-Quebec City Corridor, we must also be serious about funding it appropriately.

The Ontario government must work with the federal government, municipalities, and all stakeholders to further improve coordination of passenger services in Ontario. Different modes of transportation must be viewed together at a systems level rather than different, competing modes. Better coordinated planning for multi-modal integration will enhance passenger access, reliability, and the tourist experience.



The Railway Association of Canada (RAC) appreciates the Ontario government's encouragement of federal counterparts to take action on this critical issue. We look forward to continued collaboration with all stakeholders to ensure the successful and timely implementation of this important fleet renewal.

Recommendations: Ontario should enhance support for passenger railways by:

- **Collaborating with the federal government to accelerate fleet renewal by replacing the aging Long Distance, Regional, and Remote (LDRR) fleet serving Northern Ontario to maintain essential services and support tourism.**

- **Prioritizing dedicated rail infrastructure by ensuring separate passenger and freight rail lines in key corridors, such as the Toronto-Quebec City Corridor, to protect and expand Ontario's rail capacity.**

- **Enhancing multi-modal integration by improving coordination between passenger rail, municipal transit, and other transportation modes to boost reliability, accessibility, and connectivity for travelers.**

- **Strengthening collaboration with the federal government and municipalities to accelerate strategic investments in passenger rail infrastructure and services that align with Ontario's long-term economic and transportation goals.**

Recommendation 3: Formally Request That the Federal Government's Damaging Extended Interswitching Policy Permanently Sunset.

Extended regulated interswitching drives unionized jobs and investment to the United States.

The federal government's extended interswitching pilot project, introduced in Budget 2023, will expire (or sunset) on March 20, 2025 after failing for a second time. The Ontario government should formally request that this expiration be permanent. At a time when Canada is facing a major economic threat from potential U.S. tariffs, it is unfathomable that any federal government would continue a policy that favours American companies and workers while putting Canadian jobs at risk.[14]

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 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 recommend the federal government "abandon any plans, both current and future, to expand interswitching distances in Canada."[15] Unifor similarly warns "extending the interswitching limit has opened up the Canadian rail service to unbalanced competition with U.S.-based companies."[16]

The process that led to this second pilot project 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."[17]

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 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:
The Ontario government should stand up for Canadian railroaders and supply chains by formally advocating for the federal government to permanently sunset extended interswitching.

14 Online: https://www.nationalnewswatch.com/2023/06/13/why-is-the-government-choosing-team-usa-on-interswitching/
15 Online: Teamsters Canada Submission to the 2024 Treasury Board Supply Chain Regulatory Review.
16 Online: Unifor Submission to the House of Commons Standing Committee on Finance on the 2024 Federal Budget.
17 Online: https://www.ourcommons.ca/DocumentViewer/en/42-1/tran/meeting-67/evidence

Recommendation 4: Require That RAC-FCM Proximity Standards be Adhered to by Land-Use Planning Authorities Under Ontario's *Planning Act*.

Since the passage of Bill 23 (More Homes Built Faster Act, 2022), many municipalities have begun rezoning or are seeking to designate land near railways for the purpose of building housing.

Canada's railways recognize the urgent need for more housing in the province and across the country. In fact, a lack of appropriate housing options has been cited as a barrier to hiring for railways in Canada. However, the push for more housing requires tools to ensure projects do not compromise safety or disrupt supply chains due to real proximity issues.

This is why, in partnership with the Federation of Canadian Municipalities (FCM), RAC developed the RAC-FCM Proximity Guidelines (Guidelines) to ensure the safety and livability of residents and businesses situated near a rail line. The Guidelines were created to address proximity issues during the planning stages of development by providing a comprehensive suite of mitigation options for developers to follow. Proactive planning and consultation with railways has led to the reduction of proximity issues, enhanced safety, and better livability for residents.

Over 160 municipalities across Canada (63 in Ontario) are referencing the Proximity Guidelines in their development processes. The feedback has been that:

1. Safety outcomes are proactively addressed.
2. Resident livability is improved.
3. Developments are more compatible and sustainable with existing railway operations.

The Guidelines provide a suite of mitigation options such as recommended setback distances, noise and vibration studies, installation of fencing, and building design, among others. Adhering to the Guidelines means properly considering safety measures, livability for residents, and supporting the sustainable growth of transportation systems throughout Ontario, while accommodating for population growth and housing needs.

While many municipalities in Ontario are aware of the Proximity Guidelines, there is no requirement to follow them which leads to inconsistent development near rail. RAC and its members appreciate the regulations under Ontario's *Planning Act* that require notifying railways of land use changes and providing opportunities to comment to land planning authorities. However, greater adherence to the Guidelines is needed to ensure safe and consistent development across the province. This may be achieved through a more stringent regulatory requirement for land planning authorities to address rail proximity issues during the planning stages.

A key example of a more stringent regulatory requirement that the Government of Ontario may derive inspiration from is found in the province of Québec. Recently, the Government of Québec introduced new regulations addressing rail proximity issues.

The regulations prohibit new sensitive uses within 1,000 meters of railway sorting activities (railway yards) and 300 meters of railway tracks. New sensitive use developments must ensure an exterior noise level not exceeding 55 dBA at ground level, and an interior noise level for all floors not exceeding 40 dBA (from 7am to 7pm) and 35 dBA (from 7pm to 7am). Vibration levels must be lower than 0.14 mm/s RMS at frequencies between 4 and 200 Hz for

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sensitive uses located at a maximum distance of 75 meters from railway track boundaries.[18]

By creating these requirements at a provincial level, all planning authorities must comply with the requirements during the planning stages of development which supports a proactive, standardized, and safe planning process before construction begins.

Recommendation 1: The Government of Ontario should endorse the Proximity Guidelines through a formal statement of endorsement. An endorsement through a joint statement from the Minister of Transportation and Minister of Municipal Affairs and Housing would provide clear direction to municipalities, developers, and others that these best practices must be followed.

Recommendation 2: RAC urges the Ontario government to require, through regulations under the *Planning Act*, that all developments near railways demonstrate how the developer will mitigate rail proximity issues. This should be a condition of approval established by the province for all municipalities.

Canada's railways would be pleased to work with the Ontario government to prudently enact these recommendations. Doing so will help ensure railways can continue to deliver safely while proximity issues are avoided at the front end of land use planning processes.

18 Online: https://cdn-contenu.quebec.ca/cdn-contenu/adm/min/affaires-municipales/publications/amenagement_territoire/orientations_gouvernementales/BRO_ogat_cadre_normatif_bruits_risques_associes.pdf

About RAC

RAC represents close to 60 railway companies and more than 60 associate members (suppliers, consultants, etc.). Our member railways bring millions of people and $380 billion worth of goods across Canada and to global markets each year. RAC advocates on behalf of members and associate members to ensure that the rail sector remains globally competitive, sustainable, and most importantly, safe.

CONTACT

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