39. Advancing Canadian Competitiveness Using Shortline Rail

Issue

The timely movement of goods and economic competitiveness of Canada is being challenged by the under utilization of an important infrastructure asset – shortline rail. Creating programs that encourage development and investment in this infrastructure asset will improve Canadian competitiveness and further regional economic development across the country.

Background

For many communities, the arrival of rail infrastructure in the late 1800's and early 1900's opened up economic potential where there were previously limited opportunities. Strategic investment in the shortline railways of today could have the same impact. Canada currently has 53 short line railways. These railways are critical links in the country's transportation system with one in five car loads originating on Canadian railways originating on a short line[1]. Operators of short line rail contribute 7 percent of the rail sector revenue and support 3,000 direct jobs[2].

According to Transport Canada, shortline railways are a fundamental component of the country's rail network, feeding and delivering traffic to and from mainline railways, originating more than 20% of all CN and CPR's freight carload traffic, and moving billions of tonne-kilometres back and forth from Class I railways[3].

The Railway Association of Canada (RAC) in its submission to the Canada Transportation Act Review goes on to identify supply chain connectivity, employment, regional economic competitiveness, and reduction of negative externalities associated with road transport, including emissions, road wear and congestion as further reasons for shortline investment. The document also puts forward recommendations for access to capital funding and a tax credit program.

The main challenge for short line rail companies is access to capital funding. On average about 12 percent of revenue generated by these companies is reinvested in capital expenditure projects. Companies running Class 1 railways, by comparison, invest approximately 20 percent of their revenues in capital projects[4]. Programs that encourage and allow for more capital investment in short line rail will improve the infrastructure needed to get Canadian goods to regional and international markets.

One example from Ontario is a 100-mile section of track where the classification is short line Class 1 Slow 10 mph. For a freight train to travel that length of track it takes 12 hours and this is happening 3 times a week. The freight consumers on this track have indicated that they would be willing to take advantage of an upgraded railway.

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[1] Roy and Ludlow. (2015). CPCS for Railway Association of Canada. *Review of Canadian Short Line Funding Needs and Opportunities*. Retrieved April 11, 2016 from http://www.railcan.ca/assets/images/CTA_Review/Submission_2/Appendix_E_-_Canadian_Shortline_Rail_Funding_Needs_and_Opportunties.pdf

[2] Ibid.

[3] Transport Canada. (2012). Transportation in Canada 2011: Rail Transportation. Retrieved April 11, 2016 from https://www.tc.gc.ca/eng/policy/anre-menu-3020.htm

[4] Roy and Ludlow. (2015). CPCS for Railway Association of Canada. *Review of Canadian Short Line Funding Needs and Opportunities*. Retrieved April 11, 2016 from http://www.railcan.ca/assets/images/CTA_Review/Submission_2/Appendix_E_-_Canadian_Shortline_Rail_Funding_Needs_and_Opportunties.pdf

Canada's response to the needs of shortline railways also falls behind the number of national and state programs that are available in the US. The US government has extended the Railroad Track Maintenance Credit through to the end of 2016 based on the importance of the shortline railways to the overall railway system. The credit provides a 50-percent business tax credit for qualified railroad track maintenance expenditures paid or incurred by an eligible taxpayer[5].

Increased capital investments in shortline rail infrastructure also have the potential to increase safety and lessen environmental impact.

In the RAC submission to the Canada Transportation Act, a short line representative says "The lack of investment opportunity translates into lost revenues for short lines and the customers they serve. If the resources were there, they could grow their business."

The Canadian Chamber of Commerce Top 10 Barriers to Competitiveness in 2016 calls on the government to support infrastructure that will allow Canadians to trade with the world. This infrastructure support needs to include short line rail, which Transport Canada also views as a key component to regional economic development[6].

Recommendations

That the federal government:

1. Create a dedicated shortline capital funding program that is accessible to all shortline companies.
2. Establish a tax credit program to assist shortline rail companies in making capital investments.

[5] Senate Report 114-118 – Tax Relief Extension Act of 2015 Retrieved April 11, 2016 http://thomas.loc.gov/cgi-bin/cpquery/?&dbname=cp114&sid=cp114FvIxq&refer=&r_n=sr118.114&item=&&&sel=TOC_107084&

[6] Retrieved April 11, 2016 http://www.railcan.ca/rac/about