



Railway Association
of Canada

PEOPLE. GOODS. CANADA MOVES BY RAIL.

The Critical Role of Shortline Railways in Canadian
Supply Chains, MITL, January 2024

Jonathan Thibault, Manager, Economics, Data & Research



Agenda

- About the Railway Association of Canada
- The Critical Role of Shortline Railways in Canadian Supply Chains
 - Overview
 - Benefits and Challenges
 - Case Studies
 - Advocacy



About RAC



We're the voice of Canada's railway industry



Representing close to 60
freight and passenger
railways



With 60 industrial railways
and rail supply company
members



Millions of passengers
annually



Approx. \$380 billion worth
of goods annually



RAC Members



...and many more.



Canada's Rail Network

5th largest network in the world

12% larger than highway system

Both Canadian Class I railways operate large U.S. networks



Impact of Canada's Railways



Infrastructure

42,550

kilometers of freight
track operated



Taxes

\$2.2B

paid in taxes in
2022



Employees

188,000

jobs supported
by rail¹



Freight

5.6M

carloads originated



Investment

\$2.4B

in private capital
investment in 2022

Source: Rail Trends Database | 1 Conference Board of Canada and RAC



RAC Services (not exhaustive)

- Training & Events
- Advocacy
- Research
- Regulatory Affairs
- Canadian Rail Atlas
- Radio Spectrum and Telecommunications
- Proximity Initiative
- Safety Culture Improvement Initiative
- Operation Lifesaver
- Mechanical (car loading) services
- Dangerous Goods (training, guidance, inspections)
- Transportation Community Awareness Emergency Response (TRANSCAER®)



The Critical Role of Shortline Railways in Canadian Supply Chains

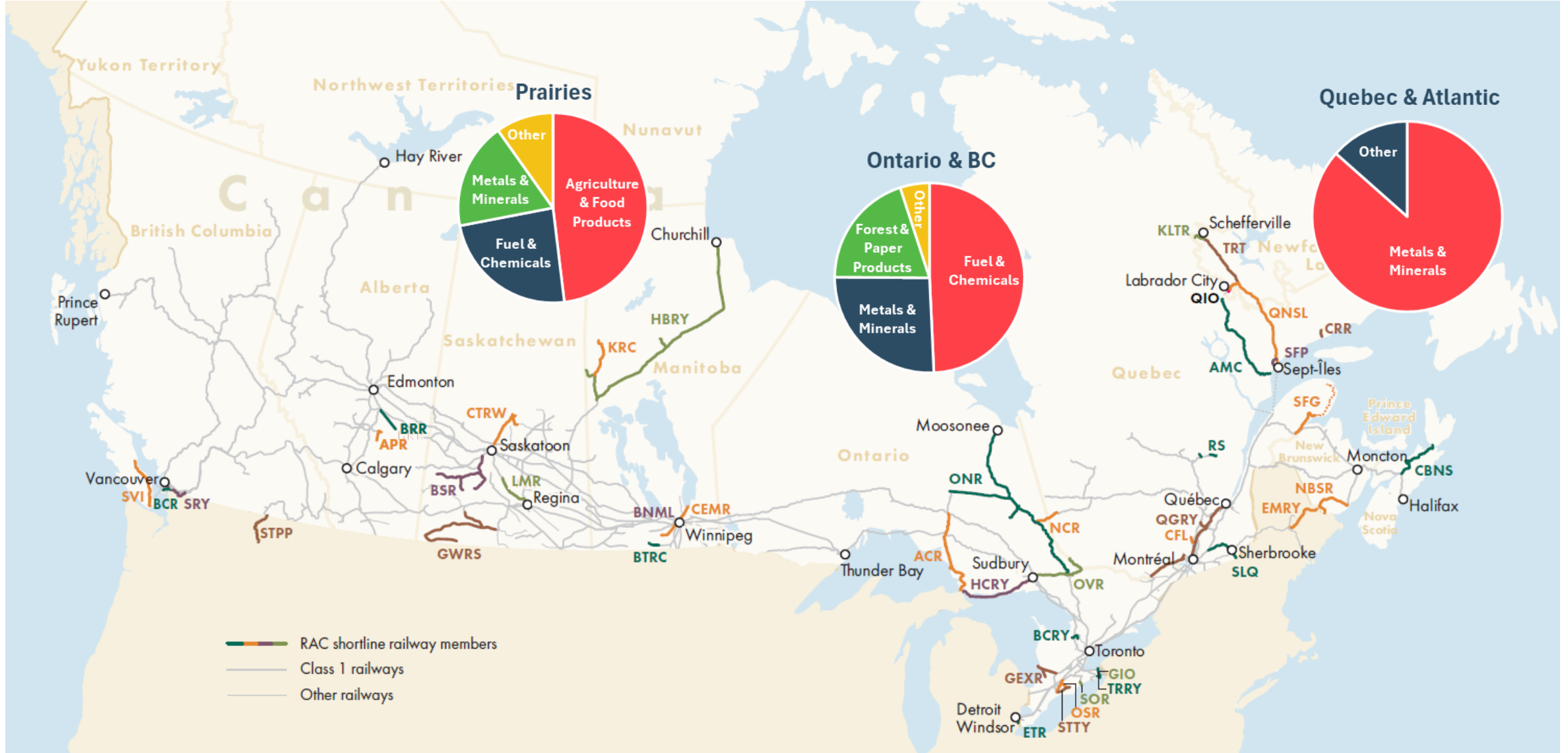


Shortline Sector Overview

- <\$250M in annual revenues
- Significant growth in the number of shortline railways since the 1990s
- ~40 shortline railways across 9 provinces in RAC membership
- The median shortline railway employs 41 people, operates 85 miles of track, and originates 9,200 carloads per year



Shortline Sector Overview – Network & Portfolio



Shortline Sector Overview - Economic Impact



1.2 M

carloads originated on shortlines in Canada



8,700 km

of track operated by shortlines



Approx. \$100,000

national average salary of the 3,600 shortline rail employees



\$136 M

in private capital investment in 2022



\$45 B

of goods originate on shortlines in Canada



Shortline Sector Benefits

Economic & Employment

- \$44.5 billion of goods to market
- Good jobs, including in rural & remote communities
- Cost savings for shippers and local governments

Supply Chain Efficiency

- Handle first/last mile traffic, transloading, switching, and car storage services – reducing highway congestion and supporting the fluidity of the mainline rail network

Environmental

- Drive traffic to the rail network, 3-4x fewer GHGs than trucks
- One train can replace 300 trucks; shifting 10% of truck traffic to rail would eliminate 4 Mt of GHGs.

Community

- Serve Indigenous communities; farmers (co-operatives); provides an essential transportation link; procure local services; conduct safety initiatives; employee training & development; support charitable causes, etc.

Shortlines are a critical component of efficient supply chains and provide numerous benefits.



Shortline Sector Challenges

Shortline Origins/Infrastructure

- Created (in many cases) from Class 1 divestment of less profitable lines
- Routes with lower traffic volumes
- Track condition supports lower speeds and lower weight capacity (263,000lb vs 286,000lb standard)
- Track maintenance is very expensive so operators may need to light-load, reducing supply chain efficiency

Financial

- Average operating ratio ~90% compared to ~60% for Class 1s
- Earn ~6% of freight revenues yet maintain and operate 19% of total track miles
- Escalating costs: wage growth; carbon taxes; regulatory requirements (Grade Crossing Regulations, SMS, LVVR, minimum liability requirements); and municipal fees and property taxes

Lack of government support

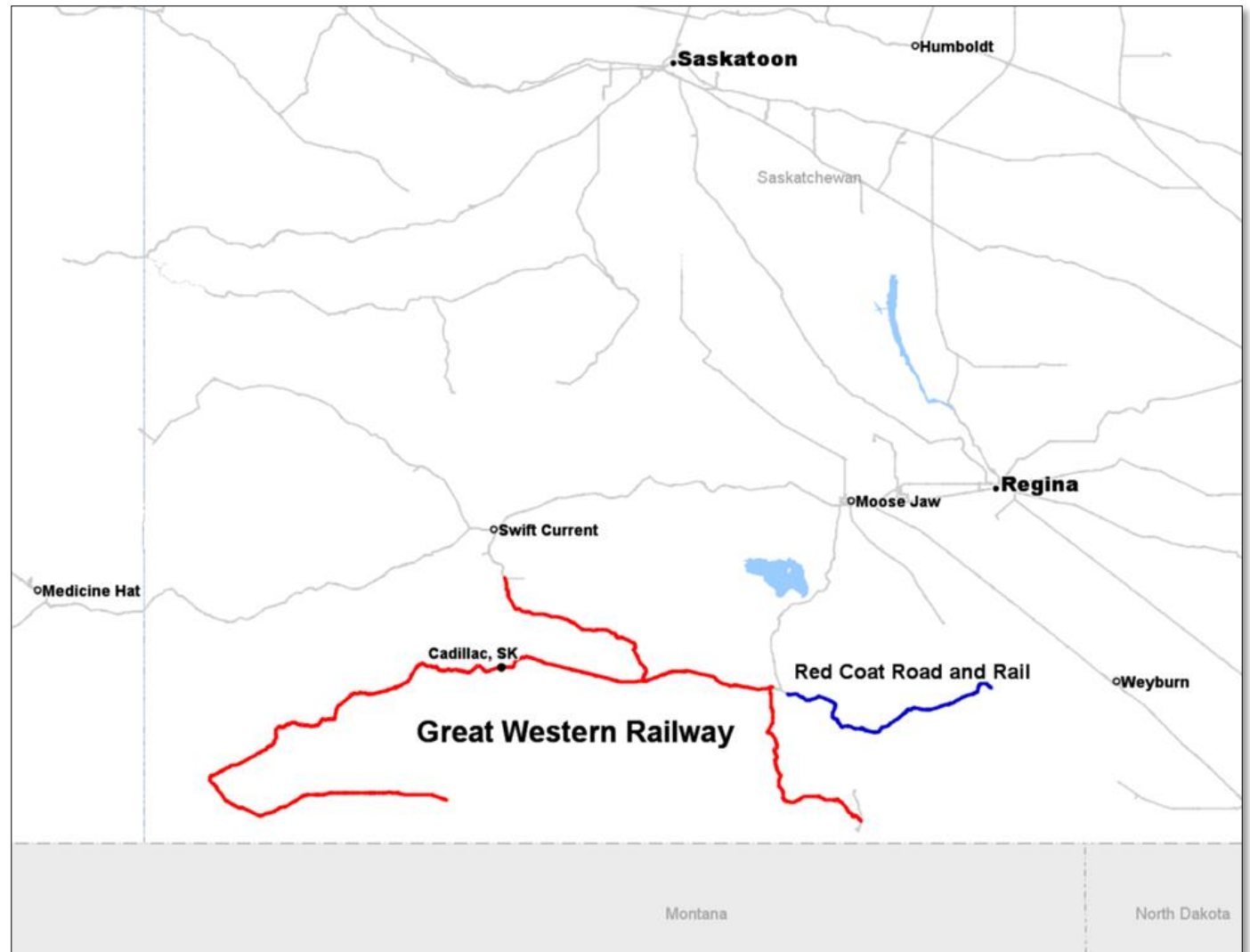
- Compete against trucking sector operating on public infrastructure
- No dedicated federal program, very few provincial supports
- U.S. shortlines access multiple federal and state-level funding programs, including grants, tax credits, and low-interest loans

Shortlines are challenged by financial constraints, an unlevel playing field, and lack of support.



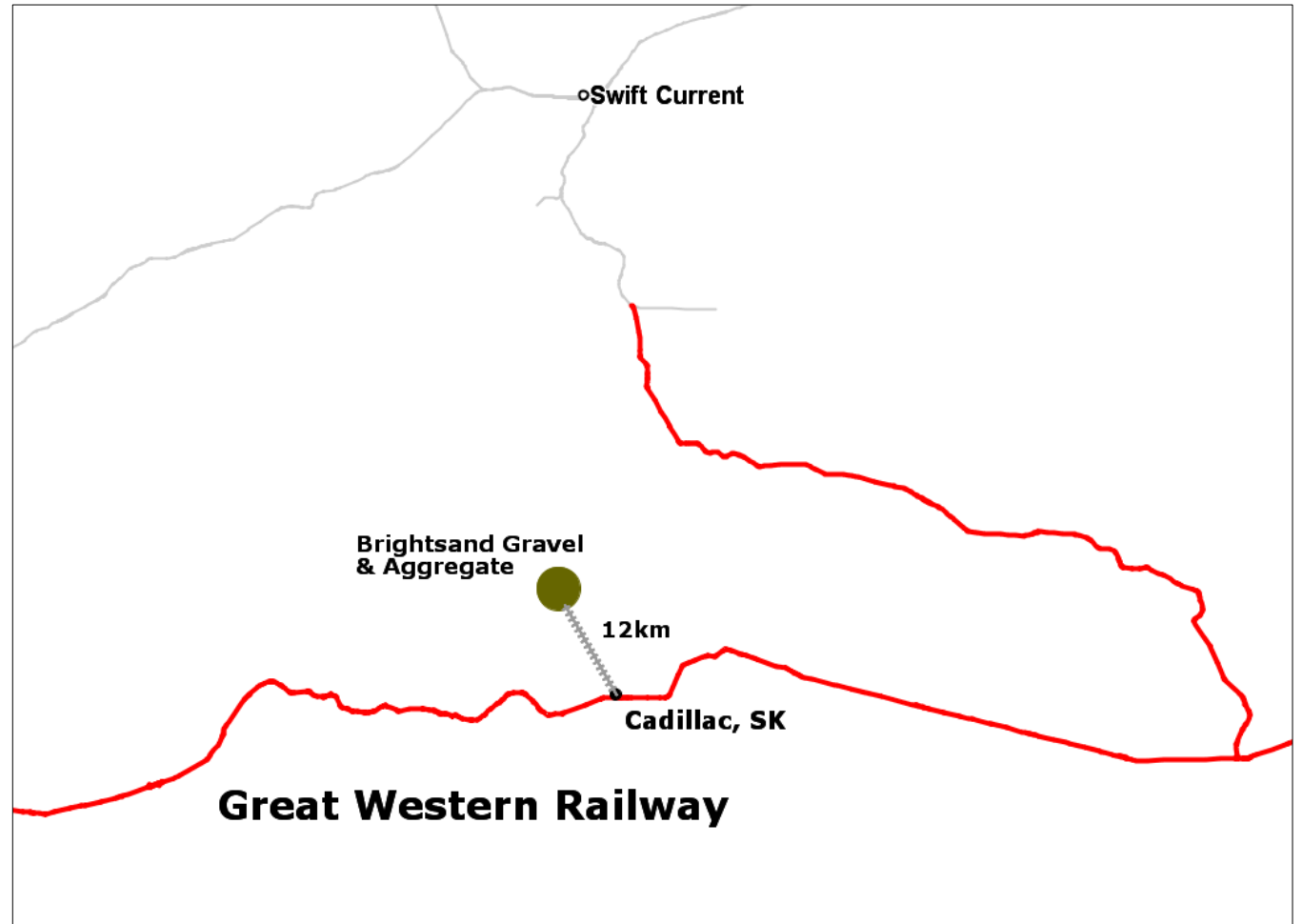
Shortline Spotlight on Great Western Railway (GWRS)

- Serving customers for over 20 years
- ~450 miles of track
- Commodities: agricultural products, fertilizer, energy commodities, and sand
- Additional services: mechanical services, fleet management, and storage services



Case Study #1 – Brightsand Gravel and Aggregate (BGA)

- Gravel and aggregate is a key resource to support infrastructure projects
- BGA has approx. 15 million metric tonnes or ~170,000 rail carloads
- Current freight activity is approx. 125,000 tonnes shipped by truck per year
- Lack of investment support prevented GWRS growth to service BGA



Case Study #1 – Brightsand Gravel and Aggregate

Great Western Railway, Saskatchewan



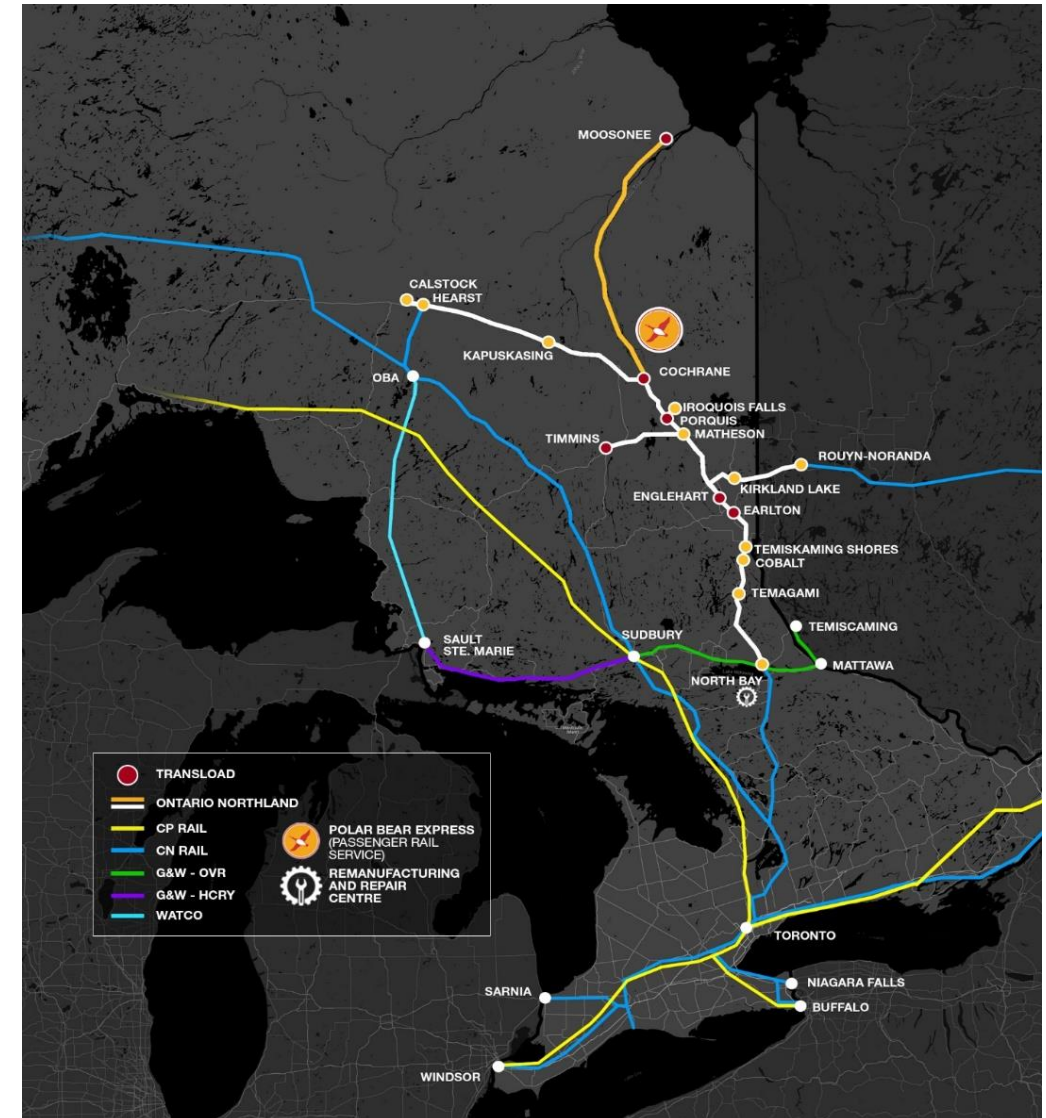
Table 2. Summary of Benefits – Case Study #1

Investment (required)	Estimated \$14 million for track build.
Brought to market	15 million metric tonnes
Environmental	Saving approx. 393 kt of CO ₂ e over the duration of rail operations ^{xvii}
Shipper's cost savings	Approx. \$60 million
Public's cost savings	Prevention of wear and tear from 510,000 trucks on public roads
Jobs created	550 employment years at railway; 300 employment years to shipper.
Jobs supported	Approx. 3,000 employment years in total (includes rail, shipper, and other indirect and induced jobs) ^{xviii}



Shortline Spotlight on Ontario Northland Transportation Commission (ONTC)

- Agency of the Government of Ontario
- 700-mile network spanning Northern Ontario
- Over 700 employees
- Offers freight rail, passenger rail, motor coach, bus parcel shipping, and refurbishment services
- Commodities: agriculture products, lumber, automotive, propane, household goods, groceries, and more



Case Study #2 – Lumber Transload Expansion

- Lumber supplier in Béarn, QC had no direct access to rail
- ONTC invested \$60,000 to increase ground space and railcar spots
- Approx. 350 railcars are shipped annually, each hauling 100 tons of lumber an average distance of 1,850 km to final destinations through connections with other railways
- Contract between shipper and ONTC was renewed with plans to continuing expanding capacity



Case Study #2 – Lumber Transload Expansion in Englehart, Ontario

Ontario Northland Transportation Commission



Table 3. Summary of Benefits - Case Study #2

Investment	\$60,000
Brought to market	35,000 tons of lumber, annually
Environmental	Saving approx. 3.4 kt CO ₂ e, annually ^{xxii}
Shipper's cost savings	\$350,000 per year
Public's cost savings	Wear and tear of 700 truck trips, annually
Jobs created	2
Jobs supported	Approximately 9 ^{xxiii}



Shortline Spotlight on Société ferroviaire et portuaire de Pointe-Noire (SFPPN)

- Located along the Quebec North Shore on the St. Laurent River
- SFPPN is a partnership with the Quebec government and a consortium of companies
- Operates 34 km of track (286,000 lbs capacity)
- 240 employees



Case Study #3 – Resources Development in Northern Quebec & Labrador

- \$300M invested over three years into SFPPN's rail and port assets to facilitate growth of the resources industry in Northern Québec & Labrador
- Increased commodity handling capacity from 6 MMT in 2018 to 21 MMT in 2023
- Accommodate Capesize and China Max vessels
- Socioeconomic development:
 - Procurement policy to support Innu entrepreneurs
 - Steering committee to focus on procurement, hiring, training, and community investment.



Case Study #3 – Resources Development in Northern Quebec & Labrador

Société ferroviaire et portuaire de Pointe-Noire (SFPPN), Québec



Table 5. Summary of Benefits - Case Study #4

Investment	More than \$300M
Brought to market	<ul style="list-style-type: none"> • Increase from 6 MMT of minerals in 2018, to 11.2 MMT in 2021, and capacity for 21 MMT in 2023. • \$3.9B CAD brought to export markets in 2021
Environmental	<ul style="list-style-type: none"> • Highest standards in red water management; comply with the latest environmental laws; resilient to 1 in 100-year climate events • GHG savings not available because alternative modes do not provide a viable <u>option</u>; rail is essential to the mining operation
Shipper's cost savings	Approximately 30%
Jobs created	80-100 (temporary) + 40 (permanent)
Jobs supported	Approx. 178 (permanent) ^{xxvii}



Shortline Sector Case Studies

- Case studies highlight shortline railways' various roles in their regions
- Shortlines provide critical services that enhance supply chain efficiency, reduce GHG emissions, and support their local communities and regional economic development
- Growth and opportunity is limited by financial constraints and lack of government support

What is the solution?



Shortline Sector Advocacy: A Simple Solution

RAC is advocating for the introduction of a *Railway Track Maintenance Tax Credit*

- A predictable funding mechanism that is easy to administer, transparent, and provides certainty for shortlines so they can remain a viable alternative to trucking
- 50% transferable credit capped at \$7,500 CAD per track mile

The Track Maintenance Tax Credit is a proven solution in the U.S.

- Federal: \$3,500 USD or ~\$4,700 CAD per track mile, introduced in 2005, and became permanent in 2020 with bi-partisan support
- 10 States: \$3,000 to \$5,000 USD per track mile, averaging \$4,110 USD or ~\$5,500 CAD
- Documented safety benefit: 50% reduction in train derailments since 2005
- Investment impact: Credit reduces user cost of capital by 63% and is associated with a 47% increase in investment. Driven over \$5B in private investment
- Other U.S. supports: In the most recent year, grants under the Consolidated Rail Infrastructure and Safety Improvements (CRISI) Program amounted to ~\$20,000 CAD per track mile for U.S. shortlines



Links

- PwC, [The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry](#)
- CPCS, [Review of US Shortline Railway Funding](#)
- RAC, [The Critical Role of Shortline Railways in Canadian Supply Chains](#)
- RAC, [Railways, Taxation and the COVID-19 Recovery](#)



Thank you - Merci

Comments or questions can be directed to:

Jonathan Thibault

Manager, Economics, Data & Research

JThibault@railcan.ca

Railway Association of Canada

99 Bank Street, Suite 901

Ottawa, ON K1P 6B9

(613) 564-8090

www.railcan.ca