Investing in Shortline Railways Means Investing in Green Infrastructure

Michael Bourque

Shortline railways are the "special teams" of Canada's freight rail supply chain. But despite their economic importance, these smaller operators face challenges that threaten their viability. As Railway Association of Canada President Michael Bourque explains, investing in shortline railway infrastructure would put our country on track for sustainable prosperity.

In August 2015, the Liberal party vowed to grow Canada's economy by making historic investments in infrastructure. Announcing his party's plans at a campaign stop in Oakville, Ontario, party leader Justin Trudeau said, "Canada's economic growth was made possible by building ambitiously. We must do so again if we are to transform our transit and transportation systems, create more liveable communities, and ensure that we adapt to a changing climate."

Now backed by a strong majority government, the Liberals are well-placed to act on this pledge, which would dedicate funding for green infrastructure and prioritize investments in transportation, among other areas.

From the railway industry's perspective, this is the perfect opportunity for Canada to invest in its shortline rail infrastructure. In doing so, the government would strengthen its ability to meet its goals related to economic growth, transportation and climate change.

How the government will direct future investments remains to be seen. Canada's primary infrastructure funding envelope, the New Building Canada Plan, and its predecessor, the Building Canada Plan, has generally focused on provincially or municipally-owned infrastructure. Investments have typically supported road and highway construction, and the development of other public infrastructure such as transit, wastewater facilities and hockey arenas. To date, the government hasn't made significant investments in the infrastructure of growth-generating industries, including the shortline railway sector.

Canada's shortline railway industry consists of more than 50 operators and plays an essential role in supporting our country's economy. These railways are the "special teams" of the freight rail supply chain, providing important first-mile and last-mile transportation for thousands of shippers. In fact, nearly 20 per cent of all railway traffic in Canada begins on a shortline railway.

Moreover, Canada's Class 1 freight railways, CN and CP, depend on shortlines to move more than 115 million tonnes of freight to and from their continental networks each year.

If it weren't for shortline railways, many industries operating in remote communities would not have access to a safe, efficient and low-cost transportation option to move their products to market.

Despite their economic importance, shortline railways face challenges that threaten their sustainability and ability to serve their customers in sectors such as mining, forestry, agriculture and manufacturing.

First, shortline railways compete directly with a subsidized trucking sector. While trucks benefit from publically subsidized roads and highways, shortline railways build, maintain and replace their own infrastructure. This disparity creates an uneven playing field for the two sectors and limits shippers' ability to move their products by rail. In Ontario, for example, nearly half of the province's $3.8 billion transportation infrastructure budget is spent on roads, while less than four per cent is allocated to freight rail.

Second, the costs of operating a shortline railway in the post-Lac-Mégantic era are increasing. New regulatory measures require railways to carry minimum third-party liability insurance coverage, resulting in increased premiums. In addition, the new federal *Grade Crossings Regulations* require railways to improve level crossings across their networks. These upgrades will cost tens of thousands of dollars, and shortlines will struggle to qualify for funding from the federal Grade Crossing Improvement Program.

Shortlines can't simply pass these costs on to their customers. These operators find it challenging to generate the capital they need to improve their capacity and expand their networks. Shortlines typically maintain an operating ratio—a measure of operating

Short line railways are essential to small and remote communities moving their products to market. Shutterstock photo

expenses as a percentage of operating revenue—in the 90th percentile. As a result, they are limited in their ability to invest back into their networks, especially when compared to their Class 1 peers. CN and CP reinvest approximately 20 per cent of their revenues into their infrastructure each year. By comparison, shortlines' capital investments are about 12 per cent annually.

Shortlines are also rarely able to acquire loans from banks by borrowing against their assets (such as track and land), which further underscores the need for alternative funding sources to support their viability. Historically, however, there have been very few government funding programs available to shortline railways in Canada.

Despite their eligibility under Canada's infrastructure funding programs past and present, shortline projects rarely receive government support. In fact, between 2007 and 2012, shortlines received just 0.07 per cent of available funding under the Building Canada Plan, and to date no money has been allocated to a shortline under the New Building Canada Fund. Only the Government of Saskatchewan has a small, grant-based program in place specifically for shortline railways.

There are numerous benefits to investing in shortline rail, several of which support the government's objectives to make Canada a climate change leader and to reduce greenhouse gas (GHG) emissions to 30 per cent below 2005 levels by 2030.

With dedicated programs and management strategies to improve fuel efficiency and reduce emissions—including a memorandum of understanding with the federal government that has been in place since 1995—rail is an extremely green mode of transportation. In Canada, railways can move one tonne of goods more than 200 kilometres on a single litre of fuel, and produce three times fewer emissions than trucks. In addition, a single freight train can remove some 300 trucks from Canada's congested network of highways and roads.

Investment in shortline rail infrastructure will also encourage shippers to choose the safest mode of transportation. Between 2004 and 2014, the shortline sector's accident rate—accidents in relation to workload—fell by 86 per cent, even as these railways transported 72 per cent more goods. Currently, Canada's shortlines have fewer than two accidents per billion gross ton-miles.

The current economic climate, and the federal government's commitment to supporting infrastructure development, underscores the need to invest in freight rail.

Canada should look to the United States for inspiration. In the U.S., shortlines have access to multiple federal and state-level initiatives including grants, low-cost lending programs and tax credits. In many cases, funding comes from a dedicated shortline initiative, highlighting that U.S. governments recognize the sector's unique characteristics and its economic significance. More than half of U.S. states have an assistance program in place for shortline railways.

Canada should follow this lead and introduce a financial support plan for shortline railways. A dedicated funding envelope of $300 million over seven years—accessible through a tax credit mechanism—would stimulate infrastructure improvements, highlight the sector's willingness to invest, and match the government's contribution through a unique public-private partnership.

This funding would inevitably help shortlines to invest in their infrastructure and meet new regulatory requirements, and thus accommodate heavier traffic, improve efficiency and attract new customers. In doing so, the federal government would once again build with ambition, and support a transportation system that enables economic competitiveness, improves safety and reduces emissions. P

Michael Bourque is President and CEO of the Railway Association of Canada. mbourque@railcan.ca