

# Executive Summary

Southwestern Ontario's freight railways are vital components of the region's multi-modal transportation system. However, based on evolutionary changes now occurring in other jurisdictions with which this region competes – particularly the U.S. – this system is not living up to its full potential. This jeopardizes the economic and environmental competitiveness of Southwestern Ontario vis-à-vis these competing regions.

The main drivers of this international push for increased rail freight usage are its high cost efficiency, its ability to handle increased tonnage by expanding the existing infrastructure and its low environmental footprint.

As the next evolution of the rail industry occurs, Oxford County and its partners can stimulate changes that will maximize rail's role to their benefit, particularly through strategies now being applied in the U.S. However, this will be an end to the laissez-faire approach now taken by the federal and provincial governments concerning rail freight policy, planning and funding.

## 1.0 The Evolving Railway

Canada's Class I railways, CN and CP, and the "first and last mile" short line feeders, have evolved in a time- and cost-sensitive trading environment in competition with other modes, particularly trucking. This system is part of a North American grid of more than 300,000 route-km that connects Southwestern Ontario to domestic, cross-border and global markets, the latter through Atlantic, Pacific and Gulf ports.

The continental rail freight system's evolution has been driven by lean production methods to increase revenue, reduce costs and satisfy shareholder demands. Some markets have been lost and others expanded. Rail is now primarily a high-volume carrier serving markets of 800 km or more by providing rates below those achievable by trucking. Hybrid solutions that make use of rail's efficiency as part of a multi-modal package, such as intermodal service, have grown.

This evolution has boosted rail's economic and environmental efficiency by reducing assets and adopting technologies and methods that build on the superiority of steel wheels rolling on steel rails in moving large tonnages. The only mode that exceeds rail's superiority in terms of fuel efficiency and emissions is marine shipping, which is not applicable to most rail markets.

The downside of this evolution has been the loss of some markets, as rail has reduced its geographic coverage and de-marketed commodity flows deemed uneconomic under current public policy and market conditions. Asset reduction has also caused capacity and on-time performance problems for publicly-funded passenger carriers, such as VIA Rail Canada, which must access rail freight infrastructure to provide the bulk of its services in a mixed traffic environment.

## 2.0 Rail's Next Evolutionary Cycle

The latest, cost-driven cycle of freight railroading has reached its limits. New policies and techniques will be required to maintain the current system and grow its tonnage and revenue. This poses both challenges and opportunities.

The current Canadian network is threatened by a strong U.S. system that enjoys advantages in public policy and funding, including public-private partnerships and tax credit programs that have improved the main line and short line systems, as well as shipper facilities. Four of the five U.S. Class I railways can poach Canadian traffic with direct rail and off-line intermodal services that cross the border.

Canada's rail sector also needs to be concerned by the threat of autonomous trucks, which could greatly alter competition economically. This would compound the competitive imbalance caused by the provision of publicly-funded highways for which truckers do not pay the full cost.

However, there are opportunities for Canadian railways to counter these threats. An increased reliance on mechanization and automation is just as realistic for railroading as it is for trucking. Traffic and revenue growth may also be fostered by various means, including:

- Increased speeds, decreased transit times and increased train frequency;
- Attracting high-revenue traffic moving shorter distances;
- Increasing shipper access with more direct rail connections and transload facilities;
- Providing intermediate intermodal facilities to reduce long truck hauls; and
- Generating more back haul to fill empty cars returning to their points of origin.

However, all of the above require investment in assets and labour, which the Class I railways are reluctant to undertake on their own. However, a reliance on lower-cost short lines and other third-party operators for new terminal facilities, and public-private partnerships and investment tax credits, have proven to be effective mechanisms to foster growth in the U.S.

Other issues that may favour rail are increases in fuel costs, which affect trucking more acutely than the railways, truck driver shortages, government policies that require higher cost recovery from all publicly-funded transportation facilities and services, and carbon pricing programs that would increase costs for less efficient modes to a greater degree than the railways.

As well, public investment in expanded rail passenger service has been used in the U.S. to simultaneously improve freight service by eliminating traffic conflicts and capacity bottlenecks. This has not yet occurred in Canada because of the lack of action on the rail passenger issue, but this situation is gaining public attention and support, which may alter the situation.

### 3.0 Southwestern Ontario's Rail Traffic Growth Options

Increasing rail freight usage in Southwestern Ontario will require service-proven strategies from other jurisdictions, particularly the U.S. While the mechanisms to foster major change and growth are largely in the hands of the federal and provincial governments, steps can be taken by concerned local governments and various players in the transportation and logistics sectors.

A primary avenue for action rests with the short lines, as outlined in Oxford County's report, Empowering Southwestern Ontario's Short Line Railways. Convincing the upper levels of government to adopt low-cost, American-style tax credits and funding options to expand their role should be a major objective. This approach has already been discussed as part of Ontario's climate change action plan.

Advocacy of other service-proven measures that can be initiated at a regional level through changes in federal and provincial policies, taxation and funding mechanisms include:

- More shipper sidings to provide direct service to online customers;
- Construction of more rail-served transload, warehousing and distribution facilities;

- Establishment of shipper car pools to ease rolling stock shortages; and
- Intermodal and inland ports to establish rail-based logistics hubs within this region.

An important side issue should be consideration of the need for rail passenger improvements and the measures required to minimize freight/passenger conflicts and generate mutual benefits for both, as has been the case in the U.S.

The formation of a Southwestern Ontario rail corridor coalition to advance these issues would be a first step in placing this issue before the upper levels of government. The timing is excellent given recent federal commitment to strengthening Canada's trade corridors and gateways by providing a limited amount of funding for such projects. It is vital that rail be a beneficiary of these initiatives to generate the maximum benefits for Southwestern Ontario's agricultural, industrial and transportation sectors.

### 4.0 Recommendations

To foster and lead the formation of a Southwestern Ontario rail corridor coalition, it is recommended that Oxford County organize and host a roundtable on the future and the steps necessary to expand the usage of the region's rail freight system.

It is also recommended that Oxford County continue its efforts to draw public and political attention to the

opportunities, challenges and broad policy issues now facing the railways and the shippers and passengers they serve. The success of local and regional governments in initiating the positive changes in U.S. rail policy and funding demonstrates the potential impact of Oxford County's transportation vision.

