The Canadian Association of Railway Suppliers
Association Canadienne des Fournisseurs de Chemins de Fer

Executive Summary

The 2015 Federal budget must set the foundation for sustaining economic growth through initiatives that will increase the competitiveness of Canadian businesses. It must include support for the railways and address the Canadian skills shortage that so many of our members are facing.

Canada's railways and railway supply industry play an important role in getting Canada's goods to market. This is particularly important as the government aggressively pursues and implements its ambitious agenda to increase trade, a policy that we fully support. Since an efficient, globally competitive supply chain is key for Canadian manufacturers, producers, importers and exporters, public policy must avoid imposing unnecessary costs, particularly taxes, which result in making the Canadian railway supply chain less competitive than others we compete with. Canadian railways need to continually modernize their equipment in order to compete in the global market place and meet recent proposed regulations to tank cars.

Based on input from our member companies we believe that in order to drive economic growth, there are three critical investment areas for the government to focus on; innovation, productive assets and people.

CARS Recommendations

Increase to the Capital Cost Allowance for freight cars from 15% to a minimum of 30%

This measure will enable industry to write off their freight cars in 5-7 years opposed to the current 20 years. This is particularly important now more than ever with the new regulations that will be coming into effect. Industry will be forced to discontinue Legacy Cars and renew their fleet to comply with Transport Canada's imposed regulations. This incentive will increase freight car demands which will force industry to expand and create more jobs for Canadian freight car manufacturers.

Creation of a Capital Investment Fund (CIF)

This measure will directly support expanding or upgrading of manufacturing facilities that will result in jobs, economic activity and improvements to manufacturing productivity.

The aggressive DOT 111 phase out timelines in the proposed amendment would necessitate substantial new tank car repair capacity to retrofit cars. A program of this scope and scale is unprecedented. In addition to more physical shop space, tank jacketing fixtures and equipment will need to be installed, and tank car cleaning capacity is a prerequisite.

Ideally, repair facilities are best located close to the point of loading, maximizing fleet utilization for shippers. Canada, with its large energy industry, accounts for more than 1/3 of combined Canadian and U.S. tank car loadings. However, without government assistance, incremental repair capacity may be largely U.S. developments via expansion/conversion of existing facilities.

Government incentives to encourage capital spending on repair capacity in Canada will have multiple benefits:

a) Higher industry retrofit throughput to minimize disruption to Canadian shippers

b) Long term efficiency benefits for Canadian rail supply chains

c) Steer investment in repair capacity to Canada, creating new, high paying sustainable Canadian jobs (car repair, engineering, administrative) as well as spin-off benefits

d) Direct economic benefits of spending on new plant and equipment, and track infrastructure, with Canadian suppliers

A preliminary assessment clearly indicates that well over $100 million in new capital spending on repair facilities should occur in Canada to meet local, anticipated demand. A point of reference, a single high capacity repair facility can easily cost over $50 million.

Government grants for capital spending could include requirements that employer recipients meet minimum incremental employment levels for a set period.

<u>Skilled Labour Program</u>

The Canadian railway industry urgently requires skilled labour – a need which will become acute with the large increase in required tank car qualifications coupled with tank car retrofit work. Attraction of skilled labour is particularly difficult in western Canada, where the industry faces similar labour demands from the petroleum, and oil sands industries. The reality is jobs currently available but unfilled. Current labour and skills shortages in Canada are having a major impact on Canadian businesses' productivity. 50 % of the railway industry will be retiring within the next 5 years.

The railway industry offers stable, long term career paths, with openings for hundreds of employees across Canada over the next few years.

Consistent with Canada's Economic Action Plan objectives, the federal government can assist by:

a) Establishing program(s) administered by a government agency to create awareness of these attractive job opportunities (entry level and experienced workers displaced from other industries).

b) Revisiting the appropriate funding level and criteria for government grants to share in employee hiring and training needs - specific to the industry.