

Scotia Rail Development Society January 2023

Business-Case Study Summary

The completion of the Cape Breton leg of Canada's national rail grid marked an historic moment for Nova Scotia and Confederation. The rail line from the Pacific to the Atlantic signified the completion of a national dream. Without this rail line, it is unlikely Canada could have developed as a nation given the inherent pull of north-south commercial and trading patterns. This rail line not only linked Nova Scotia to Canada but also the US Midwest and provided a vital link securing Newfoundland's constitutionally guaranteed supply chain to Canada.

The effective closure (rather than formal abandonment) of this rail line in Cape Breton had a pernicious impact on both Cape Breton and Newfoundland-Labrador. It crushed local industry and slowed investment by making the transport of goods to and from the island(s) less reliable and more expensive. It hindered development of eastern Nova Scotia's rich mineral and biomass resources. At the same time, it weakened Newfoundland's constitutionally guaranteed supply chain to Canada and the world. As a result, a hundred thousand containers moving to and then from Newfoundland-Labrador annually were shifted from rail to truck. This drove up prices, reduced reliability, and raised the cost of goods sold in both Cape Breton and Newfoundland-Labrador. Finally, it created an environmental nightmare as the shift from rail to trucks dramatically increased the carbon footprint per container and ton of cargo. This also caused excessive road depreciation and increased the likelihood of accidents, injuries, pollution, and noise.

The absence of secured rail proved a major roadblock for shippers and investment players interested in developing container, bulk, and ro-ro terminals in Sydney Harbour. Given chronic congestion problems at ports on both the west and east coast, interest in Sydney Harbour as a solution remains high but security of rail is an essential requirement for attracting cargo and investment commitments. In short, no rail, no port. This is no small consideration as economic analysis of the port's economic impact on Cape Breton and Nova Scotia shows a profoundly positive effect on jobs, per capita income, real estate values, and tax revenue.

In summary, the closing of this vital rail line doomed Cape Breton to near permanent "have not" status and permanently reduced Nova Scotia's per capita GDP, making it the poorest province in Canada. In contrast, when Nova Scotia joined Confederation, it was the richest part of the new nation.

The study shows that shifting of Marine Atlantic traffic from trucks to rail would reduce costs and emissions and provide sufficient traffic to justify a recommissioning of the short line from Sydney to Port Hawkesbury, especially combined with local cargo and incremental traffic from Newfoundland-Labrador. The cost of rehabilitating the rail line, estimated at \$135 million, could be provided by a combination of Provincial and Federal funding, along with private investment. One reason the line has not been formally abandoned is that the value of the steel recovered would be more than offset by the environmental obligations it would trigger for the line owner. In addition, the cost of constructing an entirely new rail

line in the future would be 3-4 times greater than rehabilitation of the existing infrastructure. The value of existing rights of way and approvals on the present line provides an intangible asset of incalculable value. Canada has emerged in recent years with a reputation for high permitting risk for new infrastructure investments. This risk is so high as to scare off many international investors. Thus, having the existing line in place, even if not operational, provides investors with a value proposition that is significant.

In summary, the closing down of the Sydney Subdivision line in 2015 had a very negative impact on the economies of Cape Breton and Newfoundland-Labrador. These impacts are highlighted in the report. Inversely, restoration of the line would positively impact both Islands in terms of jobs, per capita income, and taxes. Uncertainty around rail has emerged as the chief obstacle to the development of Novaport in Sydney Harbour. This port project has the potential to be a game changer for the economies of eastern Nova Scotia and Newfoundland-Labrador. Finally, there appears to be sufficient local traffic, when combined with Marine Atlantic cargo to justify restoration of the rail line.

The Cape Breton Partnership in collaboration with the Scotia Rail Development Society recently commissioned Logistics Marketing Services Inc. to conduct a regional freight study aimed at determining the potential for rail services to be restored on the Sydney Subdivision.