Canada – victim of its own success

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It's rarely wise to hold up a market as a bellwether as it all but guarantees a dramatic reversal of fortunes, but when it comes to social infrastructure and transport, Canada – in parts – is a shining star in an otherwise fairly lacklustre universe.

Sitting here in London – a couple of weeks off travelling out to Toronto, then on to Whistler for the IJCanada infra conference – thoughts stray to this market that has been lauded for keeping PPP alive in a challenging market working its way from ground zero of the global financial crisis.

Broad brush stroking it, when it comes to social infra and transport investments, Canada is the true Land of Opportunity… so much so that nowadays procuring authorities reckon they've done well to field two bidders, when previously they would have confidently anticipated a turnout of at least five at shortlist stage.

While viewed as a whole, the Canadian market is booming, but of the 10 provinces not all buy into private sector involvement in the delivery and operation of essential infrastructure.

As one source on the ground says this week: "The Prairies are a wasteland." While another adds: "There's nothing happening across the Prairie Provinces." That's a slight exaggeration, but the principle is broadly true.

Political will – always an essential ingredient for the success of such programmes – is far from lacking in the provinces that support its deployment, and the opposite stands true.

Swift perusal of the *IJGlobal* database leaves you in no doubt as to where the opportunity lies with Ontario leading the field. Regular readers will appreciate that this is a long-standing viewpoint of this title and was written about in these pages two years ago.

The most advanced – at shortlist stage – in this province are:

- Hurontario Light Rail Transit PPP
- Davenport Diamond Rail Grade Separation PPP
- Lakeshore West Corridor Expansion PPP
- Hamilton Light Rail Transit PPP
- Toronto Union Station PPP
- Lakeshore East - Central Rail Corridor Expansion PPP
- Milton Corridor GO Stations PPP
- Orleans Health Hub PPP
- Macdonald Block Reconstruction PPP

And therein lies a tale – a theme that is playing out around all the provinces that espouse PPP as a procurement model. All but two of the above are transport projects.

Economic infrastructure

For those with a more global view of infrastructure, or knowledge of the UK infrastructure market – the term “economic infrastructure” will ring a bell, even though it may be a rather hollow bell.

In the teeth of the global financial crisis, the UK – in its questionable wisdom – having delivered a vast programme of social infrastructure investments during the glory years shifted its position in harsher economic climes, saying it would only drive forward projects that ticked the “economic infrastructure” box.

This is an intentionally loose term, subject to interpretation as the procurer sees fit. But the reality is that it made no difference as the UK has done Sweet Fanny Adams since.

We see a very different story playing out in Canada. While not walking away from social infra projects, it seems to be forging ahead with transport to support its economy, which grew 2.1% in 2018, making it the second fastest-growing economy in the G7 after the US.

Another interesting economic indicator is that unemployment in Canada stood at 6.1% in 2018 (expected to remain stable in 2019 and 2020). Furthermore, data from Statistics Canada show that the unemployment rate went down to 5.6% last December, its lowest jobless rate since 1976.

Sticking with the big picture, the federal government is starting to make impact felt on the infrastructure bank, but the jury remains firmly out on the role that the Canada Infrastructure Bank will play.

This is an issue we turned these pages to towards the end of 2017 shortly after the CIB was launched. One-and-a-half years ago, we questioned the need for an infra bank that was designed to “crowd in” lenders… in much the same way that the European Investment Bank (EIB) is meant to. The same too can be said of the Green Investment Bank (GIB) in the UK.

In the case of the EIB, it – to our mind – strayed from its mandate of helping projects that would otherwise struggle to raise financing (or at least ticked a social-impact box) that gave a green light for it to lend up to 50% of the debt on projects. It was amazing how many projects ticked that box and it was rare that it provided less than half the debt.

This, of course, was splendid news for the borrower, but far from good news for the lending community who (privately) cursed the EIB for squeezing them out, often towards the end of the procurement process, slashing their tickets and introducing a fresh layer of bureaucracy.

The GIB – which was sold to Macquarie in August 2017 for £2.3 billion ($2.96 billion) and swiftly re-branded to Green Investment Group (GIG) – had a slightly different mandate. Its role was to drive investments into more challenging projects that may otherwise have struggled to attract lenders in a challenging economic climate.

At first, most people expected that to be offshore wind… but in reality it meant they heaved government cash out the door on (in some cases) projects that should not have been touched with a sharp stick. GIG has since dumped the shonky projects and stuck with the rest.

In that light, we are all waiting with bated breath to see what the CIB does. It seems to be starting well, but given past international experience, the Canadian infra market has every right to reserve judgment.

One source on the ground says: “The jury is very much out on what they are going to do and how successful they are going to be. They say they are looking at lots of projects and made a few announcements on big projects, but they are way out… but these are projects that aren’t going to happen for years.”

To lend support to that statements, our news has tracked announcements for CIB in recent months with:

- C$1.28 billion loan to the C$6.3 billion Réseau Rxpress Métropolitain (REM) project in Montréal
- C$2 billion of commitments to the On-Corridor Works project – part of the GO Rail Expansion programme

- C$71.1 million for Via Rail Canada's high-frequency rail in the Quebec City to Toronto Corridor

This week we also had news that the CIB could be brought in to "de-risk" Roberts Bank Terminal 2 Project. Its involvement has yet to be confirmed, but sources suggest it could be involved to the tune of C$4 billion.

Sources, however, will be tough to convince and they are keen to learn more… which is why it is such good news that Nicholas Hann, head of investments at the CIB, will be joining us in whistler for IJCanadaINFRA19.

It will be interesting to hear his views on the culture change within the entire federal system that are required before many believe the CIB really will really start to punch its weight.

One senior Canadian infra source says: "There is a lot the feds could do if they could unlock the middle management who are, frankly, blockers. The senior management wants to do things differently, but it is being blocked by a morass of mid-level bureaucrats who have no desire to change."

However, with an election on the horizon – October – this landscape could change dramatically. Should the Conservatives get in, they are committed to getting rid of the CIB but they are likely to look at greater involvement of the private sector. If there is a hung parliament, that's too hard to call. Should the Liberals get back in, that will likely bode well for the private sector.

Contractor squeeze

With a host of projects in the pipeline across Canada – not just social infra and transport – the squeeze is starting to impact bidding (as mentioned above) and international (non-Canadian) companies are increasingly focusing on the market.

There is a distinct shift towards transport which has all the hallmarks of a very good decision.

The only problem that Canada seems to be facing is a glut of projects relying on too few established developers to deliver.

There is no lack of cash available to help Canadian provinces deliver the agendas they espouse – debt and equity. With the CIB on board as well, that's a wall of cash targeting infra in the country.

What a nice problem to have.