



# **Winning at Global Infrastructure Markets**

## **Solutions Through Partnership: Conference Report**

**Ottawa Congress Centre  
September 14-15, 1998**

**Service Industries and Capital Projects Branch  
Industry Canada**

**January 1999**



***Winning In Global Infrastructure Markets: Solutions Through Partnership: — Conference Report*** is available electronically on the Industry Canada *Strategis* web site at:  
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**Service Industries and Capital Projects Branch**  
**Industry Canada**  
**235 Queen Street, 7th Floor East**  
**Ottawa ON K1A 0H5**

**Fax: (613) 952-9054**  
**E-mail: [sicp@ic.gc.ca](mailto:sicp@ic.gc.ca)**

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The following additional appendixes to the Conference Report are available electronically online on the *Strategis* web site at <http://strategis.ic.gc.ca/sicp> under the title *Winning In Global Infrastructure Markets: Conference Report*.

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- Appendix 3: List of Speeches and Presentations
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## Abstract

The "Winning in Global Infrastructure Markets: Solutions Through Partnership" Conference held in Ottawa on September 14 and 15, 1998, attracted leading Canadian international public-private infrastructure (PPI) capital project players. The assembly of 200 public and private sector participants was joined by international experts. Conference participants wrestled with collective issues and prescriptions to enhance Canada's involvement and business success in the design, development, financing, building and operating of infrastructure abroad.

The conference participants confirmed and further elaborated on the results of the advance consultations. The key issues currently facing the sector are: how to grow domestic PPI markets and create our own cast of experienced project developers, how to improve access to project financing, how to build partnerships and consortia, and how to develop public-private infrastructure intelligence and expertise and address the strategic need for more PPI regulatory know-how and networking.

Six priority action items were identified at the conference.

- greater support for the development phase of PPI projects
- closer cooperation between relevant government agencies and the private sector
- proactive application, with supporting communications, of the PPI approach domestically
- development of new financing vehicles
- improvement of firm skills for PPI bidding and deal making
- investigation of changes to tax and foreign investment rules

The conference was co-chaired by Garrett Herman, Chairman and Chief Executive Officer of Loewen, Ondaatje, McCutcheon Ltd., and Jacques Lamarre, President and Chief Executive Officer of SNC-Lavalin Inc.

All PPI stakeholder groups including the financial sector were well represented at the conference. They engaged in a vivid interchange of ideas, and laid the foundation for the creation of a community within the country capable of defining and refining common interests and also pursuing united action to achieve success in PPI projects. One of the most remarkable outcomes of the conference was the finding that a strong majority of the participants (75 percent) indicated that they would become active PPI players, such as developers or investors, once the major obstacles for PPI business development were successfully addressed.



The conference represents an important next step of the broader PPI Initiative that has been pursued by Industry Canada in cooperation with the Export Development Corporation (EDC), the Department of Foreign Affairs and International Trade (DFAIT), the Canadian International Development Agency (CIDA) and the Canadian Commercial Corporation (CCC) over the past two years. The PPI Initiative fits in well with the government's overall Team Canada Inc initiative, which seeks to strengthen the international business strategy development process by involving the private sector and other levels of government in designing and implementing effective business assistance activities in key export sectors. The "Winning in Global Infrastructure Markets: Solutions Through Partnership" Conference has therefore created a strong platform upon which to develop an aggressive and successful Team Canada Inc action plan aimed at the global PPI market.

**Team Canada Inc is a partnership of federal, provincial and territorial governments helping Canadian companies succeed in world markets. This conference established the foundation by which Canadian firms might better capitalize on opportunities in global public-private infrastructure markets in order to stimulate trade, investment and growth of the Canadian economy.**

### **Context for the Conference**

Governments all around the world have increasingly turned to the private sector as partners to design, develop, finance, build and/or operate infrastructure. The "Winning in Global Infrastructure Markets: Solutions Through Partnership" Conference represents an important step on the road toward greater Canadian private sector involvement in this new kind of global infrastructure market.

The PPI market has become huge; it may soon account for 50 percent of the global infrastructure market (US\$3 trillion over the next 10 years). Canadian firms, in spite of top-notch technical qualifications and an impressive track record in infrastructure, are not major players in this growing market.

For some time, Canadian industry has expressed great concern about the lack of success in the growing PPI market. Industry Canada began to investigate the issue in 1996 through a series of consultations with firms, the financial sector and knowledgeable experts. An initial milestone was achieved on February 4, 1997, when a one-day round table on "Canadian Service Companies and Privatized Infrastructure Projects in Non-OECD Markets" was held in Toronto. The event was organized and sponsored by Industry Canada's Service Industries and Capital Projects Branch. It helped to develop a better understanding of the challenges, particularly in the area of financing.



and to critically assess PPI market opportunities and possible roles for Canadian capital projects service firms. The round table discussions produced important basic suggestions and criteria to be considered by service firms before deciding to enter the global PPI market. One conclusion of the discussion was that further research and consultations on PPI financing issues and the required cooperative approaches were necessary. Building upon the momentum that emerged from the round table, it was later decided to involve the full range of potential PPI stakeholders (capital goods and equipment firms, capital projects service and construction firms, financial institutions, utilities, investors and government) in a larger national conference.

To provide impetus for discussion, a pre-conference Consultation Paper *Winning in Global Infrastructure Markets* was published in May 1998. It generated substantial feedback from a broad cross-section of PPI stakeholder groups. Respondents strongly agreed that the topic was both very timely and of critical significance and that a conference in September would be an important next step for Canada. The feedback focussed mainly on the obstacles to Canadian PPI participation and the means by which Canadian firms might be able to overcome them.

The four main issues which had emerged from the pre-conference consultations were:

- growing the domestic market for PPI projects
- improving access to PPI project financing
- building project partnerships (consortia and alliances)
- developing PPI intelligence and expertise.

## **Conference Format**

### **Conference Objectives**

#### ***Overall Objectives***

The "Winning in Global Infrastructure Markets: Solutions Through Partnership" Conference was designed to

- develop a common understanding among current and potential PPI stakeholders (capital projects firms, the financial sector and government) of the main barriers facing Canadian firms, and achieve consensus on the priority issues for Canada
- convey a sense of urgency for working together to respond effectively to the challenges and resolve issues



- generate commitment for initiative, partnership and necessary actions by all stakeholders, according to their particular role, interest and function, to eliminate or overcome the hurdles, leading to more proactive and successful participation in the PPI market, both in Canada and abroad.

### *Workshop Objectives*

Conference attendees had the option of joining one of four concurrent workshops focussed on infrastructure projects in the **communications, energy, environment** or **transportation** sectors. Workshop participants were asked to confirm the key challenges facing their industry sector in pursuing PPI opportunities, based on their personal project experiences, and identify the critical collective activities needed to improve Canada's ability to compete internationally.

## **Participation**

### ***Stakeholder Groups and Sector Representation***

A total of 197 people attended the conference (see Appendix 1 in this document for a list of participants by last name). The mix of stakeholder groups in attendance represented the PPI industry cluster (Table 1). Participants represented the most senior decision makers among Canada's most active PPI players.

**Table 1: PPI Industry Cluster**

<b>Stakeholder Group</b>	<b>Total</b>
Government	28%
Developers	20%
Operators	1%
Financial institutions	15%
Suppliers or vendors	19%
Legal advisory	5%
Consulting advisory	12%
Total	100%

There were in addition over 30 fully registered delegates who unfortunately were unable to resolve schedule conflicts. However, as they had expressed a keen interest in contributing to the conference discussions, these individuals will be included in planning future actions.



### ***Geographic Representation***

The geographic representation of the participants was as follows:

Newfoundland	1%	Manitoba	0%
New Brunswick	1%	Saskatchewan	0.5%
Nova Scotia	0.5%	Alberta	3%
Prince Edward Island	0%	British Columbia	2%
Québec	22%	Territories	0%
Ontario	65%	Outside Canada	5%

### ***Participating Organizations***

Delegates represented a total of 152 public and private sector organizations. The distribution was approximately one third representing the public sector and two thirds representing the private sector. A list of participants by organization is available online on *Strategis* at <http://strategis.ic.gc.ca/sicp> (see Appendix 7 of the "Winning in Global Infrastructure Markets" Conference Report).

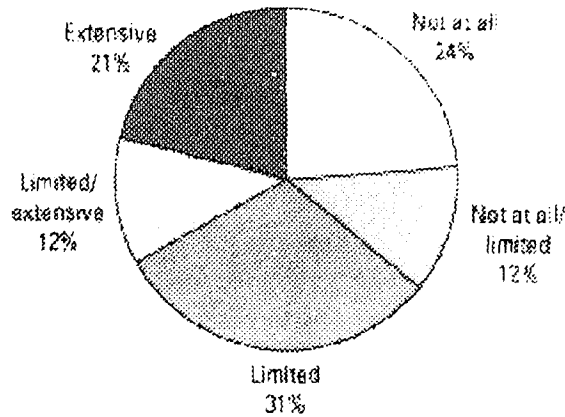
### ***Level of Experience of Attendees***

The majority of people attending (64 percent) had some experience in the development and delivery of global PPI projects (Figure 1).





**Figure 1:**  
**Participants' Experience in the Development and Delivery of Global PPI Projects**

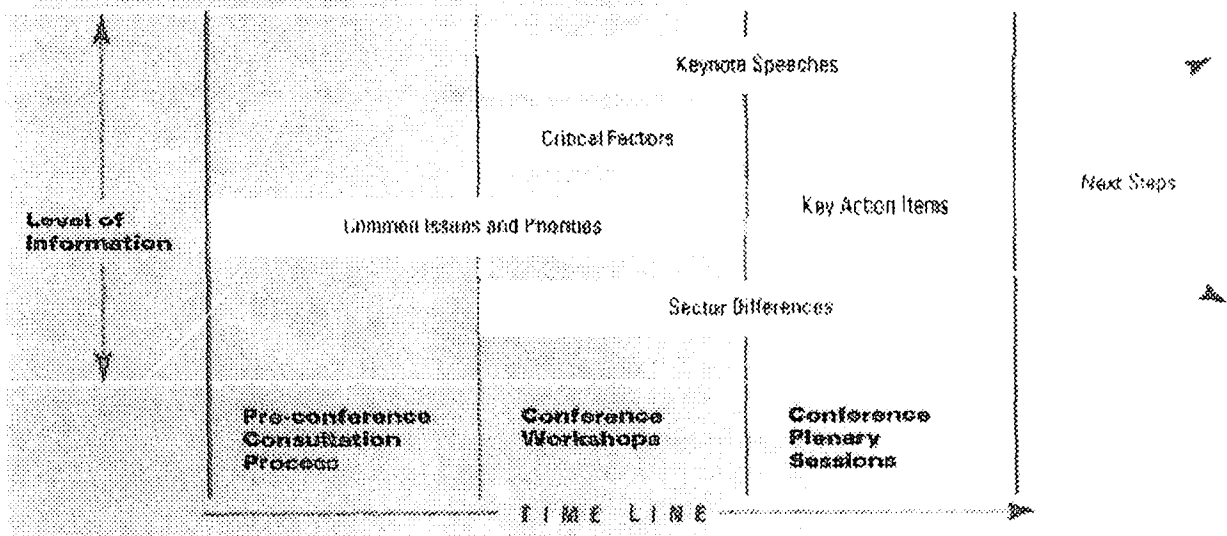


## Conference Proceedings

### Overview

Figure 2 provides a schematic overview of the events and discussions that took place prior to and during the conference. Findings of the conference in the balance of this report have been structured to reflect the flow of thinking that occurred both before and during the conference. A copy of the complete conference program is available online on *Strategis* at <http://strategis.ic.gc.ca/sicp> (see Appendix 2 of the "Winning in Global Infrastructure Markets" Conference Report).

**Figure 2: Dynamics of the Conference Proceedings**





The conference began on the morning of September 14, 1998, with opening remarks by the two conference co-chairs: Garrett Herman, Chairman and Chief Executive Officer of Loewen, Ondaatje, McCutcheon Ltd.; and Jacques Lamarre, President and Chief Executive Officer of SNC-Lavalin Inc.

Conference participants had received an outline of the results of the prior consultations and therefore were able to begin formulating their suggestions for action. To provide further stimulus for action-oriented discussion, presentations were delivered on the morning of the first day by opinion leaders and key players in the PPI market: David Suratgar, Of Counsel to LeBoeuf, Lamb, Greene & MacRae; Ian Gillespie, President and Chief Executive Officer, EDC; and Sergio Marchi, Minister of International Trade. The presentations were complemented with a plenary panel of financing experts, chaired by Eric Siegel, Executive Vice-President, EDC, which helped to focus on finding solutions for PPI financing challenges. These presentations gave participants a clearer understanding of the issues and the emerging priorities. The keynote speeches are summarized below in a later section of this document; the full texts are available online on *Strategis* at <http://strategis.ic.gc.ca/sicp> (see Appendix 4 of the "Winning in Global Infrastructure Markets" Conference Report).

In the four parallel sectoral workshop sessions during the afternoon, participants were asked to identify sector issues, propose initiatives and volunteer to take action. The workshops were chaired by senior stakeholder representatives and were facilitated by industry professionals familiar with the sector. Discussions commenced with short introductions and brief presentations by sector panellists. The results were recorded, summarized and reported on by the workshop chairs in a subsequent plenary session the next morning.

Despite the relative brevity of the sector sessions, results were insightful and reflective of significant forethought. The willingness of many attendees to volunteer for follow-up action exceeded the expectations of both the organizers and the co-chairs.

A reception and dinner with a stimulating keynote speech by John Beck, Canadian Highways International Corporation, and a message from Glenna Carr, Canadian Council for Public-Private Partnerships, concluded the first day.

On the Tuesday morning, the conference perspective shifted from exploration of the issues and suggestions for improvement to developing a more focussed consensus of what has to be done to strengthen the ability of Canadian industry to compete effectively in the global PPI arena. Attendees benefited from addresses by two recognized authorities: Huguette Labelle, President of CIDA, and Kevin Lynch, Deputy Minister of Industry Canada. At a subsequent plenary session chaired by Kevin Lynch, results of the four sectoral workshops were presented. Workshop chairs



reported their collective findings to an expert review panel who, in turn, provided additional comment and analysis. A final plenary session was held to allow participants an opportunity to reach agreement on a summary list of key action items, and to vote on the relative importance of these action items using online electronic voting technology. The results were presented on screen as the voting took place.

Wrap-up and closing summaries were delivered by the conference co-chairs to officially close the conference and invite attendees to a "partnership" lunch event.

### ***Voting in the Plenary Session***

The use of an in-conference voting procedure was a distinguishing feature of the conference. On the last day, plenary session participants were requested to express their opinions on 16 topics (issues and action items) to wrap up the conference. The answers were gathered through an anonymous electronic "vote" by pushing the most appropriate numeric response on a mobile keypad. The software prevents identification of the voter, thus encouraging more frank responses than might be the case with more visible voting approaches. On average, 100 delegates participated in the electronic voting (Table 2).

**Table 2: Voting Participation of Stakeholders, by Industry Sector**

	Sectors				Total <sup>a</sup>
	Communications	Energy	Environment	Transportation	
<b>Government</b>	5%	7%	8%	15%	35%
<b>Developers</b>	1%	1%	1%	4%	7%
<b>Operators</b>	0%	1%	1%	2%	4%
<b>Financial institutions</b>	3%	11%	2%	4%	20%
<b>Suppliers or vendors</b>	4%	4%	2%	1%	11%
<b>Legal advisory</b>	0%	1%	0%	0%	1%
<b>Consulting advisory</b>	1%	6%	8%	7%	22%
<b>Total</b>	14%	31%	22%	33%	100%

<sup>a</sup> The total percentage for stakeholders differ somewhat from those reported in the section above on Participation because some delegates had left earlier or simply had not participated in the voting, thus resulting in a relative shift in stakeholder weights. Overall, the PPI stakeholder participation remains representative.



## Highlights of Keynote Speeches

The full texts of the keynote speeches summarized below are available online on *Strategis* at <http://strategis.ic.gc.ca/sicp> (see Appendix 4 of the "Winning in Global Infrastructure Markets" Conference Report). A list of all conference presentations, including those at the workshops, is contained in Appendix 3 of the same *Strategis* document.

**PPI — A Concept That Has Come of Age and Offers Good Business Opportunity**, by David Suratgar, Of Counsel to LeBoeuf, Lamb, Greene & MacRae, New York and London, UK; International Advisor to Loewen, Ondaatje, McCutcheon Ltd., Toronto; former Deputy Chairman of Morgan Grenfell International, London, UK

## PPI Conference Keynote Speakers and Panellists

### *Keynote Speakers*

**David Suratgar**, Of Counsel to LeBoeuf, Lamb, Greene & MacRae, New York and London, UK; International Advisor to Loewen, Ondaatje, McCutcheon Ltd., Toronto, ON; former Deputy Chairman of Morgan Grenfell International, London, UK

**Ian Gillespie**, President and Chief Executive Officer, Export Development Corporation, Ottawa, ON

**The Honourable Sergio Marchi**, P.C., M.P., Minister of International Trade

**Huguette Labelle**, President, Canadian International Development Agency, Hull, QC

**Kevin Lynch**, Deputy Minister, Industry Canada, Ottawa, ON

**Glenna Carr**, President, The Canadian Council for Public-Private Partnerships, Toronto, ON

**John M. Beck**, Chairman and Chief Executive Officer, Ambro Enterprises Inc.; President, Canadian Highways International Corporation, Mississauga, ON

### *Panellists*

#### **Financing Panel "Overcoming the Problems in PPI Financing: Collaborative Approaches"**

Panel Chair:

**Eric Siegel**, Executive Vice-President, Medium and Long-term Financial Services, Export Development Corporation, Ottawa, ON



**Panellists:**

**Alan Curleigh**, Executive Vice-President, Klöckner Stadler Hurter Ltd., Montréal, QC

**Rob Sexton**, Managing Director, Global Project Finance Unit, Newcourt Capital, New York, NY, USA

**Wesley (Wes) Scott**, Executive Vice-President, Corporate and Chief Financial Officer, Northern Telecom Limited, Brampton, ON

**David Leith**, Managing Director, Head of Debt Issuers Group, CIBC Wood Gundy Securities Inc., Toronto, ON

**Transportation Projects Workshop**

**Panel Chair:**

**William Pearson**, President, AGRA Development Inc., Vice-President, AGRA Inc., Toronto, ON

**Panellists:**

**Richard Sloan**, Vice-President and General Manager, Structured Finance, Bombardier Inc., Montréal, QC

**John Desmarais**, Vice-President, Airport Development, NAPA Airport Development Consultants Inc., Toronto, ON

**Moya Greene**, Managing Director, Investment Banking, TD Securities Inc., Toronto, ON

**Energy Projects Workshop**

**Panel Chair:**

**John Balint**, Vice-President, Project Finance Team, Export Development Corporation, Ottawa, ON

**Panellists:**

**Lance S. Howard**, Vice-President, Power Development Division, SNC-Lavalin Inc., Montréal, QC

**Dan Huras**, Vice-President, Business Systems, TransCanada International Ltd., Calgary, AB

**Anthony Courtright**, Vice-President and Co-Head, International Project Finance, Scotiabank, Toronto, ON  
**Roberto Vellutini**, Head of Project Finance Group II,



Private Sector Department, Inter-American  
Development Bank, Washington, DC, USA

**David Moore**, Director, Business Development,  
Babcock & Wilcox Industries Ltd., Cambridge, ON

### **Environmental Projects Workshop**

**Panel Chair:**

**Lucien Bradet**, Director General and Manager,  
Environmental Affairs Branch, Industry Canada,  
Ottawa, ON

**Panellists:**

**Michel Bégin**, Directeur de portefeuille, Fonds de  
solidarité des travailleurs du Québec, Développement  
économique, Montréal, QC

**Christopher Henderson**, Chief Executive Officer, The  
Delphi Group, Ottawa, ON

**Diana Mourato**, Vice-President, Municipal Systems,  
Zenon Technologies, Burlington, ON

**Dreda Gaines**, Business Development Director,  
Thames Water International, Reading, Berkshire, UK

### **Communications Projects Workshop**

**Panel Chair:**

**James Mackie**, Vice-President, Strategic Marketing,  
Newbridge Networks, Kanata, ON

**Panellists:**

**Marc Lusignan**, Director, Government Relations, SR  
Telecom, Ottawa, ON

**Ken Bravo**, Industry Group Head, Media and  
Telecoms, Global Project and Structured Finance, Royal  
Bank of Canada, Toronto, ON

**Jan Wehebrink**, Principal Banker, Telecommunications  
Sector, European Bank for Reconstruction and  
Development, London, UK



## Reporting Plenary and Expert Review Panel

**Panel Chair:** **Kevin Lynch**, Deputy Minister, Industry Canada,  
Ottawa, ON

**Panellists:** **John N. Shaw**, Managing Director, Kohn Crippen  
Project Finance, Vancouver, BC

**Marc Pignard**, Vice-President and Head, Global  
Project and Structured Finance, Royal Bank of Canada,  
Toronto, ON

**Pierre David**, Director General, Industrial Cooperation  
Program, Canadian International Development Agency,  
Hull, QC

**David Suratgar**, Of Counsel to LeBoeuf, Lamb,  
Greene & MacRae, New York and London, UK;  
International Advisor to Loewen, Ondaatje,  
McCutcheon Ltd., Toronto, ON; former Deputy  
Chairman of Morgan Grenfell International, London,  
UK

Mr. Suratgar provided the opening keynote address for the conference. He discussed the evolution of PPI collaboration and some key issues arising from recent experiences with private financing and development of infrastructure. He went on to outline lessons emerging from the impact of the Asian financial crisis and the impact that the crisis has had on the appetite for deals on the part of project developers, banks, export credit agencies, bond markets and equity providers.

Most governments are under pressure to reduce debt, and have adopted the PPI approach to share risks and rewards with private enterprise. For this to be successful, Mr. Suratgar mentioned that all parties must clearly understand their roles and relationships, must learn to share risks equitably, and be satisfied with the capabilities of all parties involved. Domestic funding of projects should be maximized to avoid exposure to currency risks and to reduce pressure to renegotiate contracts. Although current market conditions are not PPI-friendly, quality projects with good economics and first-class sponsors in countries with a stable legal system will continue to be viable.



**Growing Global PPI Markets: Next Challenges for Canada to Remain Internationally Competitive**, by Ian Gillespie, President and Chief Executive Officer, Export Development Corporation

Mr. Gillespie suggested that conference participants need to find real solutions to a number of important challenges that are keeping Canadian firms out of the global PPI market. Despite their widely recognized engineering strength, Canadians are not getting their fair share, and Canada's financial community and governments must make it easier for Canadian firms to compete globally.

Canada lacks a strong PPI history, and its capacity to compete internationally is at risk, unless we act quickly. The small size of Canadian firms makes it difficult to access financing in a sufficient manner. Canadian firms need comprehensive financing packages supported by multiple financial partners including banks, pension funds, insurance companies and export development institutions. Governments should establish policies to facilitate entry and competitiveness in the significant global PPI market. Canadian firms must identify and adapt to market niches, develop global supply chains and establish investment relationships. Canada has all the ingredients for success, but it is still looking for a winning recipe to succeed in the global PPI market.

**Overcoming the Problems in PPI Financing: Collaborative Approaches**, by Eric Siegel, Executive Vice-President, Medium and Long-term Financial Services, Export Development Corporation

Mr. Siegel commented on where Canada ranks in areas critical to international PPI success. He highlighted some of the crucial PPI financing needs that, from EDC's perspective, require better support from the financial community. He also pointed out that Canadian infrastructure is either still in public hands or highly regulated. Accordingly, there is as yet minimal domestic experience with private infrastructure. There exist few "made in Canada" PPI solutions.

This limited domestic track record detracts from international competitiveness. However, while experience is important, risk capacity is even more critical. To win project mandates, PPI firms often have to mobilize financing and risk capacity at the earliest stages of project development. To bolster their international competitiveness, Canadian firms need more effective, targeted and dedicated financing support. The EDC has identified four critical financing needs based on extensive discussions with PPI stakeholders:

- comprehensive project solutions with one-stop shopping for financing
- up-front and fully underwritten financing commitment on a timely basis
- financing solutions to support global operations wherever activities originate
- dedicated and sufficient risk capacity enabled by adequate financial commitments.

**Foreign Affairs and International Trade's Role in Facilitating Successful Canadian**





**Participation in the Global PPI Market**, by The Honourable Sergio Marchi, P.C., M.P.,  
Minister of International Trade

Mr. Marchi mentioned that Canada has established itself as one of the premier trading nations but firms have had less success as international project developers or owner-operators. Canada is not winning a significant share of the PPI market due to its lack of domestic experience in private infrastructure and the relatively small size of Canadian companies and their limited financing capabilities. To overcome these problems, Mr. Marchi suggested the following courses of action:

- create more opportunities for companies to acquire experience with infrastructure projects
- find a way of differentiating ourselves from our competitors, and encourage cooperative ventures
- overcome the limitations of size and capitalization by making partnerships a central part of our approach
- challenge our banks and other financial institutions to step up and provide the support our companies need to succeed.

Mr. Marchi proposed that the role of government is to facilitate greater participation in global PPI projects, through the Trade Commissioner Service, Industry Canada, CIDA, EDC and the Canadian Commercial Corporation. He invited participants to comment on government involvement, and expressed his confidence that Canada will remain one of the greatest exporting nations in the world — exporting not only goods but also knowledge.

**Canadian and International PPI Project Experiences: Key Observations**, by John M. Beck,  
Chairman and Chief Executive Officer, Ambro Enterprises Inc.; President, Canadian Highways  
International Corporation

Mr. Beck mentioned that many governments have been forced to reduce spending on important infrastructure projects in favour of other spending priorities. The public funding available to build new infrastructure or to renew existing ones has become insufficient. More and more, governments are finding that the best solution to this problem lies in public-private partnerships. Most candidate projects can be placed in four categories:

- projects where the government is committed to developing the project in true partnership with the private sector and where the economics of the project clearly make sense
- projects that carry risks that are difficult to quantify and may preclude financing
- projects that may have a limited economic underpinning, but are being developed primarily to serve a public policy purpose
- projects that have a strong economic underpinning, but for which a user-pay approach is not politically acceptable.

The last three situations present distinctive challenges that must be overcome with innovative financing solutions anchored on user fees and mixed participation, and with innovative financing



methods such as, for example, “shadow tolls.”

**PPI and the Canadian International Development Agency's Private Sector Development Thrust in Developing Economies**, by Huguette Labelle, President, Canadian International Development Agency

Ms. Labelle mentioned that partnership is a key element in the development of infrastructure and that Canadian firms will need to partner in order to play an expanded role. New infrastructure should benefit the private developers, but we must not forget that ultimately it must benefit its users. CIDA's mandate is to reduce world poverty, and one of its objectives is to improve living conditions through sustainable development. CIDA is interested in the benefits of infrastructure and, accordingly, it supports the development and effective management of basic infrastructure as a priority.

CIDA wishes to see more private sector involvement in infrastructure projects in the developing economies. It is announcing a new mechanism to provide additional support for qualified companies to pursue international PPI business interests. Proposals within key sectors that create new infrastructure, or rehabilitate or expand existing ones, will be eligible for added assistance to access needed financial expertise and legal advice during the PPI project development stage. This initiative is part of a new CIDA strategic policy approach guiding program activities in support of PPI in developing countries.

**Enhancing Canadian Competitiveness in the Global, Knowledge-Based Economy — A Partnership Approach**, by Kevin Lynch, Deputy Minister, Industry Canada

Mr. Lynch portrayed the global economy as changing, driven by technological change and the information revolution. The most competitive countries are increasingly globally oriented and knowledge-based. Relatively small, open economies like Canada benefit from collaborative, partnership approaches to global markets, where a focussed approach and speed are key. To be a player in the global PPI market, Canada needs to brand itself as best in its class. From Industry Canada's perspective, strategic issues include:

- commitment and capacity to form partnerships to achieve global competitiveness
- usage of public-private partnerships in building infrastructure
- access by Canadian firms to capital in all forms at the lowest possible cost
- access for Canadian firms to world-class, real-time PPI information and intelligence
- progress by Canadian governments in removing interprovincial trade barriers
- progress in seeking multilateral rules regarding foreign investments.



## Conference Findings

### Critical Factors Agreed Upon

The conference participants were able to make significant progress toward developing a common and realistic understanding of the climate needed for participating in PPI. The following notable observations were made.

- **Recognition of the Need for Collective Action:**

Overall, participants were in agreement that collective action is both possible and desirable, and there was good consensus on the issues to be resolved. There was no doubt that PPI has emerged as a valid solution for meeting global and domestic infrastructure development requirements. Achieving greater success in global PPI markets is critical to the future growth and success of Canada's capital project firms.

**“Despite our widely recognized engineering strengths... most Canadian firms will be relegated to the sidelines of the coming PPI bonanza; that is, unless Canada's financial community and government can come together to make it easier for Canadian firms to compete globally.”**

**—Ian Gillespie, President and Chief Executive Officer, Export Development Corporation**

- **Growing the Domestic Market for PPI Projects:**

A greater reliance on PPI approaches in Canada would make a significant contribution to meeting the needs in Canada for new and improved physical infrastructures, using more cost-effective and innovative ways. At the same time, it could provide Canadian firms with the experience and expertise in the developer/owner/operator role that would assist them to win more PPI projects in global markets. Specific action items identified at the conference to address this issue are among workshop conclusions and recommendations listed in Appendix 5 of the “Winning in Global Infrastructure Markets” Conference Report available online on *Strategis* at <http://strategis.ic.gc.ca/sicp>.

- **Widespread Willingness to Contribute:**

Industry stakeholders involved in PPI are enthusiastic, are anxious for change and are seeking an effective vehicle to channel their ideas and energies.



- **Increasing Financial Sector Involvement:**

Representatives from the financial sector were actively involved in the conference and the prior consultations. This level of interest should be more fully assessed. Future solutions building should incorporate the energies of representatives of this sector to raise the level of understanding of financial issues, nurture a positive climate for cooperation and promote innovative solutions.

- **Industry's Desire to Lead:**

Participants voiced a desire by industry to take the lead on the PPI Initiative, seeking the involvement of government where and when appropriate in a partnership relationship. Industry is, in essence, asking government to "help us help ourselves."

- **The Need to Learn to Compete in PPI Markets:**

All industry firms, regardless of size, have come to grips with the implications of widespread acceptance of public-private partnership arrangements for infrastructure development. Financial and regulatory engineering will become an accepted element of most future bids, big and small. Offshore competitors are already geared to provide this support.

**"Over the past few years, Canada has established itself as one of the premier trading nations in the world. But while we have become very successful international vendors, we have had less success as international project developers and owner-operators. In particular, we have not converted our world-renowned expertise in areas such as telecommunications, environmental technologies, energy and transportation into significant involvement in the vast international marketplace for PPI."**

**—The Honourable Sergio Marchi, P.C., M.P., Minister of International Trade**

- **Special Attention for Small and Medium-sized Enterprises (SMEs):**

Many conference participants came to recognize that the issues of SMEs are more acute than those of larger, more experienced international firms. The importance of SMEs to the Canadian economy warrants that special attention is paid to the barriers faced by such firms and the appropriate strategies required for them to participate successfully in PPI markets.

**"Small and medium-sized businesses find it very difficult to compete as project developers outside Canada. When they are successful, it is usually as vendors/suppliers. That's particularly worrisome because SMEs account for 85 percent of Canadian exporters. Moreover, from this will come future generations of large Canadian PPI developers."**

**—Ian Gillespie, President and Chief Executive Officer, Export Development Corporation**



• **The Policy Environment for PPI Projects in Emerging Economies:**

The costs and risks of developing and implementing PPI projects in countries with a weak policy (legal and regulatory) environment are considerably greater than in those that have already developed a policy environment conducive to private participation in infrastructure development. This finding has important implications for Canadian firms and must be taken into account when formulating global PPI strategies and establishing what types of intelligence, skills, expertise and partners are required for project development.

The infrastructure regulatory and policy development needs in project host countries also offer significant opportunities for specialized Canadian service firms and institutions to become players in this new and growing “soft infrastructure” market; that is, helping to establish and reform the legal and regulatory frameworks for the newly privatized infrastructure sectors, creating the required financial market environment for PPI investments, building the necessary institutional capacity, education and training. At the same time, it will enable building important strategic linkages between “hard” and “soft” infrastructure markets and firms.

“Taken together, these elements are:

- **creating an enabling policy environment in developing economies**
- **strengthening the society’s institutional capacity**
- **enhancing the physical infrastructure stock.**

They comprise the strategic policy approach we are using at CIDA to guide our programming activities in support of PPI.”

—*Huguette Labelle, President, Canadian International Development Agency*

“There is no doubt that current market conditions are not PPI friendly—particularly in emerging markets in Asia Pacific. Bond markets and commercial bank finance will be difficult to secure—it is hard for investors and banks to assess and price risk. As a result, there will be a flight to quality, as was the case during the debt crisis of 1982–89. However, quality projects of manageable size with good economics and with first-class sponsors, located in countries seen as having a civil society with a stable legal system and a good standing in terms of their own credit rating, will continue to be financeable. Local currency funding for a significant element of project costs is also a powerful positive element.

The availability of finance and guarantees from multilateral banks, co-financing with the IFC [International Finance Corporation], EBRD [European Bank for Reconstruction and Development] or Asian Development Bank, and significant lending or cover from the major OECD Export Credit Agencies will once again be essential building blocks for successful financings.”



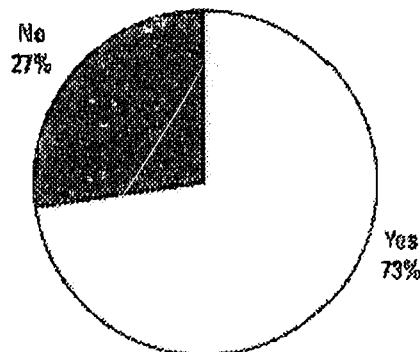
—*David Suratgar, Of Counsel to LeBoeuf, Lamb, Greene & MacRae, New York and London, UK; International Advisor to Loewen, Ondaatje, McCutcheon Ltd., Toronto, ON; former Deputy Chairman of Morgan Grenfell International, London, UK*

• **The Impact of the Global Financial Crisis:**

It was recognized by participants that the current financial and economic difficulties facing many emerging economies were negatively impacting the market for PPI projects in the short run and required revised strategic approaches to international PPI project development. However, it was also recognized that in the medium term the unmet demand for infrastructure in the emerging markets must be dealt with to reduce poverty and to create the right conditions to achieve sustainable development.

In summary, the critical factors identified underscore the basic and urgent need to improve the capability of Canadian firms to compete successfully in the PPI market. The industry desires to do so through growing the domestic market, reduction of imposed barriers, streamlining of financing rules and regulations, a more enlightened financial sector, providing selected assistance for those pursuing PPI opportunities and PPI-specific training. If the major obstacles for PPI business development were successfully addressed, participants asserted that they would become developers or investors (Figure 3), thus accelerating Canada's development as a player in the field.

**Figure 3:  
Participants' Interest in Becoming a  
Developer/Investor if the Environment for PPI is Improved**



**Common Issues and Priorities**

The conference participants confirmed that the four common issues identified through the consultation process must be addressed in order for Canadian firms to achieve greater success in global infrastructure markets. These are:



- growing the domestic market for PPI projects
- improving access to PPI project financing
- building project partnerships (consortia and alliances)
- developing PPI intelligence and expertise.

Each common issue was explored in more detail as described in the paragraphs below.

### ***Growing the Domestic Market for PPI Projects***

Conference participants confirmed that a greater reliance on PPI approaches in Canada could provide Canadian firms with the experience and expertise in the developer/owner/operator role, which, in turn, would assist them to win more PPI projects in global markets. There would be particularly significant opportunities at the municipal level to introduce private participation models in the environmental (primarily water and wastewater) and transportation sectors. A more vibrant domestic PPI market would provide Canada with the opportunity to develop its own brand of innovative PPI models and its own set of skilled and experienced PPI project developers.

### ***Improving Access to PPI Project Financing***

Discussions focussed on gaps in financing, particularly in respect of access to equity financing and the financing required during the high cost/risk developmental phase of PPI projects. As emphasized by David Leith, CIBC Wood Gundy Securities Inc., the transaction costs facing developers to prepare and market a proposal, undertake feasibility studies, secure legal and financing expertise and advice, engage in a bidding process, and undertake the related financial engineering of the project, could amount to as much as 12 percent of the project value. In countries with a sound policy framework for PPI projects, these costs tend to be considerably lower. Alan Curleigh, Klöckner Stadler Hurter Ltd., stressed that financial and risk management are key for successful PPI projects. To mitigate risk, exchange rate matching and government regulatory frameworks are required. Discussions also dwelt on the need to get more Canadian financial institutions actively involved in financing PPI projects, both in Canada and overseas.

The Financing Plenary Panel closed with four main financing issues summarizing the discussion:

- the UK's Private Finance Initiative (PFI) model should be explored, as it is helpful and gives comfort to lenders
- today customers are looking for a comprehensive solution — a total package including an assurance the deal is fully financed, which is the basis for success
- Canadian financial institutions need to work with each other as well as with project developers more effectively
- given that Canadian utilities lie within the public sector, are they being provided the right incentives to apply their expertise as project developers internationally?

### ***Building Project Partnerships (Consortia and Alliances)***



There was a strong consensus that, for Canadian firms, the formation of broader, more effective partnerships, consortia and alliances is another important key to success. The point was made that more effective partnerships are also key for addressing the other three common issues.

Different types of partnerships, consortia and alliances would be appropriate to different types of PPI projects and markets. As a general rule, Canadian firms need to form more broadly based consortia and include international partners and local partners in the emerging markets that were hosts to PPI projects. Robert Sexton, Newcourt Capital, stated that U.S. investors are comfortable with Canadian companies and offer good prospects for cooperation.

Considerable emphasis was placed on the merits of forming more effective partnerships between project developer/owner/operators, as well as with export development agencies, international development aid organizations and IFIs.

### ***Developing PPI Intelligence and Expertise***

The discussions in this area focussed particularly on the need to improve the skills of PPI firms in risk assessment and financial engineering of PPI projects. A second focus was on improving the availability to firms, particularly mid-sized firms, of reliable, early intelligence on PPI project opportunities in target markets abroad and on potential partners. There is also a strategic need for developing more PPI regulatory know-how and for linking it with infrastructure proposals.

### **Sector-Specific Perspectives on Issues**

Three other issues or perspectives emerged from two of the sectoral workshops, which should be kept in mind as subsequent actions are taken. Participants at the transportation sector workshop identified “negative public and political perception” as their number-one issue. Energy sector participants identified two additional issues: “level playing field,” which is related to the ability of Canadian firms to compete; and “risk management,” which deals with the challenges associated with the identification and sharing of risks and contingent responsibilities.

Sector workshop participants came to a fairly consistent agreement on the relative importance of “growing the domestic market for PPI projects” and “improving access to PPI project financing.” However, they expressed some differences in opinion regarding “building project partnerships (consortia and alliances)” and “developing PPI intelligence and expertise.”

### **Key Action Items**

Since there was a relatively consistent understanding of, and agreement to, the common issues within the different workshops, the development of common action items was straightforward. The relationship between key action items to be pursued and the identified common priority issues (Table 3) is indicated by a X. This matrix of actions and common issues can provide a basis for



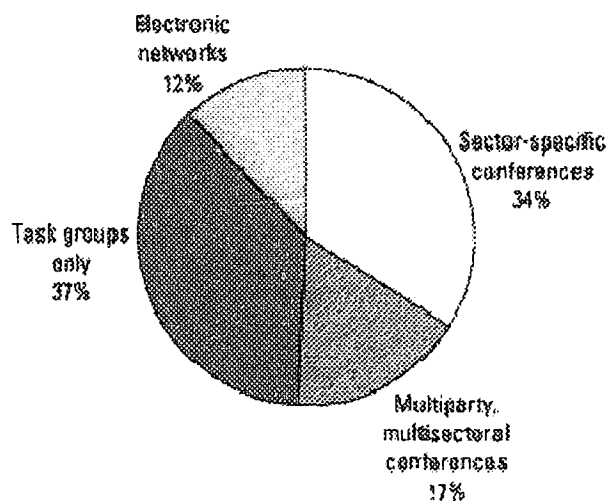


the development of an action agenda for the next two years.

A concluding question posed to the plenary pertained to the form of follow-up meetings/communications that participants would prefer. They indicated a preference for working in task groups and holding sector-specific conferences, rather than multisectoral conferences or using electronic networks (Figure 4).

Furthermore, there was agreement that the private sector needs to be the driving force behind this initiative, although delivery on these actions requires a joint public/private sector partnership approach.

**Figure 4:  
Suggested Forms of Conference Follow-up Meetings**



### **Sector Differences**

Understanding where sector differences on priorities for action emerged at the conference will be useful in developing appropriate action packages. Some of the most important sector differences that surfaced during workshop discussions and during the plenary voting sessions are provided below.

#### ***Communications Sector***

Voting results indicated that participants from the communications sector have had the least experience with PPI projects among the sectors represented at the conference. However, their vote was highest on the need for closer cooperation between government departments/agencies and the private sector and on investigating changes to tax and foreign investment rules. Providing support for the development phase of PPI projects received a lower priority among



communications sector voters, but they recognized the need to improve access to PPI project financing, to build partnerships and develop and disseminate global strategic PPI intelligence. The sector voters also pushed for improving access to PPI project financing by recommending changes to the securities market.

Communications sector representatives gave a high priority to growing the domestic market for PPI projects and, in particular, promoting competing infrastructures through deregulation, exploring opportunities at the municipal level, broadening the rules for research pertaining to network use and application (CANARIE/CRTC), and encouraging greater use of communications and information technology for improving other infrastructure sectors (intelligent transportation systems, structural condition sensing systems, geomatics applications, etc.)

**Table 3: Summary of Plenary Session Voting**

Voting Reference Number	Key Action Items	Relative Importance (1-5)	Common Priority Issue Relation			
			Growing the Domestic Market for PPI Projects	Improving Access to PPI Project Financing	Building Project Partnerships (Consortia and Alliances)	Developing PPI Intelligence and Expertise
3	Relative importance assigned to the common issues as voted in the plenary session		31%	21%	32%	14%
8	Provide support for the development phase of PPI projects	4.1		√	√	√
11	Closer cooperation between DFAIT, CIDA, IC, EDC, CCC, BDC and the private sector	4.1				√
4	Encourage governments to proactively apply the PPI approach in building new infrastructure, in part through improved communication of benefits	4.0	√			
6	Develop new financing vehicles/prospects for the formation of more PPI funds	3.8		√		



Voting Reference Number	Key Action Items	Relative Importance (1-5)	Common Priority Issue Relation			
13	Improve firm skills for PPI bidding, deal-making, etc.	3.8			√	√
7	Investigate the scope of changes to tax and foreign investment rules to encourage investment	3.6	√	√		
9	Provide capital project firms with partnering alliances	3.3		√	√	
10	Establish and maintain a network of global contacts on PPI project players	3.3			√	√
5	Establish partnerships among financial institutions	3.0	√	√	√	
12	Establish a Canadian forum on global PPI (opportunities, policies, training needs, showcase successes)	2.8				√

### ***Energy Sector***

Energy sector participants voted highest on the importance of providing support for the development phase of PPI projects, and indicated a strong preference for private sector responsibility for driving future PPI initiatives. In the electric power sector there is a general lack of PPI project developers within Canada. Domestic operators/utilities need to be motivated to become project developers internationally. Emphasis should be on building relationships with key strategic investors who can lead PPI projects and act as sponsors to carry partners abroad. Partnerships must also be developed with suppliers to reduce proposal development costs. Participants also emphasized that, to grow the domestic market for PPI projects, the general public and politicians must be made more aware of the issues, and that utilities should be privatized.

To enhance the ability of Canadian firms to compete in PPI projects, it was suggested that tax and foreign investment regulations should be reviewed and changes recommended. The Canadian industry needs to be alerted to the role of multilateral bank(s)/ing as a vehicle to improving best practices, developing regulatory frameworks, mitigating currency and financing risk. Financing



solutions that are attractive to capital providers, including financing alternatives that are used in other countries must be examined.

### ***Environment Sector***

Environment sector participants voted highest on the need to provide support for the development phase of PPI projects and on closer cooperation between federal departments/agencies and the private sector. Workshop results demonstrated that the most important priority of participants was to develop PPI intelligence and expertise, by focussing on selected markets, converting the Sustainable Cities Initiative (SCI) of the National Round Table on the Environment and Economy (NRTEE) into an action plan, and to collaborate with the Canadian Council on Public-Private Partnerships in educational events.

On access to PPI project financing, it was recommended that Canadian funding packages should be developed through CIDA and EDC. CIDA's role should be enhanced to fund PPI projects as well as studies and to create bilateral lines of credit. Regarding growing the domestic market, significant progress can be achieved through implementation of municipal projects, PPI awareness campaigns, facilitating SME developer pools and mentoring.

### ***Transportation Sector***

Transportation sector participants voted highest on providing support for the development phase of PPI projects. Other topics scoring high were closer cooperation between federal departments/agencies and the private sector, encouraging governments in Canada to apply the PPI approach more widely, and developing new financing vehicles for PPI financing. The transportation workshop concluded that there was a need to improve public and political perception through research and awareness/educational initiatives about successful PPI experiences. To support firms during the PPI project development stage, the workshop participants suggested developing a PPI program to make new entrants aware of market information sources, partnership options and PPI models generally. They also suggested initiating a forum on project development equity bringing together Canada's financial institutions, established PPI proponents and new entrants.

### **Next Steps**

The attendees witnessed the start of what will need to be a much longer process that must be driven by industry leaders. As a next step, attendees are asked to review their personal commitments and prepare to serve.

Private sector participants agreed that they will organize themselves to respond to and implement action items. This will entail canvassing conference attendees to form a small group of leaders to move the agenda from concept to concrete commitments. A work plan will be developed



containing time lines and identifying specific individuals who will be responsible for the implementation of tasks.

The group of leaders will define the framework for subsequent collective participation (sector and issue groups) and begin the process of staffing from the pool of public/ private sector stakeholders established through the conference. Specific task groups will be created to refine the action items and then seek out additional participants capable of allocating effort and/or resources of their respective organizations.

By working together in implementing the action items and tasks identified, and by expanding the network of stakeholders and forging new partnerships, the PPI Initiative will contribute to what Team Canada Inc sets out to achieve.

The conference was able to identify the key priorities and potential resources, and obtain commitment from participants. These accomplishments may inspire future leaders. Tomorrow's achievements in the global PPI market may very well spring from this modest beginning under the guidance of the right hands and in partnership with many.



## Appendix 1: List of Participants by Last Name

**Agnelli, Margaret**  
Interior Designers of Canada  
Toronto, ON

**Anderson, Grant**  
Gartner Lee Ltd.  
Markham, ON

**Antle, Paul**  
SCC Environmental  
St. John's, NF

**Balint, John**  
Export Development Corporation  
Ottawa, ON

**Banigan, John**  
Industry Canada  
Ottawa, ON

**Barbarie, Jennifer**  
Foreign Affairs and International  
Trade  
Ottawa, ON

**Barrie, John**  
Fluor Daniel Canada Inc.  
Calgary, AB

**Bastien, Pierre**  
AQUATECH, Société gestion de  
l'eau Inc.  
Longueuil, QC

**Battel, Leopold**  
Foreign Affairs and International  
Trade  
Ottawa, ON

**Baumann, Harry**  
SECOR  
Toronto, ON

**Beadle, John**  
National Electricity Roundtable  
Ottawa, ON

**Beck, John**  
Canadian Highways International  
Corporation  
Mississauga, ON

**Bedkian, Hovig**  
Canarail  
Montréal, QC

**Bégin, Michel**  
Fonds de solidarité des travailleurs  
du Québec  
Montréal, QC

**Bélangier, Réjean**  
Canac Inc.  
Montréal, QC

**Belshaw, Colin**  
Clearnet Communications Inc  
Scarborough, ON

**Berg, Ira J.**  
Goodman Phillips & Vineberg  
Toronto, ON

**Blackburn, Robert**  
SNC-Lavalin International  
Ottawa, ON

**Blenkhorn, Donald**  
H.A. Simons  
Dorval, QC

**Bolduc, Robert**  
Harris Canada Inc.  
Dollard des Ormeaux, QC

**Bowes, Gregory**  
Andaurex Industries Inc.  
Markham, ON

**Bradet, Lucien**  
Industry Canada  
Ottawa, ON

**Brady, Penny**  
Conference Board of Canada  
Ottawa, ON

**Branchaud, Michel**  
Infradev International  
Montréal, QC

**Braun, Ron**  
Trojan Technologies Inc.  
London, ON

**Bravo, Ken**  
Royal Bank of Canada  
Toronto, ON

**Brown, Gerald**  
Association of Canadian Community  
Colleges  
Ottawa, ON

**Brownell, Don**  
Federation of Canadian  
Municipalities  
Ottawa, ON

**Burn, Peter**  
Bell Canada International Inc.  
Montréal, QC

**Buryniuk, Walter**  
Kembur Engineering Consultants  
Limited  
Ottawa, ON

**Buxton, Victor**  
Environment Canada  
Hull, QC



**Byrne, Dorothy**  
BC TEL  
Burnaby, BC

**Cameron, Peter**  
Finance Canada  
Ottawa, ON

**Campbell, Craig**  
Industry Canada  
Ottawa, ON

**Carney, David**  
Earth Sciences Sector, NRC COM  
Ottawa, ON

**Carr, Glenna**  
Canadian Council for Public-Private  
Partnerships  
Toronto, ON

**Castonguay, Philippe**  
Schroder Canada Limitée  
Montréal, QC

**Chant, Verne**  
Hickling Capital Corporation  
Ottawa, ON

**Chapman, Simon**  
AGRA Inc  
Oakville, ON

**Charnetski, William**  
Tory Tory DesLauriers &  
Binnington  
Toronto, ON

**Charron-Fortin, Louise**  
Foreign Affairs and International  
Trade  
Ottawa, ON

**Cloutier, John**  
Transport Canada  
Ottawa, ON

**Coleman, John**  
Sussex Circle  
Ottawa, ON

**Courtright, Anthony S.**  
Scotiabank  
Toronto, ON

**Couse, Paul**  
Upper Lakes Group Inc  
Ottawa, ON

**Couture, Benoit**  
SNC-Lavalin Inc.  
Montréal, QC

**Creighton, Geoffrey**  
Tory Tory DesLauriers &  
Binnington  
Toronto, ON

**Crozier, Basil**  
Industry Canada  
Ottawa, ON

**Curleigh, Alan**  
Klöckner Stadler Hurter Ltd.  
Montréal, QC

**Cutmore, Gary**  
Lockerbie Stanley Inc  
Edmonton, AB

**Dagenais, Sofie**  
Banque Nationale de Paris (Canada)  
Montréal, QC

**daSilva, Paul**  
CH2M Gore & Storrer Limited  
North York, ON

**David, Pierre**  
Canadian International  
Development Agency  
Hull, QC

**De Carvalho, Rui**  
R J Burnside & Associates Ltd  
Orangeville, ON

**De Melto, Dennis**  
Industry Canada  
Ottawa, ON

**Delahousse, Didier**  
Export Development Corporation  
Ottawa, ON

**Derrick, Peter**  
ABN-AMRO Bank Canada  
Toronto, ON

**Desmarais, John**  
NAPA Airport Development  
Consultants Inc  
Toronto, ON

**Desrochers, Johanne**  
Association des ingénieurs-conseils  
du Québec  
Montreal, QC

**Drzymala, Claude**  
Industry Canada  
Ottawa, ON

**Ellison, Duncan**  
Canadian Water and Wastewater  
Association  
Ottawa, ON

**Fillion, Jean**  
Bechtel Quebec Limitee  
Montreal, QC

**Forbes, Dale**  
Industry Canada  
Ottawa, ON

**Forbes, Robert**  
Export Development  
Corporation  
Ottawa, ON

**Frojmovic, Michel**

Canadian Institute of Planners  
Ottawa, ON

**Froundjian, Tomas**

Canarail  
Montréal, QC

**Gaetz, John**

UV Systems Technology Inc  
Burnaby, BC

**Gaines, Dreda**

Thames Water International  
Reading, Berkshire  
UK

**Gaudreau, Pierre**

Centre international GP  
Montréal, QC

**Gillespie, A. Ian**

Export Development Corporation  
Ottawa, ON

**Girard, Ruth**

Industry Canada  
Nepean, ON

**Goldberger, Dan**

Canadian Electricity Association  
Ottawa, ON

**Gorn, Ed**

Federation of Canadian  
Municipalities  
Ottawa, ON

**Greene, Moya**

TD Securities Inc  
Toronto, ON

**Guillard, Xavier**

Levesque Beaubien Geoffrion Inc  
Montreal, QC

**Harley, Rory**

Canadian Commercial Corporation  
Ottawa, ON

**Henderson, Christopher**

The Delphi Group  
Ottawa, ON

**Herington, Gordon**

Sumitomo Trust & Banking Co.,  
Ltd  
Toronto, ON

**Herman, Garrett**

Loewen, Ondaatje, McCutcheon Ltd  
Toronto, ON

**Hilton, Robert**

Infrastructure Works  
Ottawa, ON

**Hodgson, Glen**

Export Development Corporation  
Ottawa, ON

**Hoville, Wido**

Asea Brown Boveri Inc  
Saint-Laurent, QC

**Howard, Lance**

SNC-Lavalin Inc  
Montréal, QC

**Huras, Dan**

TransCanada International Ltd  
Calgary, AB

**Ingram, Don**

Consulting Engineers of Ontario  
Toronto, ON

**Ireland, Derek**

Chreod Ltd  
Ottawa, ON

**Jabbari, A.**

BOT Software & MIS  
Carmel, IL  
USA

**Jackson, James**

MobiFon S A  
Bucharest  
ROMANIA

**Joly, Jean-Charles**

Industry Canada  
Toronto, ON

**Jones, Peter**

Export Development Corporation  
Ottawa, ON

**Kengis, Robert**

Export Development Corporation  
Ottawa, ON

**Kennedy, Ed**

Geomatics Industry Association of  
Canada  
Ottawa, ON

**Kerr, Jim**

SR Telecom Inc  
Ottawa, ON

**Kersys, Rachel**

Summa Strategies Canada  
Ottawa, ON

**Kitchin, Paul**

National Association of Career  
Colleges  
Brantford, ON

**Knechtel, Karl**

Industry Canada  
Ottawa, ON





**Kur, John**  
European Bank for Reconstruction  
and Development  
London  
UK

**Labelle, Huguette**  
Canadian International Development  
Agency  
Hull, QC

**Lamarre, Jacques**  
SNC-Lavalin Inc  
Montréal, QC

**Laroche, Gilles**  
Le groupe Québectel inc  
Rimouski, QC

**Larose, Richard**  
CIMA  
Sherbrooke, QC

**Laighton, Richard**  
Pollutech International Limited  
Oakville, ON

**Leclerc, Guy**  
Varez Inc  
Saint-Lambert, QC

**Leith, David**  
CIBC Wood Gundy Securities Inc  
Toronto, ON

**Lusignan, Marc**  
SR Telecom Inc  
Ottawa, ON

**Lynch, Kevin G.**  
Industry Canada  
Ottawa, ON

**MacKenzie, Francis**  
Nova Scotia Economic Development  
and Tourism  
Halifax, NS

**Mackie, James**  
Newbridge  
Kanata, ON

**Mahoney, Richard**  
Fraser & Beatty  
Ottawa, ON

**Majid, Deborah**  
Export Development Corporation  
Ottawa, ON

**Marchi, Sergio**  
Foreign Affairs and International  
Trade  
Ottawa, ON

**Marin, Pierre**  
Finance Canada  
Ottawa, ON

**Mathieu, Pierre**  
Bombardier Inc  
Saint-Bruno, QC

**McArthur, Lynne S.**  
BFC Construction Corporation  
Scarborough, ON

**Metcalfe, James A.**  
Cansult Group Limited  
Markham, ON

**Meunier, Gabriel**  
Gestion Gabriel Meunier Inc  
Saint-Laurent, QC

**Minchom, Clive**  
Clive Minchom Research  
Toronto, ON

**Moore, David**  
Babcock & Wilcox Industries Ltd  
Cambridge, ON

**Morgan, David**  
National Round Table on the  
Environment & Economy  
Ottawa, ON

**Morin, Claude**  
Ministère des Transports  
Québec, QC

**Morissette, Léo**  
Institut maritime du Québec  
Rimouski, QC

**Morris, John**  
SR Telecom Inc  
Ottawa, ON

**Morrisey, Brian**  
Foreign Affairs and International  
Trade  
Ottawa, ON

**Morrison, Philip**  
Industry Canada  
Ottawa, ON

**Mourato, Diana**  
Zenon Technologies  
Burlington, ON

**Mulder, Nick**  
Stentor Telecom Policy Inc  
Ottawa, ON

**Murphy, Darryl**  
SG (Canada)  
Toronto, ON

**Murray, Paul**  
Foreign Affairs and International  
Trade  
Ottawa, ON

**Nankivell, Jeff**  
Canadian International Development  
Agency  
Hull, QC

**Nankivell, Neville**

The Financial Post  
Ottawa, ON

**Neil, Bill**

Nortel  
Ottawa, ON

**Novak, Ben**

Stanley Technology Group Inc  
Edmonton, AB

**O'Reilly, Diana**

Strategic Services  
Toronto, ON

**Ogilvie, Mary**

Service New Brunswick  
Fredericton, NB

**Ojanpera, Ron**

Babcock & Wilcox Industries Ltd.  
Cambridge, ON

**Ort, Harry**

KPMG  
Toronto, ON

**Otto, Carl H.**

Carl Otto Associates Inc.  
Montréal, QC

**Owen, Sherril**

Foreign Affairs and International  
Trade  
Ottawa, ON

**Page, Tim**

Association of Consulting Engineers  
of Canada  
Ottawa, ON

**Patry, Pierre**

Dessau-Soprin  
Laval, QC

**Pearson, William**

AGRA Inc.  
Oakville, ON

**Pelletier, Louise**

Transportation Association of  
Canada  
Ottawa, ON

**Pierce, Donald G.**

Goodman Phillips & Vineberg  
Toronto, ON

**Pignard, Marc**

Royal Bank of Canada  
Toronto, ON

**Poirier, Renaud**

S.M. Group International Inc.  
Montréal, QC

**Rabiasz, Mary**

Canadian Bond Rating Service  
Toronto, ON

**Ricard-Desjardins, Pierre**

Industry Canada  
Ottawa, ON

**Richard, Joe**

Economic Development, Tourism  
and Culture  
Fredericton, NB

**Rimer, Phil**

Fraser & Beatty  
Ottawa, ON

**Robertson, Douglas C.**

Goodman Phillips & Vineberg  
Montréal, QC

**Robichaud, Eric**

Industry Canada  
Ottawa, ON

**Rogacki, Elizabeth**

Ontario Ministry of Transportation  
Downsview, ON

**Rose, Anne**

Saskatchewan Trade & Export  
Partnership  
Regina, SK

**Ruelokke, Max**

Government of Newfoundland and  
Labrador  
St. John's, NF

**Ruso, Doreen**

Alliance of Manufacturers and  
Exporters Canada  
Toronto, ON

**Saintonge, Jean**

Ministère de l'Industrie, du  
Commerce, de la Science et de la  
Technologie (MICST)  
Quebec, QC

**Scheme, Frank**

GeoCan Information Solutions Inc  
Ottawa, ON

**Schneider, Anne-Marie**

Association of Consulting Engineers  
of Canada  
Ottawa, ON

**Scott, Wesley**

Northern Telecom Limited  
Brampton, ON

**Sexton, Rob**

Newcourt Capital  
New York, NY  
USA

**Shannon, George**

Inter-American Development Bank  
Washington, DC  
USA



**Sharman, Killaine**  
Canadian International Development  
Agency  
Hull, QC

**Sharp, Mike**  
Black and McDonald Limited  
Ottawa, ON

**Shaw, John**  
Klohn Crippen Project Finance  
Vancouver, BC

**Shoiry, Pierre**  
Association des Ingénieurs-Conseils  
du Québec  
Montréal, QC

**Siegel, Eric**  
Export Development Corporation  
Ottawa, ON

**Simone, Robin**  
Canadian International Development  
Agency  
Hull, QC

**Sloan, Richard**  
Bombardier Inc.  
Montréal, QC

**Sloan, Rick**  
Alberta Economic Development  
Edmonton, AB

**Stambrook, David**  
Transport Canada  
Ottawa, ON

**Ste-Marie, Mario**  
Canada Economic Development for  
Québec Regions  
Hull, QC

**Stephen, Terry**  
Strategie Services  
Toronto, ON

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## WINNING IN GLOBAL INFRASTRUCTURE MARKETS: SOLUTIONS THROUGH PARTNERSHIP

### Appendix 2

### Conference Program

#### Monday, September 14, 1998

**08:00** Registration and Morning Coffee - *North Lobby*

**08:45** Welcome and Opening Remarks by Conference Co-Chairs - *Congress Hall E*

**Jacques Lamarre**, President and Chief Executive Officer, SNC-Lavalin Inc.,  
Montréal

**Garrett Herman**, Chairman and Chief Executive Officer, Loewen, Ondaatje,  
McCutcheon Ltd. (LOM), Toronto

**09:00** Opening Keynote Address: "PPI - A Concept That Has Come of Age and Offer a Good Business Opportunity"; by **David Suratgar**, Of Counsel to Leboeuf, Lamb, Greene & MacRae, New York and London, UK; International Advisor to LOM; former Deputy Chairman of Morgan Grenfell International, London, UK - *Congress Hall E*

**09:30** "Growing Global PPI Markets: New Challenges for Canada to Remain Internationally Competitive" by **Ian Gillespie**, President and Chief Executive Officer, Export Development Corporation, Ottawa - *Congress Hall E*

**10:00** Refreshment Break - Sponsored by the Canadian Commercial Corporation - *North Lobby*

**10:30 Plenary Panel on "Overcoming the Problems in PPI Financing: Collaborative Approaches" - Congress Hall E**

Panel Chair: **Eric Siegel**, Executive Vice-President, Medium and Long-Term Financial Services, Export Development Corporation, Ottawa

Panellists: **Alan Curleigh**, Executive Vice-President, Klöckner Stadler Hurter Ltd., Montréal  
**Rob Sexton**, Managing Director, Global Project Finance Unit, Newcourt Capital, New York  
**Wesley (Wes) Scott**, Executive Vice-President, Corporate and Chief Financial Officer, Northern Telecom Limited, Brampton  
**David Leith**, Managing Director, Head of Debt Issuers Group, CIBC Wood Gundy Securities Inc., Toronto

**12:00 "Key Questions and Workshop Directions" - Congress Hall E**

**12:15 Lunch - Sponsored by the Export Development Corporation - Colonel By Lounge**

**"Foreign Affairs and International Trade's Role in Facilitating Successful Canadian Participation in the Global PPI Market"** by **The Honourable Sergio Marchi**, P.C., M.P., Minister for International Trade

**14:00 Concurrent Sectoral Workshops on "What do we need to do to win in sector specific PPI markets?"**

- **Transportation Projects Workshop - Capital Hall 1B**

Panel Chair: **William Pearson**, President, AGRA Development Inc., and Vice-President, AGRA Inc., Toronto

Panellists: **Richard Sloan**, Vice-President and General Manager, Structured Finance, Bombardier Inc., Montréal  
**John Desmarais**, Vice-President, Airport Development, NAPA Airport Development Consultants Inc., Toronto  
**Moya Greene**, Managing Director, Investment Banking, TD Securities Inc., Toronto

- **Energy Projects Workshop - Capital Hall 2B**

Panel Chair: **John Balint**, Vice-President, Project Finance Team, Export Development Corporation, Ottawa

Panellists: **Lance S. Howard**, Vice-President, Power Development Division, SNC-Lavalin Inc., Montréal  
**Dan Huras**, Vice-President, Business Systems, TransCanada International Ltd., Calgary  
**Anthony Courtright**, Vice-President and Co-Head, International Project Finance, Scotiabank, Toronto  
**Roberto Vellutini**, Head of Project Finance Group II, Private Sector Department, Inter-American Development Bank, Washington  
**David Moore**, Director, Business Development, Babcock & Wilcox Industries Ltd., Cambridge

- **Environmental Projects Workshop - Capital Hall 3B**

- Panel Chair: **Lucien Bradet**, Director General and Manager,  
Environmental Affairs Branch, Industry Canada, Ottawa
- Panellists: **Michel Bégin**, Directeur de portefeuille, Fonds de solidarité  
des travailleurs du Québec, Développement économique,  
Montréal  
**Christopher Henderson**, Chief Executive Officer, The  
Delphi Group, Ottawa  
**Diana Mourato**, Vice-President, Municipal Systems, Zenon  
Technologies, Burlington  
**Dreda Gaines**, Business Development Director, Thames  
Water International, Reading, Berkshire, UK

• **Communications Projects Workshop - Capital Hall 4B**

- Panel Chair: **James Mackie**, Vice-President, Strategic Marketing,  
Newbridge Networks, Kanata
- Panellists: **Marc Lusignan**, Director, Government Relations, SR  
Telecom, Ottawa  
**Ken Bravo**, Industry Group Head - Media and Telecoms,  
Global Project and Structured Finance, Royal Bank of Canada,  
Toronto  
**Jan Wehebrink**, Principal Banker, Telecommunications  
Sector, European Bank of Reconstruction and Development,  
London, UK

**17:00 Conclusion of Workshops**

**18:00 Reception** - Sponsored by Goodman, Phillips & Vineberg - *Congress H*

**19:00 Dinner** - *Congress Hall E*

Message by **Glenna Carr**, President, The Canadian Council for Public-Private  
Partnerships, Toronto

**“Canadian and International PPI Project Experiences: Key Observations”** by  
**John M. Beck**, Chairman and Chief Executive Officer, Armbr Enterprises Inc.,  
and President, Canadian Highways International Corporation, Mississauga

**Tuesday, September 15, 1998**

**07:30 Breakfast** - *Congress Hall E*

**“PPI and Canadian International Development Agency’s Private Sector  
Development Thrust in Developing Economies”** by **Huguette Labelle**, President,  
Canadian International Development Agency, Hull

**08:30 “Enhancing Canadian Competitiveness in the Global, Knowledge-Based  
Economy - A Partnership Approach”** by **Kevin Lynch**, Deputy Minister,  
Industry Canada, Ottawa- *Congress Hall E*

**08:50 Reporting Plenary - Panel Chair: Kevin Lynch - Congress Hall E**

- **Reports From Each of the Four Sectoral Workshops**
- **Expert Review Panel**

Panellists: **John N. Shaw**, Managing Director, Klohn Crippen Project Finance, Vancouver  
**Marc Pignard**, Vice-President and Head, Global Project and Structured Finance, Royal Bank of Canada, Toronto  
**Pierre David**, Director General, Industrial Cooperation Program, Canadian International Development Agency, Hull  
**David Suratgar**, Of Counsel to Leboeuf, Lamb, Greene & MacRae, New York and London, UK; International Advisor to LOM; former Deputy Chairman of Morgan Grenfell International, London, UK

**10:30 Refreshment Break - Sponsored by the Canadian Commercial Corporation - North Lobby**

**11:00 Open Discussion Plenary: Led by Conference Co-Chairs - Congress Hall E**

**12:00 Wrap-up and Closing Summaries by Conference Co-Chairs - Congress Hall E**

**12:15 Partnership Lunch - Congress Hall A**




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## WINNING IN GLOBAL INFRASTRUCTURE MARKETS: SOLUTIONS THROUGH PARTNERSHIP

### Appendix 3 List of Speeches and Presentations

#### A. Keynote Speeches

Full texts available in [Appendix 4](#).

David Suratgar, Counsel to Leboeuf, Lamb, Greene & McRae, New York and London, UK  
International Advisor to Loewen Ondaatje, McCutcheon Ltd.; Former Deputy Chairman of Morgan Grenfell International, London UK

***PPI — A Concept That Has Come of Age and Offers Good Business Opportunity***

Ian Gillespie, President and Chief Executive Officer, Export Development Corporation  
***Growing Global PPI Markets: Next Challenges for Canada to Remain Internationally Competitive***

Eric Siegel, Executive Vice-President, Medium and Long-term Financial Services, Export Development Corporation

***Overcoming the Problems in PPI Financing: Collaborative Approaches***

The Honourable Sergio Marchi, P.C. M.P., Minister of International Trade  
***Foreign Affairs and International Trade's Role in Facilitating Successful Canadian Participation in the Global PPI Market***

John M. Beck, Chairman and Chief Executive Officer, Armbro Enterprises Inc.  
President Canadian Highways International Corporation

***Canadian and International PPI Project Experiences: Key Observations***

Huguette Labelle, President, Canadian International Development Agency  
***PPI and Canadian International Development Agency's Private Sector Development Thrust in Developing Economies***

Kevin Lynch, Deputy Minister, Industry Canada  
***Enhancing Canadian Competitiveness in the Global, Knowledge-Based Economy — A Partnership Approach***

#### B. Panel Presentations

Copies of presentations in their original versions are available upon request. Please contact Services Industries and Capital Projects (SICP) Branch, Industry Canada Tel: (613) 952-0205, Fax: (613) 952-9054, E-Mail: [knechtel.karl@ic.gc.ca](mailto:knechtel.karl@ic.gc.ca)

John Balint, Vice-President, Project Finance Team, Export Development Corporation  
*Energy Projects — Workshop*

Lucien Bradet, Director General and Manager, Environmental Affairs Branch, Industry Canada  
*Environmental Projects — Workshop*

Ken Bravo, Industry Group Head, Media and Telecoms, Global Projects and Structural Finance, Royal Bank of Canada  
*Communications Projects — Workshop*

Marc Lusignan, Director, Government Relations, SR Telecom  
*Communications — Workshop*

James Mackie, Vice-President, Market Development, Newbridge  
*Communications Projects — Workshop*

William Pearson, President, AGRA Development Inc. and Vice-President AGRA Inc.  
*Transportation Projects — Workshop*

Wendy Scott, Executive Vice-President, Corporate and Chief Financial Officer, Northern Telecom Ltd.  
*Plenary Panel Presentation*

Robert Sexton, Managing Director, Global Project Finance Unit, Newcourt Capital  
*Plenary Panel Presentation*

Jan Wehebrink, Principal Banker, Telecommunications Sector, European Bank of Reconstruction and Development, London, U.K.  
*Communications — Workshop*



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## WINNING IN GLOBAL INFRASTRUCTURE MARKETS: SOLUTIONS THROUGH PARTNERSHIP

### Appendix 4 Keynote Speakers Presentations

<p><u>John M. Beck</u> Chairman and Chief Executive Officer Armbro Enterprises Inc. President Canadian Highways International Corporation</p>	<p><u>Ian Gillespie</u> President and Chief Executive Officer Export Development Corporation</p>
<p><u>Huguette Labelle</u> President Canadian International Development Agency</p>	<p>David Suratgar Counsel to Leboeuf, Lamb, Greene &amp; McRae Loewen Ondaatje, McCutcheon Ltd.</p>
<p><u>The Honourable Sergio Marchi, P.C., M.P.</u> Minister of International Trade</p>	<p><u>Eric Siegel</u> Executive Vice-President Medium and Long-term Financial Services Export Development Corporation</p>
<p><u>Kevin Lynch</u> Deputy Minister Industry Canada</p>	

### PPI – A Concept That Has Come of Age and Offers Good Business Opportunity

**David Suratgar, Counsel to Leboeuf, Lamb, Greene & McRae,  
New York and London, UK**

**International Advisor to Loewen Ondaatje, McCutcheon Ltd.; Former  
Deputy Chairman of Morgan Grenfell International, London, UK.**

Mr. Chairman, Minister, ladies and gentlemen,

I am honoured and delighted to have been invited to give an opening presentation at this important conference. It is a mark of Canadian hospitality and open-mindedness to let a foreigner into these deliberations. It reflects, I believe, your appreciation of the global nature of this infrastructure market in terms of the partnerships, the financing and the challenges or problems we all face. As an investment banker and international lawyer, I have always been open to clients from all the major industrialized

countries and am happy to see representatives of a number of old friends and clients in attendance today.

I am particularly grateful to Industry Canada, to SNC-Lavalin and to Loewen, Ondaatje, McCutcheon with whom I am delighted to be associated, for their conference sponsorships. They have asked me in effect to set the scene.

This I will try to do, and given the limited time assigned to me, I can but rapidly sketch the scene.

Such conferences, ladies and gentlemen, are long in gestation and planning — and within the last two months the global economy has been hit by not only the continuing effects of the Asian crisis but by the Russian collapse, the cloud hanging over Brazil and therefore much of Latin America and finally the repercussions of recklessness in the White House.

In the words of Saint Paul we can but see “through a glass darkly” in terms of the consequences of these developments for private participation in infrastructure development.

The current scene is one that I will return to at the end of my remarks.

I will attempt therefore to cover:

1. the evolution of the BOT/BOO — Public-Private Infrastructure collaboration scene
2. certain key issues that have arisen from recent experience with private finance and provision of infrastructure
3. lessons emerging from the impact of the Asian crisis
4. the current picture in terms of the impact of the Asian crisis on the appetite for deals on the part of banks, ECA's, bond markets, and equity providers.

## **1. The evolution of the BOT-BOO or concession contract approach to private infrastructure development (PPI)**

During the 19th century, much of infrastructure in Europe, the United States and, indeed I am sure, in your country was developed or was available for development by the private sector. This includes toll roads, canals, bridges, tunnels, ports, street cars, electricity, street lighting, gas, water and sewage, telephones, telegraph and railways. Some of these developments required government subsidy or as with your railways, favourable grants of land.

The background for these developments was the reassurance provided in each case by a civic society and a framework of law and regulations and of a reliable judicial system. The capital markets of London, New York, Paris, Zurich and Frankfurt were ready sources of equity and long-term debt. Elsewhere, private finance was available wherever imperialist forces permitted — i.e. the colonies of U.K. and France and areas of China and Latin America where gunboat diplomacy prevailed. Experience with the oil and gas and mining industries helped interest banks in organizing lending and providing loan agreements with sophisticated covenants and flexible security packages which they, unlike bond holders, were better placed to administer.

In most of these cases, the infrastructure business relied on contractual regimes based on concessions, leases or licences and were predicated on long-term stability of international trade, economics and currencies. This began to fall apart after WWI with the galloping inflation of the 1920s — with the drift to protectionism and the crash of 1929 and the ensuing depression.

The period 1929–80 was not an epoch for private sector owned or operated infrastructure. Nationalism — protectionism, socialism, communism and anti-colonialism were all negative forces. Nationalization or expropriation of foreign-owned utilities took place. The period following WWII saw most of the world

preoccupied with state intervention to rebuild infrastructure and the financial world led by the IMF and World Bank concentrated financial flows to states or their agencies. The Export Credit Agencies of the OECD and commercial banks also preferred sovereign borrowing or guarantees and were happy to deal with state agencies as borrowers, owners and operators of infrastructure.

Inevitably this approach embodied the elements of its own demise. The oil price shocks of 1973 and 1979 and the sovereign debt crisis of 1982–89 resulted in a sea change. It adversely impacted not only banks, ECA's and trade finance, but also it created the ambiance for the wave of privatizations set in motion by Mrs. Thatcher and going on to sweep the world. As the excellent background paper from Industry Canada for this conference sets out, a new climate favourable once again for private investment in infrastructure has emerged.

Most governments under pressure to reduce their external and domestic debt to get their fiscal house in order, have adopted this approach and have sought to utilize the BOT-BOO or concession model or to use private financing initiatives models based on risk sharing by governments or municipalities with private enterprise or on risk transfer to private enterprise as a means to these ends. As IFC's recent publication *Financing Private Infrastructure* (1996) shows, total estimated financing of new private infrastructure projects in emerging markets doubled between 1993 and 1995 from US\$17 billion to over US\$35 billion. During this period, a vast array of publicly owned utilities and other infrastructure assets were privatized. New sources of finance began to emerge for such projects — insurance companies began to finance PPI deals in emerging markets, bond deals for pre-completion stage financing appeared for a few selected markets, and 144a financings were closed. The multilateral banks set up programs to lend to PPI projects or to provide appropriate guarantees and export credit agencies have organized their procedures to facilitate PPI financings. Commercial banks prepared to engage in project financing grew in number and the maturities of their lending began to be extended. IFC itself expanded its PPI financing program being involved in some US\$29 billion worth of deals in forty countries by the end of the 1996 fiscal year. A number of equity infrastructure funds have been established to support contractors and suppliers embarking on BOO-BOT deals. These include the AIG-GE Capital Latin America Infrastructure Fund, the AIG Asian Infrastructure Fund, the Global Environment Fund and IFC and Asian Development Bank-backed funds as well as the European Investment Fund. Mezzanine Debt Funds have also been announced for Latin America by Darby and by The Trust Company of the West — backed by the Inter-American Development Bank.

## **2. Key Issues**

Even during this positive phase for PPI — IFC's analysis demonstrated that progress was uneven — greater success was being achieved in telecoms and power than in other sectors. Virtually all the deals done were in a handful of countries: Argentina, Colombia, Chile, Mexico, Hungary, Poland, Pakistan, India, Indonesia, Philippines, Thailand, Turkey and China. Many other countries began the process of privatizing and market restructuring and developing PPI programs. Their slowness reflected the politically complex nature of the process and the delays in demonstrable benefits in contrast to immediate political costs.

Governments have also experienced the difficulties of having to be involved as regulators, as buyers of product (i.e. power purchase obligations or guarantees) or suppliers (i.e. sewage, solid waste, fuel). They have had to be directly involved in project negotiations and were in many cases inexperienced and had little in the way of laws or regulations in place to help structure transactions. Frequently they mismanage negotiations and greatly increased transactions costs for investors resulting in delay or failure to achieve financial close (e.g. Pakistan (Hub) — Turkey (Birecik) — India (Enron)).

Negotiations have proved to be complex as governments seek acceptable tariffs and sponsors investors and lenders sought government commitments to guard against future political pressures to renegotiate tariffs, limit access to foreign exchange or indeed to revoke concessions or contractual obligations. This suggested the importance of successful precedents, of a clear legislative framework, of strong local investor involvement or partnerships and of competitive bidding and transparency in the award of concessions.

IFC's survey also indicated that up to end 1996 the time frame until financial closure for PPI's was falling from an average of 17 months in 1994 to 11 months in 1996. Where the legal and policy framework of the host government was not already in place delays and failures to close were far more likely. The best deals in these terms were the smaller projects in countries with an existing PPI track record or those in which the supply and off-take were under private sector control, or with a link to foreign exchange revenues. Most delays reflected difficulties in resolving risk allocation between project participants — especially where investors, sponsors, lenders or governments were inexperienced or where political changes delayed government commitment (e.g. the strange case of Hub) or contractors, buyers or supplies proved to be uncreditworthy.

The World Bank and IFC stress that experience shows that the policy framework must meet the interest of the government acting for the public and of sponsors and investors. Successful early transactions and such a policy framework are essential. Government also needs to have the help of experienced and impartial advisors and transparency of procedures for awarding BOT-BOO deals or concessions.

The track-record or predictability of government in meeting its commitments has been shown to be crucial — but equally government has to be able to show the public that the deal is in the public interest. Yet where investors enter a new market with less than a mature legal environment and a high degree of forex risk a premium will clearly be sought and will be justified.

Thus the Multilateral Lending Agencies have recognized (IFC — *Financing Infrastructure* and The World Bank Group — *Procurement for Private Infrastructure Projects* (1996)) that in certain circumstances where a functioning regulatory framework is not yet in place and there is an urgent need for the project, it may be acceptable to negotiate a PPI deal — while underscoring the fact that a fully functioning regulatory framework and international competitive bidding are not only desirable in most cases — but also likely to reduce political risk. This is particularly true for long-term contracts given the difficulty of foreseeing future market and political conditions.

In a recent meeting between the World Bank Group and international contractors active in the Public-Private Partnerships for Infrastructure development, a major contractor argued for flexibility in the application of international competitive bidding rules to BOT/BOO deals. He also urged recognition of certain guidelines for successful projects, and I quote:

- All parties must clearly understand why each is in the consortium and what their relationship is with the government and public.
- The ability of each party to accept and tolerate risk must be understood.
- All risks must be shared equitably and be borne wherever possible by the party or parties most able to assess control and mitigate them.
- All parties must be satisfied with the capabilities of all other parties.

At that same conference, at a similar subsequent meeting of the contracting industry at the World Economic Forum in Davos and at similar recent gatherings elsewhere, contractors and suppliers having experience of BOT, BOO and British style Private Finance Initiative projects have stressed several key points:

In order to cope with the change in the global infrastructure market contractors have had to expand their services to include not just supply and installation or construction but also feasibility studies, design, project management and operation and maintenance. They have also had to learn the mechanics of financial packages and to secure the right financial advisors and lawyers.

In BOT schemes contractors and suppliers are at the same time both the most and least appropriate project sponsors. They know how to coordinate the activities and price a deal — yet their primary responsibility is to achieve the maximum return for their shareholders in the shortest possible period of time. This can well have a negative impact on project viability or on the conduct of negotiations.

There is a gap — today — the lack of sound project developers with a few exceptions in the case of power.

Contractors and suppliers are too well aware of the low ratio of success in the business. There are far too many conferences and far too few closings! The market is tainted by the reputation for delay, for the high cost of entry and for high transaction costs; yet it would be foolhardy to cut corners.

As one commentator put it:

“Of the major skills required one quarter is in ensuring scarce financial resources are deployed in following real opportunities where competitive advantage can be achieved and at the end of the day a realistic margin in relation to the risks involved can be achieved.”

He went on to conclude:

“Contractors just cannot afford to incur the extraordinary costs involved in promoting BOT schemes if they continue to be the subject of excessive delays or lengthy competition.”

It is clear that the costs of getting to yes on a BOT can be as high as US\$6–8 million and certainly can frequently exceed 5 percent of total project costs. This makes pursuit of projects of less than US\$100 million uneconomic for a BOT approach. This is especially true for projects in an infrastructure involving conventional work and offering very low margins.

Contractors and suppliers argue that preferred bidders should be selected at a very early stage and that the public interest concern should be for the reliability and the cost of services to be provided and not the cost of construction or of capital. They also are constrained in terms of the amount of equity they can provide and the time frame they can afford to allow before an assured exit. They argue with some justification either for some reimbursement of their promotional costs in the event of pre-qualification leading to a failed bid, or for a mechanism for promotional costs to be commuted to equity at a premium.

The lesson emerging from these dialogues is that selection and bidding procedures for the choice of BOT-BOO concession operators should be redesigned. Perhaps it may be necessary to permit negotiated contracts but to require bidding for subcontracts for supplies and services. Alternately some other procedure may need to be adopted to reduce the costs of bidding. On this matter, I would argue, ladies and gentlemen, for a major expansion in funding by the multilateral or bilateral aid agencies of the costs of project preparation. The financial and economic feasibility and preliminary engineering, the legal work on regulatory, concession documentation, bidding documents and on bid review and contract negotiations should be partially covered by payments funded by grant or loans to government or its relevant agencies. Independent financial advisors and lawyers could then be retained at a modest fee by the authorities. This should produce transparency and high quality information memoranda, data rooms and legal documentation — greatly reducing development and transaction costs for prospective bidders. Financial advisors and lawyers should then receive a solid success fee on financial close which could be made payable by the winning bidder. I would greatly value your comments on this suggestion if time allows for questions.

### **3. Lessons from the Asian Crisis**

Private sector-owned utilities, particularly those owned by foreign investors, have suffered in each economic downturn. This was true in France, in Spain, in Latin America and in Eastern Europe. Inflation, unpopular tariff increases, allegations of poor service and insufficient maintenance expenditure as well as tardy tariff adjustments produced unpleasantness, strained relations between government and owners, public antipathy to foreign investors and in due course creeping nationalization or premature termination

of concessions.

This was true in the 1920s and 1930s — and again in the 1950s and 1960s. It also has been seen at work recently in New Mexico (Las Cruces and the El Paso electricity utility) and the United Kingdom (water utilities). But the real test bed has been provided by recent experiences in Pakistan and India and more recently in Malaysia, Thailand the Philippines and Indonesia.

Two years ago economic commentators such as Lester Thorow were touting the superiority of all things Asian. Now he writes of all the hidden defects of the Asian Tiger economies that have come to light after the collapse of Thailand's economy. What has been the impact of the Asian crisis on PPI transactions? What lessons can be learned for application elsewhere in the future?

Since mid-1997, we have seen the collapse of the Asian region's stock markets, helter-skelter slides in the value of their currencies and stalling in economic growth or indeed deflation. The powerhouse of Asia — Japan — proved to be of no help as it struggled with its own problems.

A recent World Bank survey of the impact on public utilities in the four principal players Malaysia, Philippines, Indonesia and Thailand is particularly instructive. All had vertically integrated public utilities which had turned to buying power from private generators under long-term PPA's for 10–30 years. All have experienced increased costs of power, threats of default under the PPAs or of forced renegotiation. They have also seen a serious contraction in the market for electricity.

The impact has been seen to vary depending on:

- The fuel source used — local or imported
- The dimension of the economic crisis
- The currency denomination of the wholesale tariffs
- The extent of local financing utilized
- The margins between wholesale and retail tariffs.

Indonesia has had the worst experience — because of the presence and adverse impact of all these factors other than the use of local fuel. The impact has been less in Malaysia where only the impact of the overall economic crisis has been relevant. The Philippines projects have also suffered considerably because nearly all the adverse factors have been at play. Thailand has had a mixed experience — the damage resulting from the crash of the economy and the reliance on imported fuel have been paramount. There was also some impact resulting from the foreign financing employed in many of the BOT's arranged with the State utility EGAT.

The World Bank study suggest that the severe impact in Indonesia may require a 70 percent rise in retail tariffs by the state utility PLN to cover increased costs of private power. In contrast, Thailand and Malaysia will require only modest increases. The four countries were all hit by the 1997 crisis. By June 1998 Malaysia, Philippines and Thailand suffered currency depreciations of 35 percent. Interest rates in Philippines and Malaysia had risen by 50 percent. In Thailand they had doubled. There were massive falls in the stock markets (50 percent Malaysia, 30 percent and 40 percent respectively in Philippines and Thailand). In the case of Indonesia the currency fell by 80 percent over the comparable period, the interest rate tripled and the stock market fell by 40 percent.

The lessons were clear — private utilities with a large foreign currency debt suffered a massive increase in debt service costs and in capital equipment costs — making new projects extraordinarily expensive. Where fuel supply is imported and the cost passed through, it could constitute up to a third of life cycle costs of a coal fired plant and three quarters for an oil-fired plant, thus being a major factor in tariff increases.

In the case of the Philippines and Indonesia, tariffs were expressed in foreign exchange and currency depreciation resulted in a major increase in costs and tariffs in local currency terms. Malaysia comes out best because much of the financing was in ringgits and tariffs were also in ringgits. Thailand also



benefited from local funding and baht denomination of tariffs. To help keep new projects going, EGAT has agreed to denominate a percentage of tariffs in foreign exchange currencies using a rate of 27 baht to the dollar when in July the baht was trading at 40 to the dollar.

Clearly the lesson is the need to maximize domestic funding of projects. Also it is important for wholesale tariffs to be rational in terms of retail tariffs — the Bank study suggests that wholesale tariffs should be less than two thirds of retail tariffs given, the need to cover transmission, distribution and administration costs and customer service costs. In Malaysia this ratio was in place — not so in the case of the Philippines' NANCOR or Indonesia's PLN. The Bank study suggests that many emerging market utilities of this type are in need of massive cash infusions or are technically bankrupt.

The worsening situation of public utilities has increased pressures to renegotiate contracts. A number of planned projects based on PPAs have been postponed. Governments such as Indonesia have sought to modify contracts for existing projects — calling for lower purchase obligations. Thus in February PLN issued letters with a unilateral setting of the rupiah to the dollar at 2,450 when the rate was 8,450 — in violation of the PPA. PLN later withdrew this challenge. (Similar problems occurred in Pakistan with disputes between WAPDA and Hub and in Indonesia with Thames Water.)

Renegotiations may in certain cases be inevitable — the issue is one of avoiding unilateral default or breach of contract. The World Bank study suggests that the latter is most likely to occur where contracts were not preceded by competitive bidding. Overreliance on governments in terms of taking risk or providing financial subsidy can be interpreted as having imposed excessive liability on government and like charges of bribery can cause the whole transaction to be attacked and made a political *cause célèbre*. (Illustrations can be provided by experiences in Indonesia, Pakistan and India with the Enron Dabhol case.)

Here again Malaysia and Thailand avoided special guarantees or exchange rate promises, fuel supply arrangements were strictly commercial, and no financial subsidies or loans were provided. In contrast the Philippine government took on fairly substantial risks including guarantees against inflation, forex risks and changes in fuel costs. The government was in fact negotiating from a desperate power shortage situation. It has since been able to reduce many of the guarantees on offer to subsequent projects. Indonesia in contrast offered "letters of comfort" rather than guarantees and project sponsors also assumed risks such as fuel supply.

#### **4. The Current Picture**

There is no doubt that current market conditions are not PPI friendly — particularly in emerging markets. Bond market and commercial bank finance will be difficult to secure — it is hard for investors and banks to assess and price risk. As a result there will be a flight to quality as was the case during the debt crisis in 1982-1989.

However, quality projects with good economics of manageable size and with first class sponsors located in countries seen as having a civic society with a stable legal system and in a good standing in terms of their own credit rating, will continue to be financeable. Local currency funding for a significant element of project costs is also a powerful positive element.

The availability of finance or guarantees from multilateral banks or co-financings with the IFC, EBRD or Asian Development Bank or significant lending or cover from the major OECD Export Credit Agencies will once again be essential building blocks for successful financings.



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**WINNING IN GLOBAL INFRASTRUCTURE MARKETS:  
 SOLUTIONS THROUGH PARTNERSHIP**

**Appendix 4  
 Keynote Speakers Presentations**

<u>John M. Beck</u> <u>Chairman and Chief Executive Officer</u> <u>Armbro Enterprises Inc.</u> <u>President Canadian Highways International Corporation</u>	<u>Ian Gillespie</u> <u>President and Chief Executive Officer</u> <u>Export Development Corporation</u>
<u>Huguette Labelle</u> <u>President</u> <u>Canadian International Development Agency</u>	<u>David Suratgar</u> <u>Counsel to Leboeuf, Lamb, Greene &amp; McRae</u> <u>Loewen Ondaatje, McCutcheon Ltd.</u>
<u>The Honourable Sergio Marchi, P.C., M.P.</u> <u>Minister of International Trade</u>	<u>Eric Siegel</u> <u>Executive Vice-President</u> <u>Medium and Long-term Financial Services</u> <u>Export Development Corporation</u>
<u>Kevin Lynch</u> <u>Deputy Minister</u> <u>Industry Canada</u>	

  
**Growing Global PPI Markets:  
 Next Challenges for Canada to Remain Internationally  
 Competitive**

**Ian Gillespie, President and Chief Executive Officer, Export  
 Development Corporation**

Good morning ladies and gentlemen. *Bonjour Mesdames et Messieurs,*

I'm very pleased to be with you this morning, and it's certainly gratifying to see such a cross section of representatives from the financial sector, from government and from service providers. *Je souhaite également la bienvenue aux représentants de certaines des plus importantes entreprises d'infrastructures publiques-privées (IPP) du Canada.* About 60 percent of EDC's medium-term transactions involve PPI projects, so I can give you the outlook from the trenches.

I would also like to throw out a challenge to you. I hope that you will use this Conference to do more than just listen.

We need your thoughts and your input because the objective is to get down to brass tacks and find real solutions to a number of important challenges. Because, I have to tell you — there are some major obstacles keeping Canadian firms out of the global PPI market.

You may have read the forecasts from the World Bank. It projects a global PPI market of US\$3 trillion, with US\$1.3 trillion of that business over the next decade involving investment and participation from the private sector. *C'est en grande partie sur le modèle IPP que repose cette expansion.*

With most governments around the world under pressure to control public spending, it is increasingly the preferred approach.

Not only are they more cost efficient, but also PPI projects generate additional tax revenues.

The prospect of so many lucrative capital projects all around the world should be good news for export-ready Canadian firms. But here's the bad news. Despite our widely recognized engineering strengths and Canada's ranking by *Engineering News Record* as fourth in the world in the supply of consulting engineering services, most Canadian firms will be relegated to the sidelines of the coming PPI bonanza. That is unless Canada's financial community, the business community and the government can come together to make it easier for Canadian firms to compete globally.

There's no denying that the ability to offer integrated solutions to complex engineering problems is an advantage in the global PPI market. But it's not enough. When it comes to structuring a winning bid, Canadian companies are discovering that technical engineering is often less important than financial engineering.

To give you an idea of just how few Canadian firms are involved offshore in complete project developer-sponsor-owner-operator roles in a 1996 league table of top project developers, Canada had only four firms out of a total of 80 companies on the list — and three of those were natural resource companies. Findings such as these certainly drive home the message that Canada's capacity to compete internationally is at risk.

Our country could well be left at the starting gate while firms in other countries — even in emerging nations — charge full throttle into the global PPI race. Why? Because this particular marketplace is very much a club dominated by highly capitalized transnationals. *Et je peux compter sur mes dix doigts le nombre d'entreprises canadiennes qui sont membres en bonne et due forme de ce club.* Unless we act quickly, most Canadian exporters and investors run the risk of remaining on the outside looking in.

There are a number of reasons why the doors remain shut to these Canadian exporters and investors. To begin with, Canada lacks a strong PPI history. As a consequence, few Canadian companies have had the opportunity to build a domestic track record.

Only very recently, have we begun to see a move in Canada toward the PPI concept. The newly completed toll road, Highway 104 in Nova Scotia, comes to mind. In western Canada, the Alliance Pipeline costing C\$3.7 billion is expected to get final clearance from the Energy Board before year end. On another front, Hydro-Québec, BC Hydro and Ontario Hydro are all moving from government-owned monopolies to a competitive electricity market.

All this bodes well for wider acceptance of the PPI model in Canada. *C'est fort encourageant, car les entreprises canadiennes se doivent d'acquérir de l'expérience en matière d'IPP au pays afin d'être en mesure d'établir leur crédibilité sur les marchés étrangers.*

Another serious handicap for Canadian firms competing overseas is size. Unlike transnationals like Bechtel or ABB that have all the resources to take on complete Build-own-operate infrastructure projects, Canadian companies, even large Canadian companies, are small in global terms. They are frequently at a

disadvantage because of their smaller balance sheets and their limited financing arranging skills.

They have to devote a proportionately greater amount of time and resources to raising the debt and equity capital needed — just to get to the bidding stage.

Small and medium-sized businesses find it very difficult to compete as project developers outside Canada. When they are successful it is usually as vendors/suppliers. That's particularly worrisome because SMEs account for 85 per cent of Canadian exporters. Moreover, from this sector will come future generations of large Canadian PPI developers.

You might recall that in the Consultation Paper prepared by Industry Canada, access to debt or equity financing was identified as a critical barrier keeping Canadian firms out of the global PPI market.

The problem is most acute in the early development stage of a project. This is where the risk is greatest and the cost is highest.

Money talks — and sponsors listen when a company can — right up front — bring the complete financing package to the table.

And when I say complete, I mean the equity and debt underwriting and syndication, export credits, institutional investors, performance bonds and political risk insurance. Without that kind of a comprehensive package, the chances of getting a PPI bid off the ground are at best slim.

And at the present time, too few marquee name Canadian PPI companies have that calibre of arranging expertise, risk capacity and financial clout.

One reason for this clout — where it exists — is that these companies have relationships with large U.S. and European financial institutions. However, they often find that when they are not on home turf it can be difficult to get the kind of dedicated attention given to local PPI developers. Let's face it, there's a lot of competition — and all for a piece of the same pie.

For the vast majority of Canadian companies, finding 100 percent of the financing for a capital project can often amount to wishful thinking instead of a real possibility.

*Pour la grande majorité des entreprises canadiennes, trouver un financement de cent pour cent pour un projet d'importance relève davantage du rêve que de la réalité.* Because, for example, unlike financial institutions in other OECD countries, Canadian pension funds and life insurance companies have limits on how much they can invest off shore — precisely where the most promising PPI projects will get off the ground.

What is needed in Canada is dedicated PPI financing support for capital project developers — not just support for their Canadian-based activities but for their offshore activities as well. By this I mean their foreign subsidiaries, joint ventures and alliances as well as their multi-country sourcing requirements.

We need some fresh thinking to make this happen. And finding the answer is just the beginning. It's implementing the idea that takes courage and leadership. That is what this Conference is all about.

The Industry Canada paper also raised the issue that Canadian banks and other financial institutions have less risk appetite than their foreign counterparts.

That may be changing in some cases. Canadian banks are taking steps to enhance their global competitiveness by concentrating and refining product specializations in world financial capitals like New York and London. I only hope the benefits will extend beyond North America and the EU. Some would argue that's a good news-bad news scenario. On one hand, it enables Canadian banks to hone and enhance their project and structured financing skills internationally. On the other hand, it may make it harder for smaller Canadian players to access capital and other forms of PPI support here at home.

As for non-bank financiers in Canada, they continue to grow their PPI experience and capacity.

But here too their investment and risk appetite is limited and will be influenced by economic cycles and the vagaries of the markets as we are seeing currently in Southeast Asia, South America and Russia. The depth of people resources is another very scarce commodity for all of us to contend with.

*Voilà, en résumé, les principales questions dont vous aurez à débattre aujourd'hui. Pendant que vous explorerez diverses avenues, je vous exhorte vivement à ne jamais perdre de vue l'ensemble du tableau.* By being out there in the markets, Canadian PPI firms will do much more than generate direct exports.

They will also create a number of other less quantifiable wealth creation benefits: strategic market footholds, follow-on project opportunities, domestic R&D, technology innovation and repatriation of dividends. These are all benefits that, while often difficult to measure on a deal-by-deal basis, are nevertheless critical to ensuring Canada's long-term trade competitiveness.

And EDC is strongly committed to helping to create that competitive advantage. But, we have reached the point where — without compromising our traditional forms of financing and insurance — we now must look at new ways to lever our risk capacity with like-minded financial partners.

As most of you are no doubt aware, EDC is different from other financial institutions in many ways. We support the broadest range of Canadian companies, regardless of their size, geographic location or business sector. We are open for business in more than 200 countries, and play a pivotal role in sustaining Canada's presence in the global PPI market place. And another distinguishing feature: more than 85 per cent of our customers are small or medium-sized.

We've come a long way over the past 50 years, having supported more than \$200 billion in Canadian exports and foreign investments. This year alone, we are expecting to support the international initiatives of Canadian companies to the tune of more than \$32 billion. EDC's legislation was modernized in 1993, allowing us to be much more creative and flexible in the ways we structure and deliver our services. One example — now we can invest equity in a wide range of overseas projects that support Canadian exports.

As EDC gets ready to enter a new millennium, we're now taking stock of our current capabilities, and looking at new ways to grow our support to Canadian firms. What we are seeing is that, as projects become more complex, the financing needs often exceed the value of the Canadian supply. Furthermore, while we have the largest pool of trade finance skills under one roof in this country we still lack some skills such as syndication capability in contrast to our private sector peers.

Our resources, both financial and human, are finite. As well, there are various international agreements which EDC's activities must respect.

So, it's becoming increasingly evident — we can't do it all and we can't do it alone. It's a challenge that requires the combined strengths of all the sectors represented here today. *C'est un défi qui exige que tous les secteurs représentés ici aujourd'hui unissent leurs forces.*

This Conference provides a genuine opportunity to synergize our respective strengths. And let's look at these strengths: private sector financial institutions have unique expertise in underwriting and arranging syndications; pension funds and insurance companies have large pools of investment capital looking for adequate diversification and attractive returns and are amenable to the kind of long-term financing that PPI developers need; PPI firms represented here today have their technical expertise, the market savvy and international credibility — all essential key success factors.

As for EDC, not only do we have the breadth of geographic experience and country knowledge, we can also lever our large pool of trade finance skills more fully.

As such, we are uniquely positioned to be the catalyst for a potentially new, multi-partner initiative that would fulfil the complete financing requirements of Canadian PPI developers.

During the plenary session later this morning, my colleague Eric Siegel and the other panellists will get the ball rolling. And, while I won't steal their thunder, it's reasonable to assume that any viable solution brought to the table will supplement and enhance financing services that already exist — and have a risk appetite geared to the specific needs of PPI firms. And obviously, whatever emerges, it will have to be commercially viable and self sustaining.

*Vous commencerez probablement par considérer les initiatives qui contribueront à créer un climat plus favorable pour les entreprises d'IPP canadiennes.* On that score, I just want to mention that the Task Force on the Future of the Canadian Financial Services Sector will be instrumental in resetting the rules by which Canada's financial system will be governed in the years to come.

And your discussions will quite likely include the role government should play in facilitating more dedicated infrastructure funds in Canada. Personally I believe that government could lend considerable weight to whatever form of financing initiatives emerge from your discussions — which would help tip the balance in favour of success.

I am not suggesting the government — separately from EDC's involvement — should put additional dollars at risk. Instead, the government could look at modifying its existing rulebook with a view to drawing out more private sector capacity. The objective is simply to facilitate the creation of a powerful new wealth generator for Canada.

But whatever the course of action you prioritise today, bold new initiatives cannot be implemented overnight. However, present market uncertainties notwithstanding, neither can we afford to take our eye off the ball. There are a number of steps that Canadian exporters and investors can take right away. For instance, they can start to think in terms of a broader involvement in the PPI market, not just making sales to foreign buyers.

They can identify and adapt to market niches, develop global supply chains, and establish investment relationships with foreign subsidiaries and joint ventures. And they can turn to EDC not only for export financing and insurance support but also for PPI market intelligence and expertise.

And so as you start your work, I would like to again remind you that *the* outcome of your discussions could very well shape the future of numerous Canadian firms that are right now poised to enter the global PPI marketplace. And looking at the broader perspective, the growth of the Canadian economy is inextricably tied to success in these areas.

In short, we have all the necessary ingredients in this country to capture our fair share of the global PPI market — a market that holds out vast opportunity for job growth and wealth generation over several decades to come. Whether we find the correct recipes will largely be determined by the ideas and commitment expressed over the next two days during this Conference.

Good luck. Bonne chance. And for a start, count EDC in.

Thank you ladies and gentlemen  
*Merci Mesdames et Messieurs*

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## WINNING IN GLOBAL INFRASTRUCTURE MARKETS: SOLUTIONS THROUGH PARTNERSHIP

### Appendix 4 Keynote Speakers Presentations

<p><u>John M. Beck</u> Chairman and Chief Executive Officer Armbro Enterprises Inc. President Canadian Highways International Corporation</p>	<p><u>Ian Gillespie</u> President and Chief Executive Officer Export Development Corporation</p>
<p><u>Huguette Labelle</u> President Canadian International Development Agency</p>	<p><u>David Suratgar</u> Counsel to Leboeuf, Lamb, Greene &amp; McRae Loewen Ondaatje, McCutcheon Ltd.</p>
<p><u>The Honourable Sergio Marchi, P.C., M.P.</u> Minister of International Trade</p>	<p>Eric Siegel Executive Vice-President Medium and Long-term Financial Services Export Development Corporation</p>
<p><u>Kevin Lynch</u> Deputy Minister Industry Canada</p>	

### Overcoming the Problems in PPI Financing: Collaborative Approaches

**Eric Siegel, Executive Vice-President  
Medium and Long-term Financial Services  
Export Development Corporation**

Good morning, ladies and gentlemen,

Let me begin by saying what a pleasure it is to host this distinguished panel. I hope this session will help set the tone for much of the important discussion to take place later today and tomorrow.

So far this morning, we've heard two speakers describe the dramatic growth in demand for PPI projects. But while Canadian PPI firms are poised for global success, many risk losing out to foreign competitors that are often bigger, stronger and better-supported by their own financial and government communities.

That brings us to our panel discussion. The title is: Overcoming the Problems in PPI Financing:



**Collaborative Approaches.** That's a pretty ambitious goal for between now and lunch time, so I thought I would try focussing our discussion by providing some background comments. First, some comments on how Canada ranks in areas critical to international PPI success. Then, I'll highlight some of the crucial PPI financing needs that, from EDC's perspective, require better support from the Canadian financial community.

Before I begin, let me briefly outline how this session will proceed. Following my opening remarks, I'll introduce all of the panel participants at the outset. Each of the speakers will then present for approximately 10 minutes, and I would ask that you hold your questions until after all of the speakers have presented. Following the presentations, I would encourage your active participation by way of questions or comments.

Let me begin my remarks, then, by looking at the domestic PPI picture. To be competitive abroad, it often helps to first be successful at home. Many of you would agree that Canada has world-leading technical capacity for infrastructure development. In fact, the World Economic Forum lists Canada sixth in the world for infrastructure development — things like communications, transportation, and so on.

However, behind this lofty status lurks a different story. As it happens, most Canadian infrastructure is still either in public hands or is highly regulated. To date, there are few "made-in-Canada" private infrastructure examples, and minimal domestic experience. As a result, the project packaging skills of exporters, investors, sponsors, developers and financial institutions are less obvious.

As Canadian PPI players move into global markets, our limited domestic track record detracts from our international competitiveness. The impact is difficult to measure tangibly, but there are some data. As Ian Gillespie mentioned earlier, a recent global league table of private project developers ranked only four Canadian firms in the top 80 — and three of these four firms were resource-based.

And while experience is important, risk capacity is even more critical. To win project mandates, PPI firms often need to mobilize financing and risk capacity at the earliest stages of project development. However, on an international scale, Canada's industrial bench strength is quite thin. In a *Financial Times* survey ranking firms by market capitalization, Canada appeared 13 times in the top 500, but only twice in the top 250 (Nortel at 117 and BCE at 192), and not once in the top 100.

When Canadian PPI firms go head-to-head with foreign competitors, it usually looks like David versus Goliath. Compare, for example, SNC-Lavalin's capital of roughly C\$170 million against ABB's capital of about US\$5 billion. Or Nortel's US\$6 billion, versus Siemens' US\$16 billion. Even more daunting, companies like ABB, Siemens, and Bechtel have developed their own captive project financing arms. Financial clout like that is hard to compete against.

From these data, I draw two important conclusions. The first is that, in global terms, even the largest Canadian PPI firms appear more like SMEs. As such, they lack the financing and risk capacity enjoyed by their foreign competitors. The second — which follows from the first — is that Canada's PPI competitiveness is at risk.

To bolster their competitiveness, Canadian firms need more effective, targeted, dedicated financing support to compete internationally. The exact form that support will take is what we're here to discuss today. To begin the dialogue, I want to propose four critical financing needs that EDC has identified, based on extensive discussions with PPI stakeholders from the business, financial and government communities:

1. **Comprehensive project solutions:** Canadian PPI firms cannot afford to spend valuable time and money cobbling together multiple sources of financing and risk management support. They need one-stop shopping for all their needs.
2. **Up-front, fully underwritten financing commitments:** Canadian firms risk losing out on market opportunities if they cannot mobilize financing on a timely basis. If you don't bring financing to the bidding table, you won't be a credible player.

3. **Financing support for global operations:** By this I mean supporting Canadian firms not just exporting and investing from Canada, but from wherever their activities originate. Supporting the global operations of Canadian firms helps create new trade and wealth-creation opportunities here at home.
4. **Dedicated and sufficient risk capacity:** Canadian PPI firms need to be assured that wherever market opportunities take them, financing sources are available. These sources must be both committed and sufficiently large to digest the financing risks.

But while my role has been to try and give you a backdrop, our panellists are eminently more qualified to articulate the challenges faced by Canadian firms, the financing gaps that exist, and potential strategies for closing the gaps. With me today are representatives from two firms that have clearly demonstrated an ability to win PPI mandates — KSH and Nortel, and two firms that routinely step up to finance them — CIBC-Wood Gundy and Newcourt.

First, let me introduce Al Curleigh. Al is executive vice-president, Klockner Stadler Hurter, in Montreal. He has prime responsibility for overseeing KSH's major international capital project work. KSH is one of Canada's leading engineering firms, with a long and successful international track record. Its past and present activities include chemical plants in China, pulp mills in Indonesia, and fertilizer plants in Pakistan.

Following Alan will be Wes Scott, executive vice president and chief financial officer of Nortel. Wes is responsible for the strategic coordination and direction of key functions including finance, human resources, strategic planning, government relations and corporate development. As you know, Nortel is one of the world's leading communications and information technology companies, and is an active player in PPI projects.

Third will be David Leith. David is managing director and head of debt issuers group at CIBC Wood Gundy Securities in Toronto. David is responsible for corporate and government debt origination business, as well the firm's activities in the areas of privatization and public/private partnerships. CIBC Wood Gundy is a leading PPI financier, both domestically and abroad.

Finally, I'm pleased to introduce Dan Morash, managing director, Global Project Finance Unit, Newcourt Capital in New York. Dan oversees Newcourt's investment banking and project finance activities. Newcourt is the world's second-largest non-bank financier, and its PPI résumé includes Canada's first privately financed toll road, Highway 104 in Nova Scotia. Newcourt is now building on this expertise to deliver financial solutions for projects in Canada, the U.S. and overseas.

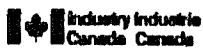
I would now like to call upon Al Curleigh for the first presentation.

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**Foreign Affairs and International Trade's Role in Facilitating  
Successful Canadian Participation in the Global PPI Market**

**The Honourable Sergio Marchi, P.C., M.P.  
Minister of International Trade**

Let me begin by thanking EDC [Export Development Corporation] for sponsoring this luncheon. Not only can the EDC help companies with export financing, but also they can put on a pretty fine lunch. And I want to thank Ian Gillespie and the others, who I know have been slaving away in the kitchen all morning!

You know, we live in a time of great change. This summer, we were again reminded of how even our most cherished certainties can come under siege: Wendel Clark is no longer a Toronto Maple Leaf; Jim Hart is no longer a member of the Reform Party and, most disturbing, Ginger is no longer a Spice Girl.

It just shows that you can't take anything for granted any more !

But today I would like to speak about another area of change — one which represents not upheaval but opportunity, and one we must embrace, not avoid. And that is the change taking place in how major infrastructure projects are being planned, financed, constructed and run.

Around the world, a building boom is going on. Developing nations are investing about US\$250 billion every year on developmental projects, many of them in the area of infrastructure. And developed nations are investing in infrastructure to ensure and enhance their productivity in an increasingly competitive world.

In Asia — particularly China — tremendous efforts are being made to provide the infrastructure which will allow that region to assume its place as an economic superpower. Only 25 percent of the people in China have access to sanitation, versus 100 percent in Canada. The average person in China consumes 780 kilowatt-hours of electricity per year, versus 18 000 in Canada.

In closing this gap, it is estimated that close to US\$1.5 trillion will be required to meet Asia's growing infrastructure needs by the year 2005. That's one point five trillion.

And as governments there, as elsewhere, struggle with such major investments at a time when they are strapped for cash and burdened by debt, Public-Private Infrastructure (PPI) has emerged as the preferred way to go.

Indeed, the growth of the PPI market is truly astounding. PPI financing in developing countries has increased 13-fold in just the past eight years.

And the future looks even brighter: Over the next 10 years, the world market for infrastructure projects is estimated to be about US\$3 trillion. Of this, more than a third will be implemented with private sector participation.

In this explosive and expanding market, Canada must not be a bystander.

So this Conference could not be more timely.

Over the past few years, Canada has established itself as one of the premier trading nations in the world. But while we have become very successful international vendors, we have had less success as international project developers and owner-operators.

In particular, we have not converted our world-renowned expertise in areas such as telecommunications, environmental technologies, energy and transportation into significant involvement in the vast international marketplace for PPI.

In many ways, this is surprising. After all, infrastructure — at least public infrastructure — is something Canadians understand.

How many other nations have tunneled through the Rocky Mountains, linked the Great Lakes in a navigable seaway, installed a communications system that spans a continent, or built mammoth hydro-electric dams in remote and challenging conditions?

The Global Competitiveness Report consistently rates Canada's infrastructure as one of the most competitive in the world.

But for all our expertise and experience with large infrastructure projects, the fact remains that we are not winning a significant share of the PPI market and the question is, why not?

Those of you in this room know the answers to that question better than I do:

- First, as a nation, we don't have a lot of experience with private infrastructure. Those of us in government — at all levels — have been slow to adopt the PPI model. As a result, our firms have

not acquired domestic experience in bidding, structuring and financing infrastructure projects.

- Second, the relatively small size of our companies and their limited capitalization makes it difficult to absorb the high costs associated with these projects. Financing generally is a major impediment — and I know that you have discussed many aspects of that question in this morning's plenary.

Of course, there are a host of other reasons — or excuses — as to why we haven't done better. But frankly, I am concerned less with enumerating the problems we face than with finding the solutions we need.

The PPI market is simply too large and the opportunities too great to be forfeited through dithering. We must get our collective act together or risk being left behind by other companies — and other nations — more willing to exploit these new opportunities.

To this end, we have to create more opportunities for companies to acquire experience with infrastructure projects at home so that they will be better placed to win PPI contracts abroad.

We already have some wonderful examples of this kind of public-private cooperation: the Fredericton to Moncton Toll Motorway, the Dartmouth Wastewater Treatment Plant and the Kingston Power Plant, to name a few.

We also need to find a way of differentiating ourselves from our competitors — and I like the suggestion made by the National Round Table on the Environment and the Economy that one way to do this would be by making Canada a leader in providing environmentally sound infrastructure.

We also need to have the leadership of organizations such as the Canadian Council for Public-Private Partnerships, which is doing such a great job of encouraging cooperative ventures.

More experience at home is important, but it's only a start. We also need to overcome the limitations of size and capitalization by making partnerships a central part of our approach, rather than an afterthought.

By partnering with other firms, companies can gain access to a broader base of skills, plumb a deeper reservoir of cash and acquire a greater ability to attract the debt and equity financing so essential to success.

There is an old saying that snowflakes are among the most delicate creations in nature — but just look what they can do when they stick together! We need to keep that in mind and combine forces with others. And this means not just joining hands with other Canadian companies, but with local firms and those from third-party nations as well.

In the area of financing, we need to challenge our banks and other financial institutions to step up and provide the support our companies need to succeed.

Some institutions, such as Newcourt Credit, are already making their mark on the international scene. There is also the Caisse de Dépôt du Québec, which launched an exciting initiative with the Asian Development Bank to create an Asian Infrastructure Equity Fund. Why can't our major chartered banks participate more meaningfully in the burgeoning PPI market?

Why should the major international financing arrangements be brokered out of New York or London? Why can't we develop this project finance and financial engineering capacity right here in Canada? I think it's time to send a clear message to our banks: get involved, get imaginative and get busy.

Let me share with you a few of the ways that the government — and my department — are working to facilitate greater Canadian participation in global PPI projects. But let me be clear: I am not here today simply to boast of what we're doing. I'm here to solicit your advice on what we should be doing, or doing

differently.

Through our trade commissioners, we are providing timely market intelligence on emerging opportunities in countries around the world. These commissioners are an invaluable resource; if you're not already using them, I suggest you do so. They know the players, they know the politics and they know the culture. These 800 trade experts represent your interests on the ground in some 130 embassies and consulates around the world.

We have also been trying to do a better job of coordinating our efforts better across various government departments. The Department of Foreign Affairs and International Trade, Industry Canada, CIDA [the Canadian International Development Agency], the EDC and the Canadian Commercial Corporation have all been collaborating in order to create a more coherent and integrated approach.

Through our Offices for Liaison with the International Financial Institutions, we have been connecting Canadian businesses with institutions such as the Inter-American Development Bank, the World Bank and the Asian Development Bank. These and other international institutions can be an invaluable source of support as well as resources.

CIDA has recently completed a review of its Industrial Cooperation Program in order to provide better support to Canadian firms during the developmental stage. Madame Labelle, the President of CIDA, will inform you tomorrow about a new financial instrument that will help in sharing the cost of the technical and financial engineering as well as expenses for legal services.

The EDC has in place a very active Project Finance Team to facilitate co-financing with commercial banks, capital markets, international financial institutions, and export credit agencies in other countries. EDC is also examining ways in which it could team with other equity partners to bring even more financial muscle to its structured and project finance efforts.

And CIDA has teamed up with EDC to strike an agreement which will allow Canada to join the Inter-American Investment Corporation — a development which will be of tremendous advantage to firms looking to participate in the dynamic Latin American market.

With all of these efforts, we are trying to encourage Canadian companies to pursue the exciting opportunities opening up in PPI — to tie private enterprise to public purpose. But as I said earlier, we know that we still have a long way to go.

What adjustments to current programs need to be made? What other activities could governments undertake to showcase Canadian capabilities abroad? What is the best way for us to pave the way, or to get out of the way?

To those of you who may be contemplating the PPI market, I would urge you to act, and act now.

New competitors — from emerging nations such as India, Turkey and Brazil — are now developing the engineering and consulting capabilities that have traditionally been our strengths, and they are bringing them to market at lower costs.

In the years to come they will be moving onto the world stage in greater numbers and with greater effect. So the competition is only going to get tougher.

Of course, none of these challenges, is insurmountable.

Nearly five hundred years ago, the great explorer Ferdinand Magellan reminded us, "The sea is dangerous and its storms terrible. But these obstacles have never been sufficient reason to remain ashore."

Like Magellan, we are also called to sail on uncertain seas, to face the future without fear and to conquer the unknown. Our objective is not conquest but commerce. And our greatest challenge is not to discover new lands but to summon a new determination — a determination to compete with the best, against the

best.

Let no one doubt, PPI is a new ocean — and we must sail upon it. The obstacles, the challenges, the difficulties are not reasons to stay ashore; instead they are reminders of the dangers we face by doing nothing.

I am confident that Canada will remain one of the greatest exporting nations in the world — exporting not only goods but also knowledge. And I am confident that Canada will continue to be recognized around the world not only for our natural resources but also for our resourcefulness.

I look forward to learning from you — and working with you — to make that happen.

Thank you



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Author - Service Industries and Capital Projects Branch

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## WINNING IN GLOBAL INFRASTRUCTURE MARKETS: SOLUTIONS THROUGH PARTNERSHIP

### Appendix 4 Keynote Speakers Presentations

<p><u>John M. Beck</u> Chairman and Chief Executive Officer Ambro Enterprises Inc. President Canadian Highways International Corporation</p>	<p><u>Ian Gillespie</u> President and Chief Executive Officer Export Development Corporation</p>
<p><u>Huguette Labelle</u> President Canadian International Development Agency</p>	<p><u>David Suratgar</u> Counsel to Leboeuf, Lamb, Greene &amp; McRae Loewen Ondaatje, McCutcheon Ltd.</p>
<p><u>The Honourable Sergio Marchi, P.C., M.P.</u> Minister of International Trade</p>	<p><u>Eric Siegel</u> Executive Vice-President Medium and Long-term Financial Services Export Development Corporation</p>
<p><u>Kevin Lynch</u> Deputy Minister Industry Canada</p>	

### Canadian and International PPI Project Experiences: Key Observations

**John M. Beck, Chairman and Chief Executive Officer  
Ambro Enterprises Inc.  
President Canadian Highways International Corporation**

Thank you. Let me begin by congratulating the Minister, John Manley, for hosting this conference. By bringing Canadian players together for events like this, I trust that it will help many of us in our efforts to win overseas projects.

On a more personal note, I want to thank the Minister and his department for their assistance in helping Canadian Highways beat the international competition to win the Cross Israel Highway project.

As some of you may know, Canadian Highways is the lead partner in the Derech Eretz consortium, which earlier this year was awarded a \$1.1 billion contract to finance, design, build and operate the Cross Israel Highway.



It was a great win, and I can tell you that I know how Mark McGwire felt last week when he was circling the bases after hitting home run number 62.

We received excellent support from the Minister and his department and from other members of the government, including several of the Minister's Cabinet colleagues, as well as Canadian Ambassador to Israel David Berger and his staff.

Our government is very supportive of overseas initiatives by Canadian companies, and I urge you to take advantage of its expertise.

I also want to note the contributions to this conference of our co-chairs: Jacques Lamarre of SNC Lavalin and Garrett Herman of Loewen Ondaatje McCutcheon. Their combined talents represent what's needed to win PPI contracts around the world: experience in infrastructure development and expertise in financing.

While my experience may not rival that of these gentlemen, I'd like to speak to you tonight about the lessons that I've learned in developing several successful public-private partnerships. Although my experience is in transportation, I believe many of these lessons can be applied to all types of infrastructure.

There is no doubt that in today's highly competitive world, modern public infrastructure is the key to economic success.

Traditionally, as we all know, governments have provided funds for infrastructure development as capital has become available. When it comes to road construction, this has meant that roads are built one section at a time over a long period.

But as governments the world over continue to bring their finances into line, we must all recognize that the reality of budgetary restraint is here to stay. This has meant that governments have increasingly been forced to reduce spending on important infrastructure projects in favour of other spending priorities. The result has been insufficient access to the public funding needed to build new infrastructure or to renew existing infrastructure.

More and more governments are finding that the best solution to this problem lies in public-private partnerships. They are beginning to realize that the 3-P approach is a cost-effective method of building needed infrastructure more quickly and at less cost, while reducing risk for the public sector.

Of course, every project is different. And the most appropriate approach to meet the specific challenges presented by each one will have different wrinkles.

But I suggest that we can place most candidates for public-private partnership into four categories. If we use these categories to analyse opportunities around the world, it may help us to recognize 3-P opportunities and develop more winning proposals.

The first group consists of the relatively few projects where the government is committed to developing the project in true partnership with the private sector, and where the economics of the project clearly make sense. That is, projects where the operating costs of the enterprise and the initial capital investment required are clearly balanced by a reliable and predictable revenue stream.

These are the "classic partnerships" we all like to cite as examples of how the public and private sectors can work together for everyone's benefit. But to restrict ourselves to this classic model of public-private partnerships is to deny both ourselves and our government partners — not to mention the public — the vast opportunities that lie in other, less traditional types of enterprises.

I would suggest that there are at least three other less obvious situations where, with just a little more creativity, the 3-P approach can be the answer.

First, there are those projects that carry risks that are difficult to quantify and may preclude private

financing. Perhaps, for example, the project's revenue stream is dependent on customers' paying directly for a service that in the past has been entirely paid through general tax revenue. This can make it difficult to assess market demand. Or perhaps the project specifies the introduction of a new technology yet to be proven in the marketplace. I'll call this the "unknown risk" group.

Second are those infrastructure projects that may have a limited economic underpinning, but are being developed primarily to serve a public policy purpose. Perhaps a government, for public safety or environmental reasons, feels it must proceed with a project where the capital costs associated with construction are beyond what can be supported by the projected revenue. These projects could be called too "asset heavy" for traditional private financing.

And finally, there are those infrastructure projects which have a strong economic underpinning, but for which a user-pay approach is not politically acceptable to the government. Let's call this the "shadow toll" group.

I want to look at the challenges presented by projects in each of these categories, and suggest solutions that enable us to fit what sometimes appear to be "square peg" projects into the "round hole" of public private partnership — with resulting benefits to all concerned.

In Israel, we find an example of the "classic model" of public-private partnerships, an 86-kilometre, all-electronic toll highway. The entire \$1.1 billion cost of the Cross Israel Highway is being financed by the private sector. Toll-backed financing works for this project because there is a clear demand for a modern new highway.

As a result of rapid population growth and continuing modernization, traffic in Israel is growing at an annual rate of seven per cent — that's a doubling of volume over a ten-year period. The situation is acute in Tel Aviv, particularly along the coastal highway that runs north to Haifa. The Cross Israel Highway will relieve congestion around Tel Aviv and contribute to the development of regions to the north and south of the city.

Still, even with the strong economic underpinning of the project and the government's commitment to the partnership, the project entails considerable challenges. For example, there is no revenue stream until there is a stretch of road that motorists are willing to pay to drive on. In order to bring revenue on stream as quickly as possible, construction of the project is staged so that a 16-kilometre section in the middle of the highway will be built first. This section will be open for tolling in early 2001. Despite challenges such as this, the Cross Israel Highway is a good example of a needed project that is being developed through a classic public-private partnership.

This brings me to my second category of public-private partnerships — major projects that carry an unknown element of risk. In 1993, when the Ontario government called for tenders on the 407 ETR in Toronto, it was an example of this type of project. Both of the consortia involved in the competition to develop the 407 were prepared to arrange private financing for the highway. But the proposals required government guarantees associated with the government's objective of developing a fully open, all-electronic highway, which had never been done before anywhere in the world.

While the province decided it was not willing to guarantee private financing, that did not stop it from creating the first public-private partnership of its kind in the country. Even though the risks associated with bringing a new tolling technology onto the market meant that the 407 would not begin as a classic 3-P project, the government was committed to finding a way to develop the project in partnership with the private sector. It created a new agency, the Ontario Transportation Capital Corporation, which borrowed the funds to develop the highway. OTCC receives the toll revenues, repays the lenders, and the government carries all the traffic risks.

This approach may not fit the classic model of public-private partnerships, but it has proven to be a tremendous success. The project was completed earlier this month, within budget and several months ahead of schedule. Portions of the highway have been open for more than a year, with traffic and revenues higher than originally forecast. In fact, the highway has become such a success that each week over one

million customers pay to drive the highway, taking advantage of the time and stress savings it offers.

I am very proud of the fact that 407 ETR won the 1997 Transportation Project of the Year Award from the American Public Works Association. The APWA award recognizes excellence in the creation of public-private partnerships to develop public infrastructure. It is the most prestigious award of its kind in North America, and it is the first time that a Canadian project has been honoured.

The current government at Queen's Park has announced its intention to sell 407 ETR to the private sector, and to expand the highway as the kind of classic partnership I mentioned earlier. This is the next logical step for a project that has proven to be self-financing without government guarantees.

But what about projects that are too asset-heavy to be self-financing? Jurisdictions with a smaller population or a population spread over a wide geographic area may lack the funds to develop the infrastructure they need. Or new infrastructure may be required to address a policy concern, such as public safety.

In 1993, the Government of Nova Scotia had a high per-capita debt load and a significant annual deficit. At the same time, the government was looking for a solution to build a new highway to bypass a congested, dangerous section of the Trans Canada Highway in northern Nova Scotia that had claimed 50 lives in the past ten years.

Under the traditional method of financing, it was going to take another ten years of capital allocations to fund the new highway. From a safety point of view, this was unacceptable. But full private financing was not an option because traffic flow through the region was not sufficient to generate the toll revenues needed to pay the total cost of the project.

The solution: a combination of public funding and private financing backed by toll revenues allowed the project to proceed immediately.

The total cost of construction of the Cobequid Pass highway was \$113 million. The total contribution from government was \$55 million. The remaining funding was financed by the private sector through the sale of bonds. Toll revenues over the next 30 years will provide the investors with a return; pay for toll operations; cover the \$650 000 for annual maintenance; and help pay for long-term maintenance. The bonds are backed solely by toll revenues — there is no government guarantee. This arrangement protects the province's credit rating and frees up capital funds for other priorities.

Although the government did not guarantee the private sector financing, it did use its legislative powers to advance its key goal of building a safe highway. It passed legislation that requires large trucks to use the new Cobequid Pass to improve safety along the existing highway. And, the government announced that it would strictly enforce a speed differential of 30 kilometres per hour between the new tollway and the existing route.

Cobequid Pass opened last December. It has exceeded traffic projections and added a new measure of travel safety through northern Nova Scotia. It is yet another example of how a successful public-private partnership has succeeded for all concerned, even though the classic 3-P model was not an option.

The fourth and final category of public-private partnerships I outlined earlier concerns needed infrastructure projects for which there is a lack of public funding and no political appetite for a user-pay approach. For an example of this type of project, we need look no further than our national highway system. In our just-in-time economy, highways are moving warehouses; they are a key piece of infrastructure required to ensure our continued prosperity.

There is widespread agreement that our national highway system needs to be upgraded, but also an understanding that the billions of dollars required to develop and upgrade the system is not available today from the public treasury. And recently the government announced that financing the upgrading of our national highway system through tolls is not an option they will consider.

So what does this mean? Do we abandon the idea of a modern national highway system? Do we take 20 or 30 years to upgrade the system as a few million dollars is spent here and there whenever the government has the cash to spare? That may have been the answer a few generations ago, but it doesn't have to be the answer today.

I acknowledge that a user-pay approach to upgrading existing national highways is always problematical. When I meet with public officials from cities or countries who are considering whether to develop a toll road, I always ask the question: Is there a free alternative? Is there another route for motorists who do not want to pay a toll?

This is an important consideration. The creation of a public-private partnership to develop a toll road requires a great deal of political support, and public support is enhanced if people have a choice. When you are driving along a highway in northern Ontario or across vast stretches of western Canada, there is no alternative. People would have a legitimate beef if they were asked to pay a toll.

But there is a solution: shadow tolls. Shadow tolls are widely used to fund highway construction and renewal in Europe. They are based on a formula whereby governments set aside a fixed amount of funding for each vehicle that travels along a designated stretch of highway over a period of several years. In effect, the government levies a toll on itself. Once such a formula is in place, private financing can be arranged to borrow the total amount of funds that the government is prepared to invest over the specified period of time. It allows governments, who are in need of substantial investment in infrastructure, to raise that capital today — and pay for it only when the new infrastructure is in use and the benefits are being realized. It means that governments can still make their infrastructure investments over time, as dollars become available, but can begin the work required to upgrade their infrastructure today.

If we were to adopt such a system in Canada, financing would be available immediately to begin the renewal of our national highway system. In the short term, it would provide a significant boost to the economy. In the long term, it would be an investment in a safe, reliable, high-quality system of highways right across the country.

But there is a catch. It means that governments must plan ahead. They must determine today what their capital requirements will be several years down the road. And it means they must budget for those expenditure more than one year at a time.

Perhaps the biggest surprise here is not that I would suggest such a thing, but that governments don't already operate this way. I know that if any one of us operated our businesses without this kind of forward planning, our shareholders would be quick to relieve us the burden of management. The reality is that our governments — federal and provincial — will be spending billions of dollars on our highway system over the next ten years just to do the urgent upgrading required to keep our highways open and safe. If they were to commit themselves to defining that level of funding in advance through a shadow toll formula, I know that the private sector would step-up to the plate to raise that money today, and get to work on ensuring our national highway system keeps pace with the needs of tomorrow's economy.

Because, as I hope I've demonstrated this evening, with a little bit of creative thinking and a lot of will on both sides, there is little that the private sector and the public sector can't achieve as partners. So I want to urge our government leaders — at both the federal and provincial levels — to embrace the use of public-private partnerships and private financing here in Canada to develop public infrastructure.

The benefits of this approach are clear: quality infrastructure gets built faster, at less expense and with less risk to the public sector. These domestic partnerships will foster the experience and the expertise that Canadian companies can use to crack international markets.

There is also a role for our federal government in helping Canadian companies to win overseas PPI projects.

I have a specific recommendation to make. The federal government should establish a special department within the Export Development Corporation to focus on foreign PPI projects. This would assist the

private sector in identifying opportunities and hooking up with the right partners overseas.

It's up to the private sector to win projects by offering the best proposal; but a dedicated EDC team with experience in PPI projects would be of invaluable assistance. It would be a small investment for the government, but I believe it would pay significant dividends.

We are beginning what I believe is a new era in the development of infrastructure — the era of public-private partnerships. And I believe that Canadians are uniquely qualified to be leaders in this new era.

Look around this room. We have the experience in developing infrastructure; we have access to capital markets; and we have the expertise in developing flexible financial instruments to suit the needs of each individual project. I am very excited about the prospects for developing infrastructure projects in other countries. I know many of you feel the same way and I trust that this conference will be of assistance in your work.

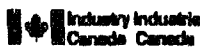
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**WINNING IN GLOBAL INFRASTRUCTURE MARKETS:  
SOLUTIONS THROUGH PARTNERSHIP**

**Appendix 4  
Keynote Speakers Presentations**

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<p><u>Kevin Lynch</u> Deputy Minister Industry Canada</p>	

**PPI and Canadian International Development Agency's Private  
Sector Development Thrust in Developing Economies**

**Huguette Labelle, President  
Canadian International Development Agency**

Thank you and good morning.

It is a pleasure to be here on behalf of Diane Marleau, the Minister for International Cooperation and Minister responsible for La Francophonie. I would like to congratulate the organizers for initiating the idea of this conference and my thanks to the sponsors for making it happen.

We at the Canadian International Development Agency (CIDA) have been following the trends in the infrastructure market for some time — especially in the developing world. And I am glad to see so many of you are interested in hearing more about how and why CIDA does programming in infrastructure development in developing countries.

As the conference program says, "Private participation in infrastructure is coming of age." And those of us who work in development cooperation are glad that it is. My colleagues and I are encouraged to see the topic being discussed in a broad forum like this one.

My experience in the public infrastructure area has taught me that partnership is an important element of infrastructure development too — it can take many partners to make a success of an infrastructure project in the developing world. That is why it is important that we create the opportunities for the right partnerships to form and for Canadians to play a full role in the international infrastructure marketplace.

Conferences like this will help make that happen and CIDA welcomes the opportunity to join with our colleagues from both the public and private sectors in a spirit of cooperation that will ensure that Canada plays a meaningful and effective role in the world community.

We also want to use this occasion to remind ourselves that the benefits of investment in infrastructure should accrue to those who use the infrastructure services in the developing world, as well as those that build and operate them.

At this stage in the conference, you have all heard about the size of the marketplace for Private Participation in Infrastructure (PPI) — especially in the developing and emerging economies. There is no need for me to present graphs and charts showing the figures of US\$250 billion per year or a market of some US\$3 trillion over the next decade, and so on.

We agree that the international PPI market offers a great business opportunity for Canadian companies. And we recognize that it is important for the business community to work in partnership with each other, with the international financial institutions (the IFIs) and with developing country governments to finance, build and operate infrastructure projects in the developing world.

To underline CIDA's commitment to promote Canadian interests in this market, I will announce this morning a new industrial cooperation funding mechanism from CIDA to facilitate Canadian business activity in the international PPI marketplace.

But before going into the details of this new funding mechanism, I want to describe how our view of PPI might be a little different from the other speakers you have heard from at this conference. Our mandate is to reduce global poverty and our goal is to improve human living conditions through sustainable development.

For us, infrastructure is a key element of poverty reduction and that is why we want to see essential infrastructure facilities financed, developed, and managed efficiently. But unlike most others at this conference, CIDA's focus is not so much on what infrastructure is, but what it does! For us, basic infrastructure services lead to improvements in human well-being and stimulate economic growth.

When we think of a project to improve energy output, for example, we don't just see a thermal generating plant, we see a means to provide a reliable, low-cost supply of energy to homes and businesses. We see a project that will improve access to energy for heating and lighting for the poor and spur private sector enterprise. We stand back from the project itself and think about what is the minimum required by government to ensure the project happens and that it meets key developmental goals.

We all know that cash-strapped governments cannot underwrite the growing demand for every sort of infrastructure, whether that applies to water, transport, energy or telecommunications. Traditional public sector sources of financing, that is, governments and official development assistance, have been unable to meet existing demand for more basic infrastructure developments, let alone the growing demand for new information services.

So that is why at CIDA, we want to see more private sector involvement in infrastructure projects in the developing economies. Of course, we know we won't see more projects in place without the appropriate legal and regulatory environment, so that too is of interest to us.

Over the last several years, as international barriers to trade have come down and more economies have become stronger players in the global market, there has been a surge in demand for new investment in infrastructure projects — especially in developing and emerging economies. For many countries, privatization, or increased private sector involvement, in infrastructure is the first step to make the change to a more liberalized and open market economy.

As an official development assistance agency, we see this as a very exciting trend. And we believe we have an important and useful role to play to ensure infrastructure services reduce poverty in a brave new world of greater private sector involvement.

To understand how we can do this, I want to talk a little bit about how our development aid program works. CIDA uses its program resources in three general ways.

First, through our geographic programs we provide assistance for specific projects in countries in Africa, Asia, the Americas and Central and Eastern Europe. Most of these projects are carried out by Canadian organizations working in the host country and consequently, acquiring greater awareness of the infrastructure market.

Second, through CIDA, Canada contributes to some 40 international organizations such as the World Bank, the regional development banks, UN agencies, and so on. This is our “multilateral” program and it positions us at the centre of the network of the same international financial institutions who are often called upon to provide financing for infrastructure projects around the world. In other words, through our multilateral program, we are in a good position to know what is happening in the world market for new infrastructure projects.

And finally, we have our partnership programs, including our Industrial Cooperation Program, which facilitates Canadian companies to do feasibility analysis and set up joint ventures in developing countries. This program is known as CIDA INC. And as I mentioned earlier, I am pleased to announce this morning that we have created a new mechanism under our CIDA INC program to provide financial support for qualified Canadian companies to pursue their international PPI business interests.

Under the new mechanism, proposals within key sectors that create new infrastructure, rehabilitate existing infrastructure and those that expand it, will be eligible. Key sectors that are eligible will include:

- transportation
- power
- potable water
- sewage services
- waste or hazardous waste management
- telephone service
- gas distribution.

Over and above the expenses already eligible for INC funding on a 80 percent:20 percent cost sharing basis, CIDA INC will cover up to 50 percent of the additional expenses that are specific to private infrastructure, mostly for the external financial and legal experts. Through the application process, CIDA INC will also help companies assess all the specific risks of the project in the developing country. (There is a brochure available here today that explains the new mechanism.)

We had identified a need for this type of program response because of many enquiries we received from Canadian industry over the last year. The consultations carried out by Industry Canada and the discussion paper released prior to this conference have confirmed this need.

So I am pleased that we are able to come forward with a proactive mechanism now. It is a timely development in our strategy to encourage more Canadian businesses to participate in the expanding PPI global marketplace.



We recognize that there are new risks in the international PPI market and we are willing to share them. But we also recognize that there are huge potential benefits to be gained from successful infrastructure projects and we want the developing world to share in those too.

And we also want to encourage the kind of conditions in developing countries that will enhance the potential for the success of new infrastructure projects — from both the commercial and the developmental perspective.

First, our experience tells us that infrastructure development projects will have a greater chance of success if they are implemented within a supportive policy and institutional framework. The government of the developing country must be committed to an enabling policy environment, including a commitment to macro-economic stability, appropriate legal and regulatory policies, and a good investment climate.

Second, it will be necessary that the society has the institutional capacity, including the managerial talent and other human resources, to manage and deliver infrastructure services.

Third, the national governments and the international community need to ensure that procurement is transparent and free from corruptive practices. Corruption is a loss to the poor people of developing countries and is one of the greatest impediments to a level playing field. CIDA has been supporting Transparency International in its fight against corruption. A Canadian chapter has been established — I invite the business sector to join us in support of this new organization. The Canadian business sector has everything to gain from a transparent international procurement system.

Finally, we can work through the Industrial Cooperation and bilateral programs with our partners in Canadian industry to improve the physical infrastructure stock.

Taken together, the following four elements comprise the strategic policy approach that we are using at CIDA to guide our programming activities in support of PPI:

- creating an enabling policy environment in developing economies
- strengthening the society's institutional capacity
- ensuring a transparent procurement process
- enhancing the physical infrastructure stock.

That is why CIDA is interested in the international PPI marketplace, and that is how we can promote Canadian interests in this rapidly expanding marketplace.

We have specialized knowledge of the PPI market; we have resources to commit to its development; and we have 30 years of experience in forming partnerships in the international community — many overseas partners are reassured when they know that CIDA is one of the partners. I think we bring a lot to the table.

Working together we can help you to become involved in building and improving infrastructure services in developing countries — infrastructure that will help women and men become more economically active, and thus able to provide more of the necessities of life for themselves and their families.

As Canadians, we have an opportunity to form new partnerships with each other and with many partners overseas that will broaden our participation in the international PPI market. I look forward to working with you to make those partnerships successful.

Thank you.



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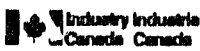
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## WINNING IN GLOBAL INFRASTRUCTURE MARKETS: SOLUTIONS THROUGH PARTNERSHIP

### Appendix 4 Keynote Speakers Presentations

<p><u>John M. Beck</u> <u>Chairman and Chief Executive Officer</u> <u>Ambro Enterprises Inc</u> <u>President Canadian Highways International Corporation</u></p>	<p><u>Ian Gillespie</u> <u>President and Chief Executive Officer</u> <u>Export Development Corporation</u></p>
<p><u>Huguette Labelle</u> <u>President</u> <u>Canadian International Development Agency</u></p>	<p><u>David Suratgar</u> <u>Counsel to Leboeuf, Lamb, Greene &amp; McRae</u> <u>Loewen Ondaatje, McCutcheon Ltd.</u></p>
<p><u>The Honourable Sergio Marchi, P.C., M.P.</u> <u>Minister of International Trade</u></p>	<p><u>Eric Siegel</u> <u>Executive Vice-President</u> <u>Medium and Long-term Financial Services</u> <u>Export Development Corporation</u></p>
<p>Kevin Lynch Deputy Minister Industry Canada</p>	

### Enhancing Canadian Competitiveness in the Global, Knowledge-Based Economy - A Partnership Approach

Kevin Lynch, Deputy Minister  
Industry Canada

Copies of the presentation are available upon request. Please contact Service Industries and Capital Projects (SICP) Branch, Industry Canada by Fax: (613) 952-9054, E-Mail: [sicp@ic.gc.ca](mailto:sicp@ic.gc.ca).

You may also download the document in Powerpoint 7

[Presentation by Kevin Lynch](#)



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### Appendix 5 Workshop Conclusions and Recommendations

Issue	Sector	Sector Priority	Sector Action Items
1 Growing the Domestic Market for PPI Projects	Communications	1	<ul style="list-style-type: none"> <li>• Promote competing infrastructures through deregulation; promote the development of new applications for infrastructures through programs such as CANARIE; and promote the use of communications and information technology to improve the efficiency of other sector infrastructures, including at the local level (Industry Canada).</li> </ul>
1 Growing the Domestic Market for PPI Projects	Energy	3	<ul style="list-style-type: none"> <li>• Increase the domestic market by educating the public, lobbying politicians and privatizing utilities.</li> </ul>
1 Growing the Domestic Market for PPI Projects	Environment	2	<ul style="list-style-type: none"> <li>• Develop the domestic market through municipal opportunities.</li> <li>• Integrate the supply capability by facilitating SME developer pools.</li> <li>• Grow the domestic market by increasing awareness and mentoring.</li> </ul>
2 Improving Access to PPI Project Financing	Communications	2	<ul style="list-style-type: none"> <li>• Unify the securities markets (Finance)</li> <li>• Develop a high yield debt market (Finance).</li> <li>• Increase size of and expand access to existing government programs (Federal/Provincial) to directly provide incentives and financial resources to companies involved in bidding on, pursuing and carrying out international turnkey projects in the PPI area. (e.g.: expanding the criteria for access to programs such as IRAP, the Trade Expansion Fund, and PEMD specifically for activities relating to PPI. Financial incentives could also include a combination of tax breaks, 50/50 lending, etc.)</li> <li>• Need to structure incentives (e.g. tax breaks/other) for private financial institutions as well as crown corporations (such as EDC) to set up and/or expand the criteria of access to PPI funds for riskier segments and projects.</li> </ul>

2	Improving Access to PPI Project Financing	Energy	2	<ul style="list-style-type: none"> <li>• Develop partnerships with suppliers to reduce proposal development costs.</li> <li>• Establish financing solutions that are attractive to capital providers.</li> <li>• Examine what financing alternatives are used in other countries (IJC).</li> <li>• Develop "untied" programs to match competition (EDC)</li> </ul>
2	Improving Access to PPI Project Financing	Environment	3	<ul style="list-style-type: none"> <li>• Relax foreign investment rules.</li> <li>• Provide financial assistance to increase "staying power".</li> <li>• Increase access to capital markets.</li> <li>• Encourage government funders to take higher risk positions.</li> <li>• Reinstate section "F" of PEMD.</li> <li>• Shift focus to longer term rate of return.</li> <li>• Manage currency risk.</li> <li>• Establish performance-based contracts.</li> <li>• Develop Canadian funding packages through CIDA and EDC.</li> <li>• Enhance CIDA Role to fund projects as well as studies and create bi-lateral lines of credit.</li> </ul>
2	Improving Access to PPI Project Financing	Transportation	3	<ul style="list-style-type: none"> <li>• Initiate a forum on development equity among Canada's financial institutions, established PPI proponents, and new entrants.</li> </ul>
3	Building Partnerships (Consortia and Alliances)	Communications	3	<ul style="list-style-type: none"> <li>• Organize domestic and foreign international forums (Industry Canada).</li> </ul>
3	Building Partnerships (Consortia and Alliances)	Energy	1	<ul style="list-style-type: none"> <li>• Influence Canadian utilities to act as sponsors, carrying partners abroad.</li> </ul>
3	Building Partnerships (Consortia and Alliances)	Environment	4	<ul style="list-style-type: none"> <li>• Facilitate on-going capacity in host countries.</li> <li>• Implement OECD consensus agreement and supporting Canadian legislation.</li> </ul>
4	Developing PPI Intelligence and Expertise	Communications	4	<ul style="list-style-type: none"> <li>• Increase the number of locally engaged trade commissioners (DFAIT).</li> <li>• Define / develop comprehensive solutions (Industry Canada, DFAIT, EDC, CIDA).</li> </ul>
4	Developing PPI Intelligence and Expertise	Environment	1	<ul style="list-style-type: none"> <li>• Establish a strategic focus on selected markets and then work in these markets to build capacity.</li> <li>• Convert NRTEE into actionable plan.</li> <li>• Collaborate with C2P3 in educational events.</li> </ul>
4	Developing PPI Intelligence and Expertise	Transportation	2	<ul style="list-style-type: none"> <li>• Develop a program for new entrants: <ul style="list-style-type: none"> <li>• network mechanisms</li> <li>• partnership models</li> <li>• sources of market information</li> <li>• PPI economics</li> </ul> </li> </ul>
5	Perception	Transportation	1	<ul style="list-style-type: none"> <li>• Launch research and awareness / educational initiatives about PPI experiences.</li> </ul>
6	Level Playing Field	Energy	4	<ul style="list-style-type: none"> <li>• Establish a task force to review major differences in tax treatment (rates, deductibles, treaties) and recommend changes.</li> </ul>
7	Risk Management	Energy	5	<ul style="list-style-type: none"> <li>• Alert Canadian industry to the role of Multilateral Bank(s)/(ing) in improving best practice regulatory frameworks.</li> </ul>



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### Appendix 6 Plenary Session Voting Results

	Question	Overall Voting Results	Mean Average Comparison	Significant Difference ( $\geq 0.3$ )
1	How much experience do you have in the development and delivery of global PPI projects?	1. Not at all 24% 2. Not at all / Limited 12% 3. Limited 31% 4. Limited / Extensive 12% 5. Extensive 21%	Overall 2.9 Communications 2.5 Energy 3.1 Environment 2.7 Transportation 3.1	
2	If the environment for PPI was improved, would you seriously consider becoming a developer / investor?	1. Yes 72% 2. No 27%	Overall 1.2 Communications 1.2 Energy 1.3 Environment 1.3 Transportation 1.3	No significant differences
3	Which of the following issues would you consider to be the most important?	3. Growing domestic market 31% 4. Improving access to financing 21% 5. Building partnerships 32% 6. Developing intelligence 14%	Overall 2.3 Communications 2.9 Energy 2.3 Environment 2.2 Transportation 2.2	Minimal difference
4	How important is it to encourage governments to proactively apply the PPI approach in building new infrastructure, in part through improved communication of benefits?	Not at all 1 5% 2 8% 3 16% 4 16% Very 5 53%	Overall 4.0 Communications 3.9 Energy 3.8 Environment 4.0 Transportation 4.2	No significant differences



5	How important is it to establish partnerships among financial institutions?	Not at all	1 14%	2 28%	3 18%	4 13%	Very	5 25%	Overall 3.0	Communications 3.0	Energy 3.3	Environment 3.0	Transportation 2.9	
6	How important is it to develop new financing vehicles / prospects for the formation of more PPI funds?	Not at all	1 6%	2 8%	3 19%	4 20%	Very	5 45%	Overall 3.8	Communications 3.9	Energy 3.9	Environment 3.5	Transportation 4.1	
7	How important is it to investigate the scope of changes to tax and foreign investment rules to encourage investment?	Not at all	1 8%	2 15%	3 15%	4 22%	Very	5 38%	Overall 3.6	Communications 4.3	Energy 3.4	Environment 3.7	Transportation 3.4	
8	How important is it to provide support for the development phase of PPI projects?	Not at all	1 3%	2 4%	3 18%	4 20%	Very	5 53%	Overall 4.1	Communications 3.5	Energy 4.1	Environment 4.3	Transportation 4.3	
9	How important is it to provide capital project firms with partnering alliances?	Not at all	1 9%	2 20%	3 25%	4 17%	Very	5 27%	Overall 3.3	Communications 3.5	Energy 3.3	Environment 3.2	Transportation 3.5	No significant differences
10	How important is it to establish and maintain a network of global contacts on PPI project players?	Not at all	1 15%	2 13%	3 20%	4 20%	Very	5 30%	Overall 3.3	Communications 3.6	Energy 3.2	Environment 3.1	Transportation 3.5	
11	How important is close cooperation between DFAIT, CIDA, IC, EDC, CCC, BDC and the private sector?	Not at all	1 5%	2 8%	3 7%	4 23%	Very	5 54%	Overall 4.1	Communications 4.4	Energy 4.0	Environment 4.1	Transportation 4.2	
12	How important is it to hold a Canadian forum on global PPI (opportunities, policies, training needs, showcase successes, etc.)	Not at all	1 19%	2 21%	3 28%	4 13%	Very	5 17%	Overall 2.8	Communications 3.0	Energy 2.7	Environment 2.8	Transportation 3.2	

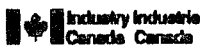
13	How important is it to improve firm skills for PPI bidding deal-making, etc.?	Not at all	1	8%	Overall	3.8	
			2	5%	Communications	4.1	
			3	16%	Energy	4.0	
			4	26%	Environment	3.8	
		Very	5	42%	Transportation	3.9	
14	What form should follow-up meetings to this Conference take?	1. Sector specific conference		34%	Overall	2.2	Minimal difference
		2. Multi-party / multi-sector		17%	Communications	2.1	
		3. Task group only		37%	Energy	2.3	
		4. Electronic network		12%	Environment	2.5	
					Transportation	2.1	
15	Who should be driving future initiatives?	1-4 Mostly public sector		14%	Overall	5.9	
		5-6 Equal share		42%	Communications	6.1	
		7-10 Mostly private sector		37%	Energy	6.4	
					Environment	5.7	
					Transportation	5.7	
16	How important is it that action be taken as a result of this Conference?	Not at all	1	2%	Overall	4.4	No significant difference
			2	3%	Communications	4.4	
			3	9%	Energy	4.2	
			4	14%	Environment	4.5	
		Very	5	69%	Transportation	4.6	


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### Appendix 7 List of Participants by Organization

ABN-AMRO Bank Canada  
Peter Derrick  
Toronto, ON

Acres International Limited  
Graham Williams  
Toronto, ON

Agence canadienne de  
développement international  
Pierre David  
Hull, QC

Agence canadienne de  
développement  
international  
Huguette Labelle  
Hull, QC

AGRA Inc.  
Simon Chapman  
Oakville, ON

AGRA Inc.  
William Pearson  
Oakville, ON

Alberta Economic Development  
Rick Sloan  
Edmonton, AB

Alliance of Manufacturers and  
Exporters Canada  
Doreen Ruso  
Toronto, ON

Andaurex Industries inc.  
Gregory Bowes  
Markham, ON

AQUATECH, Société gestion de  
l'eau Inc.  
Pierre Bastien  
Longueuil, QC

Asea Brown Boveri Inc.  
Wido Hoville  
Saint-Laurent, QC

Association des Ingénieurs-Conseils  
du Québec  
Pierre Shoiry  
Montréal, QC

Association des  
Ingénieurs-Conseils du Québec  
Johanne Desrochers  
Montréal, QC

Association of Canadian  
Community Colleges  
Gerald Brown  
Ottawa, ON

Association of Consulting  
Engineers of Canada  
Tim Page  
Ottawa, ON

Association of Consulting  
Engineers of Canada  
Anne-Marie Schneider  
Ottawa, ON

Babcock & Wilcox Industries Ltd.  
David Moore  
Cambridge, ON

Babcock & Wilcox Industries Ltd.  
Ron Ojanpera  
Cambridge, ON

Banque Nationale de Paris  
(Canada)  
Sofie Dagenais  
Montréal, QC

Banque Nationale du Canada  
Jacques Van de Voorde  
Montréal, QC

BC TEL  
Dorothy Byrne  
Burnaby, BC

Bechtel Québec Limitée  
Jean Fillion  
Montréal, QC

Bell Canada International Inc.  
Peter Burn  
Montréal, QC

BFC Construction Corporation  
Lynne S. McArthur  
Scarborough, ON

Black and McDonald Limited  
Mike Sharp  
Ottawa, ON

Bombardier Inc.  
Pierre Mathieu  
Saint-Bruno, QC

Bombardier Inc.  
Richard Sloan  
Montréal, QC

BOT Software & MIS A. Jabbari Carmel, IL, USA	Canac Inc. Réjean Bélanger Montréal, QC	Canada Economic Development for Québec Regions Mario Ste-Marie Hull, QC
Canadian Bar Association Robin Sully Ottawa, ON	Canadian Bond Rating Service Mary Rabiasz Toronto, ON	Canadian Commercial Corporation Rory Harley Ottawa, ON
Canadian Council for Public-Private Partnerships Glenna Carr Toronto, ON	Canadian Electricity Association Dan Goldberger Ottawa, ON	Canadian Environment Industry Association Roy Woodbridge Ottawa, ON
Canarail Tomas Froudjian Montréal, QC	Cansult Group Limited James A. Metcalfe Markham, ON	Carl Otto Associates Inc. Carl H. Otto Montréal, QC
Carleton University Fraser Taylor Ottawa, ON	Centre international GP Pierre Gaudreau Montréal, QC	CH2M Gore & Storrie Limited Paul daSilva North York, ON
Chreod Ltd. Derek Ireland Ottawa, ON	CIBC Wood Gundy Securities Inc. David Leith Toronto, ON	CIMA Richard Larose Sherbrooke, QC
Cleartnet Communications Inc. Colin Belshaw Scarborough, ON	Clive Minchom Research Clive Minchom Toronto, ON	Committee on Islamic Financial Institutions --Canada Said Zafar Mississauga, ON
Conference Board of Canada Penny Brady Ottawa, ON	Consulting Engineers of Ontario Don Ingram Toronto, ON	Deloitte & Touche Consulting Group Jac van Beek Ottawa, ON
Deloitte & Touche Consulting Group Peter Strum Ottawa, ON	Department of Finance Pierre Marin Ottawa, ON	Department of Finance Peter Cameron Ottawa, ON
Dessau-Soprin Pierre Patry Laval, QC	Earth Sciences Sector, NRC COM David Carney Ottawa, ON	Economic Development, Tourism and Culture Joe Richard Fredericton, NB
Environment Canada Victor Buxton Hull, QC	European Bank for Reconstruction and Development Jan Wehebrink London, England, UK	European Bank for Reconstruction and Development John Kur London, England, UK
Export Development Corporation Robert Forbes Ottawa, ON	Export Development Corporation Deborah Majid Ottawa, ON	Export Development Corporation Jayne Watson Ottawa, ON
Export Development Corporation Robert Keigis Ottawa, ON	Export Development Corporation A. Ian Gillespie Ottawa, ON	Export Development Corporation John Balint Ottawa, ON
Export Development Corporation Peter Jones Ottawa, ON	Export Development Corporation Eric Siegel Ottawa, ON	Export Development Corporation Didier Delahousse Ottawa, ON

Export Development Corporation Glen Hodgson Ottawa, ON	Federation of Canadian Municipalities Ed Gorn Ottawa, ON	Federation of Canadian Municipalities Don Brownell Ottawa, ON
Fluor Daniel Canada Inc. John Barrie Calgary, AB	Fonds de solidarité des travailleurs du Québec Michel Bégin Montréal, QC	Foreign Affairs and International Trade Paul Stothart Ottawa, ON
Foreign Affairs and International Trade Paul Murray Ottawa, ON	Foreign Affairs and International Trade Brian Morrissey Ottawa, ON	Foreign Affairs and International Trade Jennifer Barbarie Ottawa, ON
Foreign Affairs and International Trade Sergio Marchi Ottawa, ON	Foreign Affairs and International Trade Sherril Owen Ottawa, ON	Foreign Affairs and International Trade Louise Charron-Fortin Ottawa, ON
Foreign Affairs and International Trade Leopold Battel Ottawa, ON	Fraser & Beatty Richard Mahoney Ottawa, ON	Fraser & Beatty Phil Rimer Ottawa, ON
Gartner Lee Ltd. Grant Anderson Markham, ON	GE Canada Inc. John Wilson Rockcliffe Park, ON	GeoCan Information Solutions Inc. Frank Scheme Ottawa, ON
Geomatics Industry Association of Canada: Ed Kennedy Ottawa, ON	Gestion Gabriel Meunier Inc. Gabriel Meunier Saint-Laurent, QC	Goodman Phillips & Vineberg Donald G. Pierce Toronto, ON
Goodman Phillips & Vineberg Ira J. Berg Toronto, ON	Goodman Phillips & Vineberg Douglas C. Robertson Montréal, QC	Government of Newfoundland and Labrador Max Ruelokke St. John's, NF
H.A. Simons Donald Blenkhorn Dorval, QC	Harris Canada Inc. Robert Bolduc Dollard des Ormeaux, QC	Hickling Capital Corporation Verne Chant Ottawa, ON
Industry Canada Lucien Bradet Ottawa, ON	Industry Canada Dennis De Melto Ottawa, ON	Industry Canada Eric Robichaud Ottawa, ON
Industry Canada Philip Morrison Ottawa, ON	Industry Canada Karl Knechtel Ottawa, ON	Industry Canada John Banigan Ottawa, ON
Industry Canada Jean-Charles Joly Toronto, ON	Industry Canada Prue Thomson Ottawa, ON	Industry Canada Craig Campbell Ottawa, ON
Industry Canada Basil Crozier Ottawa, ON	Industry Canada Dale Forbes Ottawa, ON	Industry Canada Ruth Girard Nepean, ON
Industry Canada Gerry Wright Ottawa, ON	Industry Canada Kathie Wells Ottawa, ON	Industry Canada Pierre Ricard-Desjardins Ottawa, ON

Industry Canada Kevin G. Lynch Ottawa, ON	Industry Canada Claude Drzymala Ottawa, ON	Infradev International Michel Branchaud Montréal, QC
Infrastructure Works Robert Hilton Ottawa, ON	Institut maritime du Québec Léo Morissette Rimouski, QC	Inter-American Development Bank George Shannon Washington, DC, USA
Inter-American Development Bank Roberto Volutini Washington, DC, USA	Interior Designers of Canada Margaret Agnelli Toronto, ON	Janin Inc. Jean-Yves Tassini Montréal, QC
Kembur Engineering Consultants Limited Walter Buryniuk Ottawa, ON	Klöckner Stadler Hurter Ltd. Alan Curleigh Montréal, QC	Klohn Crippen Project Finance John Shaw Vancouver, BC
KPMG Harry Ort Toronto, ON	Le groupe Québécois inc. Gilles Laroche Rimouski, QC	LeBoeuf, Lamb, Greene & MacRae David Suratgar London, England, UK
Levesque Beaubien Geoffrion Inc. Xavier Guillard Montréal, QC	Lockerbie Stanley Inc. Gary Cutmore Edmonton, AB	Loewen, Ondaatje, McCutcheon Ltd. John Walker Toronto, ON
Loewen, Ondaatje, McCutcheon Ltd. Garrett Herman Toronto, ON	Ministère de l'industrie du Commerce-MICST Jean Saintonge Québec, QC	Ministère des Transports Claude Morin Québec, QC
MobiFon S.A. James Jackson Bucharest, ROMANIA	NAPA Airport Development Consultants Inc. John Desmarais Toronto, ON	National Association of Career Colleges Paul Kitchin Brantford, ON
National Electricity Roundtable John Beadle Ottawa, ON	National Round Table on the Environment & Economy David Morgan Ottawa, ON	Newbridge James Mackie Kanata, ON
Newcourt, Capital Rob Sexton New York, NY, USA	Nortel Bill Neil Ottawa, ON	Northern Telecom Limited Wesley Scott Brampton, ON
Nova Scotia Economic Development and Tourism Francis MacKenzie Halifax, NS	Pollutech International Limited Richard Laughton Oakville, ON	Project Realization Group Inc. Nigel Thompson North York, ON
R.J. Burnside & Associates Ltd. Rui De Carvalho Orangeville, ON	Royal Bank of Canada Ken Bravo Toronto, ON	Royal Bank of Canada Marc Pignard Toronto, ON
S.M. Group International Inc. Renaud Poirier Montréal, QC	Saskatchewan Trade & Export Partnership Anne Rose Regina, SK	SCC Environmental Paul Antle St. John's, NF
Schroder Canada Limitée Philippe Castonguay Montréal, QC	Scotiabank Anthony S. Courtright Toronto, ON	SECOR Harry Baumann Toronto, ON
Service New Brunswick Mary Ogilvie Fredericton, NB	SG (Canada) Darryl Murphy Toronto, ON	SNC-Lavalin Inc. Jacques Lamarre Montréal, QC

SNC-Lavalin Inc.  
Albert Sweetnam  
Willowdale, ON

SNC-Lavalin Inc.  
Lance Howard  
Montréal, QC

SNC-Lavalin Inc.  
Benoit Couture  
Montréal, QC

Strategic Services  
Diana O'Reilly  
Toronto, ON

SNC-Lavalin International  
Robert Blackburn  
Ottawa, ON

Sumitomo Trust & Banking Co.,  
Ltd.  
Gordon Herington  
Toronto, ON

SR Telecom Inc.  
John Morris  
Ottawa, ON

Summa Strategies Canada  
Kenneth Whiting  
Ottawa, ON

SR Telecom Inc.  
Marc Lusignan  
Ottawa, ON

Summa Strategies Canada  
Rachel Kersys  
Ottawa, ON

SR Telecom Inc.  
Jim Kerr  
Ottawa, ON

Sun Life of Canada  
John Vincent  
Toronto, ON

Stanley Technology Group Inc.  
Ben Novak  
Edmonton, AB

Sussex Circle  
John Coleman  
Ottawa, ON

Stentor Telecom Policy Inc.  
Nick Mulder  
Ottawa, ON

TD Securities Inc.  
Moya Greene  
Toronto, ON

Strategic Services  
Terry Stephen  
Toronto, ON

Telesystem International Wireless  
Inc.  
Pierre Toth  
Montréal, QC

Thames Water International  
Dreda Gaines  
Reading, Berkshire, UK

Transportation Association of  
Canada  
Louise Pelletier  
Ottawa, ON

The Delphi Group  
Christopher Henderson  
Ottawa, ON

Trojan Technologies Inc.  
Ron Braun  
London, ON

The Financial Post  
Neville Nankivell  
Ottawa, ON

Upper Lakes Group Inc.  
Paul Couse  
Ottawa, ON

Tory Tory Deslauniers &  
Binnington  
William Charnetski  
Toronto, ON

Tory, Tory, DesLauriers &  
Binnington  
Geoffrey Creighton  
Toronto, ON

UV Systems Technology Inc.  
John Gaetz  
Burnaby, BC

Varez Inc.  
Guy Leclerc  
Saint-Lambert, QC

TransCanada International Ltd.  
Dan Huras  
Calgary, AB


Zenon Technologies  
Diana Mourato  
Burlington, ON

Transport Canada  
David Stambrook  
Ottawa, ON

Transport Canada  
John Cloutier  
Ottawa, ON



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