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Comments to
10th Annual Conference on Public Private Partnerships
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Good Afternoon Ladies and Gentlemen,
Thank you

I really appreciate the opportunity to speak to you today on the whole subject of Public Private Partnerships.

To many, this is a somewhat dry and dull topic, but it's an extremely important one, and over the last couple of years, investors have learned that dry and dull investments are often the best with long term stable returns.

This is an important conference for four reasons and the timing could not be better.

First, governments are struggling to find a balance between fiscal prudence and needed investment in vital infrastructure - transportation, water, healthcare and education.

Each of these areas is of major national importance, each requires significant capital investment to keep our economy growing and competitive, and each of these areas is deteriorating at an alarming rate.

We need more investment but, even more important, we need smarter and more focused investment and we must find better ways to more effectively mobilize private sector capital and private sector management capability to build infrastructure and make other investments previously served by the public sector.

The basic dilemma is this. Canadians want better highways, better public transit, more accessible healthcare, a cleaner environment and a whole lot more, but they don't want to pay higher taxes - in fact most of us want lower taxes.

Public private partnerships are an important part of the answer to these issues and to this dilemma

The second reason this is an important conference is that we have here today senior decision makers from across Canada from both the public and private sectors who are in a position to implement public private partnerships and to make them happen. To a large extent it is up to us to get on with these projects.

Third, the timing for public private partnerships is about as good as it gets. The need is there in a big way and, as these projects depend primarily on debt capital and with interest rates at forty year lows, the stage is set for implementation.

Fourth, while some excellent public private partnerships have been put in place, to be frank progress has been disappointingly slow and one might say there has been more talk than action.

While the need is there, public private partnerships have not yet lived up to anything like their full potential and hopefully this conference will make a difference.

It is time to restart the engines and re-invigorate the whole public private partnership process.

Now, the subject I was asked to address today was entitled “Canada: Capital Rich Project Poor”.

To some extent this title is a misnomer.

Certainly, with interest rates at half century lows and with public and private pension funds and other private funds awash with surplus liquidity, we are indeed capital rich.

There was an article in the National Post this morning that some of the largest investment funds in the country have enough real estate and equity exposure and are looking to infrastructure investment to diversify their asset base. I think this will be a rapidly growing trend.

However, I do not agree that we are project poor.

We will get into further details later but the projects are there to be done, there is lots of low hanging fruit but, in many cases, vested interests from both the private and public sectors have slowed progress and we have not been able to break the logjam of potential projects and that, of course, is what this conference is all about - - breaking the logjam.

To be blunt, the time for talk, study and analysis is over and the time for making decisions and moving ahead is at hand.

When looking at new ways of doing things, I am always wary when someone says the status quo is not an option because they usually mean the status quo is an option and is usually regarded by many as the preferable option because while change brings opportunity, it also brings risk and uncertainty. Basically people don't like change.

We now need leaders, in both the private and public sectors who are prepared to separate the wheat from the chaff, make some decisions and get on with it.

At a time like this, there is absolutely nothing to be gained by finger pointing as to why progress in public private partnerships has been so slow.

Suffice to say that there is tremendous inertia, there are powerful entrenched interests in both the private and public sectors who prefer the status quo, and to top it off, whether its toll highways, airport improvement fees, privatized hospitals, or water systems, attitudes of the general public are slow to change.

Rather than looking back, this is a time to look forward in a very positive way to figure out how we can more aggressively take advantage of the opportunities afforded by the public and private sectors working more closely together.

As I consider the topic under discussion, I immediately ask two questions:

- What is infrastructure?
- and
- What are public private partnerships?

When I talk of infrastructure, I talk about the fairly mundane but absolutely necessary foundations for our economy and general well-being - water and sewage pipes under the ground, highways, bridges, transit systems, airports, hospitals, schools and universities.

These are the core infrastructure assets that investors seek, as opposed to some of the more discretionary assets like convention centers, recreation centers, sports arenas and so on.

A public private partnership is more difficult to define.

When you cut through it all it really means mobilizing private sector capital and private sector management to deliver public sector services within strict parameters determined and defined by the public policy framework.

Now, while we would all like to have seen many more viable and innovative public private partnerships in our country, the fact is some excellent projects have been successfully completed.

In terms of innovative structure and financing, Canada has made an important and valuable contribution to public private partnerships on an international basis. Every country is proceeding at its own pace.

Let's look at four major Canadian successes.

Back in 1993, two Canadians named Paul Gianellia and David Pirie teamed up their small company with GTM and Morrison Knudson to build the Confederation Bridge linking Prince Edward Island with the mainland. This was a triumph of the little guys like we haven't seen since.

The Confederation Bridge was an engineering marvel, a financing victory, arguably Canada's first entry into the world of 3P and the precursor to the Canadian Council for Public Private Partnerships.

As another indicator of things to come, the Confederation Bridge was initially designed to be off balance sheet but the Auditor General later put it on.

The true benefits to Canada were not in balance sheet manipulation or financial engineering but in procurement. Without the external financing, Canada never could have packaged a nearly billion dollar contract in one piece. And yet, without this form of procurement, I wonder whether the bridge would be complete even today.

I congratulate the pioneers in the private sector and the Canadian government who created the Confederation Bridge deal a decade ago.

A second major success was Highway 407, by many calculations the most valuable toll highway in the world.

It took the Province of Ontario two tries to get this one right but then they really got it right.

- They have achieved an arrangement under which they assure continued safety and environmental compliance, with open and uninterrupted access for all vehicles.

- They have ensured that Highway 407 will relieve substantial congestion from the adjacent free highways and at the same time maintained full control of the Provincial network.
- Unlike many toll highways elsewhere in the world, Ontario did not agree to restrict competing development anywhere except in the Parkway Belt itself.
- They ensured a rapid build-out of Highway 407 to the West and East at no cost to the government and even ensured that the whole route will be widened by four lanes when required, again at private sector expense.

And even as they accomplished all this, they received a price equal to two times their cost.

How did they do it? There were three key and repeatable elements that contributed to Ontario's success.

First, they let the whole world compete to own the Highway, as opposed to the first time when they limited competition to Ontario companies.

Second, they offered a long, 99 year, concession period which is extremely attractive to major long term investors.

And third, recognizing that drivers always have free routes available, they limited their rate regulation to ensuring that full congestion relief is always achieved.

Well done, Ontario!

And well done, 407 International! It seems that your efforts have increased the value yet again! You gained control of receivables, gained control of the function and cost of the tolling systems, expanded the highway quickly and efficiently, and dispensed with off-peak discounts that ultimately proved to have little impact on traffic.

You took substantial and genuine risks, managed them tightly, brought your specialized expertise and specialized market clout to bear and came through to the other side with a good reward.

That is what a public private partnership should be all about.

There are some who consider the value growth in private hands of a public private partnership such as Highway 407 to be signal of failure.

I disagree in the strongest possible way.

In my career I have seen hundreds of initial public offerings of new companies and the companies whose shares doubled or tripled in the years following the initial offering obviously fared a lot better and made a much stronger contribution to the economy than the companies whose shares declined after the initial public offering. Value creation in an ongoing long term process.

In the case of Highway 407, a hundred or so kilometers of Ontario highway have proven themselves worth twice as much as we thought before.

What does that say about all the thousands of other kilometers of Ontario highways that the public sector still owns? Clearly, these highways must now be worth far more, and government should capitalize on this newly created value. What an opportunity.

Other provinces could benefit from this model and I think British Columbia in particular is looking at various possibilities such as a major bridge for the Fraser River crossing.

How to capitalize on the 407 model? I'll leave it to the experts to find the exact way, but as a start I might look at the twin difficulties we have reducing traffic congestion and funding public transit.

For example, traffic congestion on the Don Valley Parkway and the Gardiner Expressway for much of the day is a disaster and in terms of getting where you want to go in a hurry, they are to be avoided at all costs.

Why doesn't the City of Toronto sell the Don Valley and the Gardiner to a company that would maintain and toll them, with a significant percentage of gross toll receipts going towards, not only maintenance, but funding public transportation.

With one transaction, we could save Toronto substantial highway maintenance costs, eliminate its need to subsidize the TTC, reduce traffic congestion and reduce the overall level of vehicles in the city.

This initiative would be a lot more feasible today, after the success of 407 International, than it would have been before.

In blunt terms, if Highway 407 can operate successfully as a private company with all the advantages thereof, why not the Don Valley and the Gardiner? The entrance and exit ramps on these highways could be electronically tolled in short order.

A third major win for public private partnerships was a \$281 million 25-year bond issue completed by the Toronto Hospital in December of 1998.

This hospital bond offering broke new ground, as it was the first ever hospital bond issue in this country.

The Toronto Hospital is now part of the University Health Network which represents the merger of the Toronto General Hospital, the Princess Margaret Cancer Hospital and the Toronto Western Hospital.

The bonds were rated Double A and were sold at a spread of about thirteen basis points over Ontario bonds - a pretty good rate.

The bonds were not guaranteed by the Province or any of its agencies but investors and rating agencies could take comfort that they had access to the hospital's first funds, even ahead of staff salaries and that they had a security interest in the buildings and property and almost everything else in the hospital except money that was included in the hospital's charitable foundations.

This \$281 million bond issue had two very important advantages. It was not, and is not, included on the Province's balance sheet but, more importantly, the hospital was released from the standard hospital procurement methods and the construction project was managed directly by our own highly qualified staff.

I should declare a conflict of interest here as I am Chairman of the University Health Network but I can tell you that that bond issue was critically important to these three great hospitals.

The hospitals desperately needed new investment and the government didn't have the money. Some of our buildings were sixty and seventy years old.

The proceeds of this bond issue, together with other private monies, enabled the University Health Network to start on the entire redevelopment of the Toronto General Hospital on University Avenue and the Toronto Western Hospital on Bathurst Street and the project is now approximately 50% spent. Total project cost is now about \$400 million and we are ahead of schedule and below budget.

Those of you who might have occasion to travel up or down University Avenue will see construction of our new 600,000 sq. ft. Clinical Services Building now underway which will have 22 new operating rooms along with a host of other medical and patient facilities.

This project also included a new administration building and emergency department which are already completed and operational.

At the Toronto Western Hospital, we have completely redeveloped our neurosciences center, built a new patient atrium and food court with all the trimmings for our staff - and we will shortly commence construction of a new East Wing of the hospital replacing an existing wing which was built almost sixty years ago.

All of this was made possible by a first ever hospital bond issue and while the financing technique was somewhat controversial and broke new ground at the time, I am delighted to see that this financing format is being replicated at a number of universities across Canada including the University of Toronto, the University of British Columbia, Queen's, Carleton, McGill, York and others as well.

This was a clear case where after one issue was done successfully, the model was accepted and swept across Canada in just two or three years.

The fourth major contribution that Canada has made to the global development of public private partnerships is what might be called a Consumer Service Corporation which is the concept that began with NavCanada that was formed to take over Canada's air navigation system in 1996.

NavCanada is a non-share capital corporation. This means that no one owns equity in NavCanada, neither the public sector nor the private sector.

NavCanada can never distribute profits to shareholders because there are none. Even on wind up, residual assets would go back to the Government of Canada. So there is no external body, public or private, with a motivation to draw profits out.

The next key factor is that consumers, or users, play a prominent role on NavCanada's Board of Directors. In this case airlines are used as a proxy for the consumers and it seems, for obvious reasons, that airlines seek an efficient, safe and totally reliable air navigation service at low cost.

When we combine substantial user representation on the Board and in management in a not-for-profit company that operates an essential monopoly, we have what we call a Consumer Services Corporation.

With substantial consumer representation built right in on the Board of Directors and the mandate and objectives of the entity clearly set out, the company no longer needs an external regulator - there is a vested interest to lower costs and rates.

In the final analysis, NavCanada has been an outstanding success.

NavCanada raised approximately \$1.5 billion in the bond markets to buy the system from the federal government and got the government out of the air navigation business.

The NavCanada debt is not on the government's books, and the organization is run and directed by individuals who have a vested interest in a safe, reliable and low cost air navigation system.

As a consequence, the air navigation system has been entirely rebuilt and air navigation fees have been reduced by more than 30% over the past five years.

NavCanada has been and is a great story and the Consumer Service Corporation model could be applied elsewhere because the benefits are substantial.

In fact, NavCanada is the ideal public private partnership.

Private capital, consumer driven governance and consumer driven management are running an essential public service formerly operated by the government.

So there you have it

- Confederation Bridge
- Highway 407
- Toronto General Hospital bond issue
- NavCanada

Four exciting and innovative public private partnerships which have greatly benefited consumers, reduced the size and demands on governments and marshaled the resources of both the private and public sectors to improve economic performance and productivity.

The question we should be asking ourselves at this conference is how can we accelerate development of similar public private partnerships across a broader range of services in the future.

I say again, how can we break the logjam?

We are going to have to learn to think on a bigger scale and when it comes to larger and perhaps somewhat more controversial projects or initiatives, we are going to have to learn to pay attention to what is good for the silent majority or the community at large as opposed to small, vocal minority groups who have a vested interest and look to block progress at every turn.

In Europe they have high speed trains traveling at 150 miles per hour criss-crossing the continent and for whatever reason we can't build one from Toronto to Montreal.

In Manhattan bridges are tolled to raise funds for improvement and across the United States there is a magnificent network of interstate toll roads maintained in peak condition.

Things seem to happen faster in other countries and we have no one to blame but ourselves.

As the saying goes:

“We have seen the enemy and it is us.”

What projects should we be focusing on in the immediate future because, as I said earlier, it's time to get on with it.

Public private partnership development in Canada is like securities legislation - at least ten to fifteen years behind the requirements of the marketplace.

Basically, we should be looking at the same areas I outlined at the outset

- Transportation
- Water
- Healthcare
- Education

Some of these might seem like rather radical suggestions but, in fact, they're just straightforward common sense and it's all relatively simple.

Moves such as this are bound to be somewhat controversial but all that's required is for the government to say it's got to be done and get on with it.

For example, London, England has dramatic traffic problems but they are not just talking about it, they are doing something about it.

From February 17 cars and trucks in London will be subject to a week-day charge between 7:00 a.m. and 6:30 p.m. in the central zone bordered by Park Lane in the West and Tower Bridge in the East.

The zone includes the Oxford Street shopping area, the heart of the financial district and landmarks such as Buckingham Palace, Trafalgar Square, the British Museum, Big Ben and St. Paul's Cathedral.

This £200 million plan is designed to free up London streets, where average traffic speeds during the day have fallen below ten miles an hour which, as reported by the London press, is barely faster than horse drawn carriages.

During business hours, about 250,000 vehicles move inside the central zone. The idea is to cut traffic by about ten to fifteen percent, making journeys quicker and raise £130 million a year to improve transport.

Two hundred new buses are being put into service before the scheme starts. As a matter of interest, the new system will be quite highly automated with license numbers being logged by cameras at 174 entrance points and checked by computer against payment, just like 407.

Drivers may pay by telephone, internet, post or in person. Non-payment incurs a fine of £80 and persistent offenders will have their cars clamped. Inner city residents qualify for a 90% discount.

It takes a lot of courage in a city like London to implement measures such as this but this is the type of bold initiative and leadership that is required.

In healthcare, apart from the 1998 bond issue done by the Toronto General Hospital, there is far, far greater scope for increased contribution by public private partnerships and the Province of Ontario is well advanced in moving this along.

For example, provinces across Canada have billions of dollars fled up in land and buildings which are just bricks and mortar and have nothing to do with healthcare.

You don't have to own the land, the hospital or even the equipment to provide topflight healthcare. Healthcare is provided by nurses, physicians, surgeons and hospital staff, not land, buildings and equipment.

For example, at Royal Bank, about four years we decided we wanted to focus more on our core business of banking and that we were not in the real estate business.

Accordingly, we sold our major buildings and the land under them for \$827 million and re-deployed the capital in our core business of financial services. It was a case of focusing on what you do best and this move made sense for our shareholders and our customers.

Our governments which run the healthcare industry should do the same.

There are a number of companies around the world that specialize in building, equipping and maintaining hospitals and providing them to public sector hospital organizations under very long term contracts. This makes good economic sense.

The simple fact is that private sector companies can build and maintain a hospital more cheaply than the government.

These private companies are not involved in any aspect of patient care, they just do what the private sector does best and it frees up valuable healthcare capital to focus on patient care.

In this regard, hats off to SuperBuild and the Province of Ontario that is moving aggressively to find new and more efficient ways to finance bricks and mortar through the private sector.

Ontario is now proceeding to finance a major new \$300 million redevelopment of the William Osler Health Centre in Brampton and \$100 * million redevelopment of the Royal Ottawa Hospital in this fashion - that's progress.

None of these transactions have closed yet; they are in various states of tendering or getting ready, but international consortia are forming and trying to gain first mover advantage in what could become a very substantive investor wave of new and innovative hospital financing across Canada.

As a matter of fact, if the Brampton and Ottawa hospital projects are successful, and we believe they will be, this new hospital financing format could sweep across Canada just like the university financing referred to earlier.

The essence of this concept is that the private sector owns and operates the buildings and its basic services rather like hotels. The public sector hospitals use the buildings and services provided, while maintaining total responsibility for all clinical services.

There is another even more important area of healthcare ideally suited for a public private partnership which is in the area of healthcare information technology which is in desperate straits.

Healthcare information technology in Canada is a sitting duck for a major public private partnership with potential enormous benefits for our healthcare system.

Information technology in the healthcare industry across Canada is in the dark ages and the system is drowning in paper.

In terms of information technology, I would say the healthcare industry is perhaps twenty years behind the Canadian banking system.

Canada's healthcare bill now exceeds \$100 billion and we will never control the cost of healthcare without significant new capital investment in information technology - basic infrastructure. Healthcare must be brought into the new world of web-based information systems - and that takes money but the ultimate savings will be billions annually.

Banking and healthcare are similar insofar as both deal with virtually all Canadians coast to coast.

Expenses of the Canadian banking industry run about \$40 billion annually and healthcare expenditures are about \$100 billion. So the healthcare industry is approximately 2-1/2 times the size of the banking business.

Over the last twenty-five years, Canadian banks have been world leaders in developing new web-based systems and technology infrastructure and the result has been a quantum increase in productivity and efficiency.

Our highly centralized, state controlled healthcare industry on the other hand, has not invested in new technology and information systems and we are reaping the consequences.

Collectively the Canadian banks probably now have at least six million customers banking electronically on the internet despite the fact that it only arrived on the scene in 1997. This is the type of quantum change and progress we need in healthcare.

Why is it the banking industry can develop cards where you can access you bank accounts, do transactions from tens of thousands of automated banking machines, not only across Canada but from just about anywhere in the world, yet an electronic medical record card has not been developed for the healthcare industry?

Why is it that virtually any Canadian can access highly private information about their bank account or investment account twenty-four hours a day through the internet, pay bills, buy and sell securities, but to gather up your medical records one has to visit two or three hospitals, a couple of clinics and end up with a mountain of paper - much of which is indecipherable scribblings.

Technology and web-based systems can do for healthcare what they have done for banking. Proven technology already exists.

So what should happen?

The Federal Government should establish the standards and specifications for a national healthcare information technology system including an electronic healthcare medical record card which would also include a record of prescription drugs no matter where they were purchased.

The Federal Government made an initial step two years ago by establishing a vehicle called "Canada Health Infoway", capitalized at \$500 million, which is an independent "not-for-profit corporation" to establish an effective electronic health record with compatible standards coast to coast.

That's exactly what we want but the whole initiative is moving far too slowly, if it's moving at all, and it should be implemented by the private sector - not by a government bureaucracy.

There are people within a few blocks of this hotel who are totally qualified to draw up the specifications for such a national healthcare technology system and there are private companies with proven records who could build and implement the system - it is just a case of getting on with it now.

Canada Health Infoway could be run as a public private partnership with the Federal Government laying down the standards and benchmarks which must be adhered to but the development and operation would be outsourced to the private sector. This could potentially be an ideal public private partnership with enormous rewards.

Why should we not be able to view our complete medical history on the internet so no matter where you move to in Canada your local physician or perhaps surgeon can have instant access.

Just imagine the cost savings and improved healthcare service which such a system could provide. This would be massive, quantum change.

Looking ahead, there is a real urgency in getting on with a number of these new developments in transportation, healthcare and education and other areas. We all know where the vested interests lie and we all know the importance of clearing the logjam.

In closing, just let me say that I keep coming back to how do we break this logjam in the implementation of major public private partnerships.

At the end of the day, it all comes back to having a vision and somebody in authority making a decision.

To me the classic case was the privatization of the CNR and while this was an outright sale as opposed to a public private partnership, it was a fine example of how to get something which was highly controversial done and done quickly.

Paul Tellier became head of the CNR in 1992 and the decision to privatize it was made towards the end of 1994 and the deal closed amazingly in November 1995.

Prior to this the CNR was an incredible bureaucracy with major union issues and a huge amount of baggage and I would say that most knowledgeable observers said that it couldn't be done.

The process was driven in the government by the then Minister of Transport, Doug Young, who was absolutely relentless in moving it ahead and also by Paul Tellier in totally restructuring the company and getting it ready for sale.

Major decisions like this take courage, vision and conviction and we need more of this type of thinking in Canada.

There is absolutely no reason why some of the private public partnerships which I have talked about today and others that various people are working on across Canada should not become a reality.

There will always be opposition and there will always be naysayers. It's just a case of having the conviction that what you are doing is right and driving it forward to a successful conclusion.

I think the private sector and investors are ready and waiting and I would call on our decision makers across this country to make the required decisions because there is a desperate need for investment in new infrastructure to keep our economy strong, healthy and growing.

In conclusion, just let me say that I agree with the Canadian Council that public private partnerships have been few and far between but at the same time some of the ones we have done have been outstanding successes and should serve as examples for the future.