

The perils of the government's promised infrastructure bank: Wells

The Trudeau government hopes to woo international investment funds looking for some kind of return. Any return.



The Sydney Opera House is an infrastructure project with a cost overrun of 1,400 per cent. (DREAMSTIME)

By Jennifer Wells Business Columnist
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“Infrastructure is the great space shrinker, and power, wealth and status increasingly belong to those who know how to shrink space, or know how to benefit from space being shrunk.”

— Oxford University Professor Bent Flyvbjerg in *Megaprojects and Risk*

The Trudeau government, a year in power, advances toward telling us all how it intends to structure its promised infrastructure bank, and how it hopes to woo international investment funds looking for some kind of return.

Any return.

Remember the flurry of headlines when the Bank of Japan cut interest rates to minus 0.1 per cent last January and suddenly everyone was talking about negative yield. The big numbers: a

summertime report that, globally, negative-yielding bonds had surpassed \$13 trillion (U.S.). Trudeau ally Dominic Barton likes to use that figure a lot, and is fond of citing Japanese government bonds as an example. But don't forget France, or Germany, or Switzerland. As Barton himself said recently, that pot of sub-zero money is "massively hunting for growth."

Or as Matti Siemiatycki, an associate professor in the department of geography and planning at the University of Toronto wrote in a recent report, "(T)he world is awash in liquidity, especially institutional investors such as pension funds, insurance companies, private asset management firms and sovereign wealth funds looking for long-term, inflation-adjusted, stable returns."

But should we be talking about a "bank?" Siemiatycki thinks not. "It's really a key moment for Canada to have a central agency at the national level that is examining infrastructure," he says. Elaborating, he adds it's imperative that this agency include a centre of excellence for infrastructure, with a common approach to evaluating projects and a shared technical evaluation methodology. The financing, what we conventionally think of as the role of a "bank," is only the beady-eyed part of the equation.

Picking the right projects; financing them effectively; delivering on time and on budget. Siemiatycki turns to the work of Oxford University's Bent Flyvberg, who has built an international reputation with his empirical research on infrastructure projects. Cost overruns (the Sydney Opera House always gets mentioned here, with its 1,400 per cent overrun), the optimism bias and overestimated revenue streams appear to have kept Professor Flyvberg occupied for years.

Flyvberg tallies overruns on rail projects, by example, at an average 45 per cent.

Siemiatycki asks: what are the revenue streams? "The reason much of the \$13 trillion hasn't landed in Canada is because the project profiles are not attractive to that kind of investor."

Pull up the Ontario Teachers' Pension Plan infrastructure and natural resources portfolio and you will find investments in HS1 (the railway connecting London to the Channel Tunnel), Brussels Airport, Bristol Airport, Copenhagen Airports, Birmingham Airport and Koole Terminals, "a leading platform of storage terminals in Northwestern Europe." (That is not the full portfolio.)

Siemiatycki looks at Canada. "We don't charge tolls to a great extent. Our airports and seaports are to varying degrees under public control. . . pension funds have tended to invest in brown field assets, assets that are up and running and have already passed through the high-risk construction phase and have a dedicated revenue stream."

Rail freight. Energy. Water. In a recent speech, Dominic Barton emphasized these areas, adding that "productivity driven-infrastructure" would be the focus.

Will the new "bank" compile a portfolio of brown field assets? What green field assets will be considered? Siemiatycki wonders whether new rail connections for resource extraction and mining plays might be considered. He cites the contradiction of driving development while

addressing the imperative of reconciliation with indigenous communities. “We have to be very subtle and nuanced about what it means to tap into this global investment pool,” he says.

What amount of political capital will the government be willing to risk? Will nuance and social capital reign? As Siemiatycki says, “Infrastructure is the place where your rhetorical claims hit the ground.”