

Bombardier CEO questions the viability of P3s

(Translation of Canadian Press article « Le grand patron de Bombardier s'interroge sur la viabilité des PPP »)

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MONTREAL – Bombardier (TSX: BBD.B) President and CEO Pierre Beaudoin, questions the validity of the public-private partnership (P3) model, noting that companies are not always in the best position to finance major transportation infrastructure projects.

In a debate held last week in Los Angeles by the Milken Institute, a California think tank, Beaudoin said, "I think that the private sector is well placed to manage project costs and to meet deadlines, but in general, I'm not convinced that it is the best-placed to finance projects."

"This is an area where we must ask ourselves: Is there a better way to finance our projects?"

As an example, he pointed out that a municipality could issue US bonds at an annual interest rate of 4.8 per cent, while a private company would pay the equivalent of 8.2 per cent interest for the same amount (based on a capital outlay of 15 per cent). He characterized this scenario as somewhat "extreme" but still representative of reality.

The CEO of Bombardier speaks from experience: in 2007, the Quebec multinational had to write off US\$164 million related to an investment in Metronet, the P3 responsible for the maintenance, renewal and upgrade of the infrastructure of nine London Underground lines.

Not to mention that when a P3 is experiencing financial problems, the public authorities have no choice but to pay the bill, because no matter what happens, "they need their subways and their highways," he noted.

The financial crisis of 2008 has taken a real bite out of the P3 model, since it has made it much more difficult to implement projects financed 80 or 90 per cent through borrowing," noted Beaudoin.

In Quebec, the proposed construction of the new Centre Hospitalier de l'Université de Montréal (CHUM) has experienced numerous delays because the consortiums in the running have had problems solidifying their financial arrangements.

Public transport

Pierre Beaudoin also used the conference in Los Angeles to promote rail transportation, arguing that every dollar invested in public transit returns \$4 in economic benefits.

He was sorry that the recovery program set up by Washington has allocated only 7.8 per cent of its US\$787 billion budget to transportation, urban development and housing, while the Chinese economic stimulus plan has allotted nearly 40 per cent of its investment to roads and railways.

"Although I am Canadian, I do like tax cuts; but I am convinced that investment in infrastructure provides better returns for us all in the long term," he said, referring to tax cuts in the American recovery plan.

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