



Canadian Port Financing: Issues & Challenges

THE OPPORTUNITY TO PREPARE: FORECASTING FREIGHT DEMAND

Providing Infrastructure – The Reality Check

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Introduction to PricewaterhouseCoopers LLP



- ▶ PricewaterhouseCoopers (PwC) is one of the world's largest professional firms, with 150,000 people in 142 countries.
- ▶ In Canada, PwC is located in 20 cities across the country.
- ▶ PwC's Transportation and Infrastructure team brings together more than 20 experts in corporate finance.
- ▶ PwC has a long track record in working with CPAs, Crown Corporations, Transport Canada and other organizations in the Canadian transportation sector in meeting their challenges.

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Introduction to Fraser River Port Authority



- ▶ Fraser River Port Authority (FRPA) has a 90 year history of supporting trade and economic development.
- ▶ FRPA manages Fraser River Port, Canada's 2nd largest port, moving 39 million tonnes of cargo annually;
 - container cargo volumes have grown over 600% in five years.
- ▶ Fraser River Port is a vital international port in Canada's Asia-Pacific Gateway, and an important shortsea shipping corridor.
- ▶ The Port supports 15,000 jobs and generates over \$7 billion in economic output.



Introduction: Challenges Facing Canadian Ports

- Some of the challenges which Canadian ports face today include:
 - expanding handling capacity;
 - competing with US ports; and
 - dealing with proponents of waterfront development, including residential and recreational uses.
- These challenges will require new financing and new ways of doing business that include increased stakeholder partnerships.
- This paper provides an overview of general trends with port infrastructure developments, investment trends with North American ports, and port financing issues with Canadian ports.



An Industry in Transition

- The financing of port infrastructure and policies on charging users vary considerably from one country to another.
- In the past, ports tended to be seen mainly as suppliers of services of general economic interest provided by the public sector and financed by the taxpayer.
- The trend has moved towards considering ports as commercial entities which ought to recover their costs from port users who benefit from them directly.



Port Financing and Pricing Issues are Complex

- Increasingly, principles applied to development of port financing and pricing solutions include:
 - “user pay” approaches;
 - establishing performance measures; and
 - encouraging stakeholder agencies to adopt best practices.
- Added to the “who should pay” debate are complex issues regarding appropriate system-wide multimodal solutions.
- These issues come at a time when in North America there is a growing port capacity problem.



Port Capacity Issues to Worsen in the Next Few Years

- Freight projects typically have limited visibility in the process for planning and prioritizing how transportation dollars should be spent.
- There are also limitations of federal funding programs, which tend to dedicate funds to a single mode of transportation or a non-freight purposes.
- Ports are clearly indicating that capacity cannot be expanded without significant participation from longshore unions, government, rail and truck carriers. Terminal operators participation will also be important.



Investment Trends with Competing US Ports

- Capital improvements to port infrastructure in the US are generally a non-federal responsibility although there are some federally-assisted projects for dredging and security.
- While State and local governments provide some assistance, ports must finance the non-federal share of federal projects and all the costs of land-based infrastructure projects.
- Port revenues have generally been the method most often used to finance capital improvements, followed by revenue bonds.



Spending on Containerized Cargo is Expected to Grow Rapidly

- US port capital expenditures have risen strongly since the early 1990s. Containerized cargo has absorbed the largest amount of capital spending since at least the early 1990s.
- Capital spending over the 2001-2005 period is estimated at a record \$9.4 billion, an increase of almost 50% compared to the total spent during 1996-2000 (Source: IBI Group).
- The South Pacific region has been the major area of port development and this should continue, with expenditures of some \$3.2 billion over the 2001-2005 period.
- Virtually all of this is accounted for by the Ports of Los Angeles and Long Beach.
- North Pacific ports increased capital expenditures by 30%, to \$1.2 billion in 2001-2005. The Ports of Seattle and Tacoma account for the bulk of this.



Investment Trends with Canadian Ports are influenced by the CMA

- Major ports in Canada are governed by the *Canada Marine Act* (CMA) that became effective in 1998.
- The Act was designed to rationalize the port system and make it more efficient. Canada Port Authorities (CPAs) are considered self-sufficient ports and critical to domestic and international trade.
- 19 Canada Port Authorities were created, including 5 in BC. For the most part, smaller and medium sized ports were divested. The CPAs have similar levels of autonomy as Canada Airport Authorities.
- An objective of the CMA was to shift the financial burden for marine transportation from the Canadian taxpayer to the user, and limit liabilities.



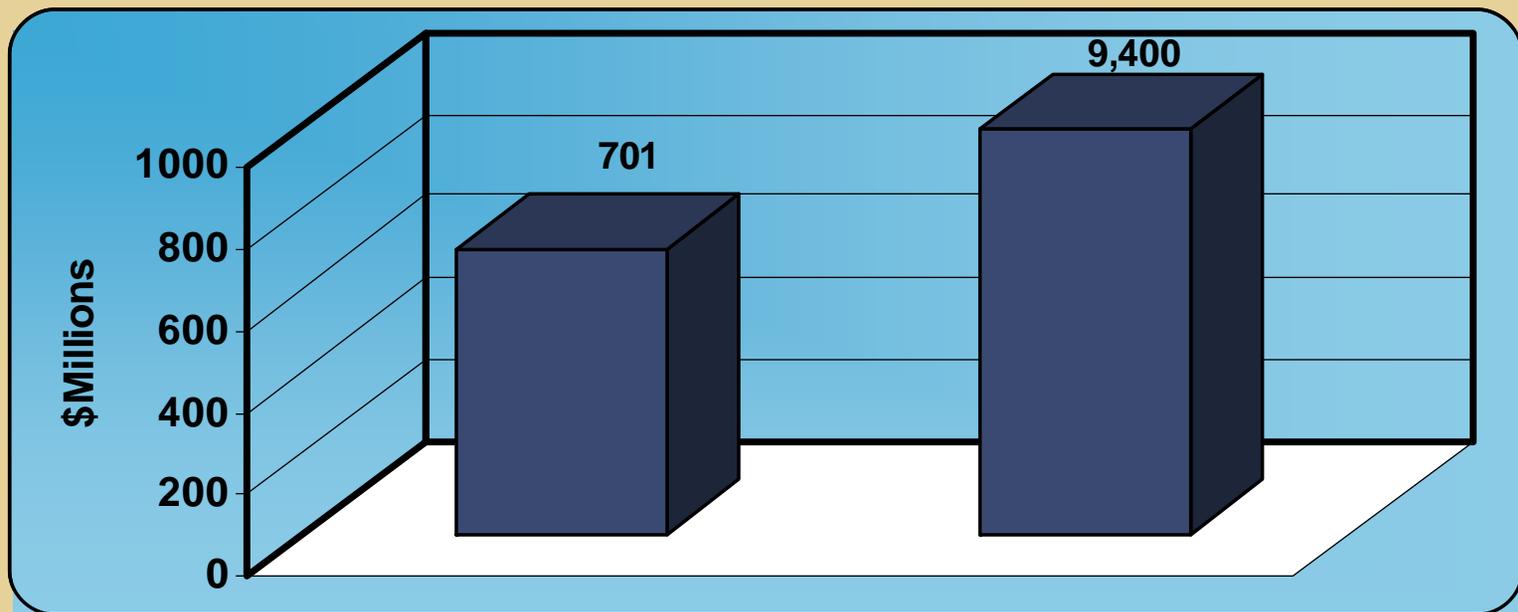
CPAs Must Borrow Based on Revenue Streams

- Funding mechanisms available to CPAs are limited to internally generated funds and debt financing up to the borrowing limits in their letters patent.
- CPA revenues are also constrained by the federal gross revenue charge and limitations on non-marine activities.
- Capital investments by CPAs lag well behind the US ports. Spending by the 8 largest CPAs which includes Vancouver, Fraser River, Montreal, and Halifax, was about \$700 million in the 2001-2005 period.



Capital Investments by Selected CPAs

Estimated Level of Investment in Major Canadian and US Ports
2001-2005



Source: IBI Group

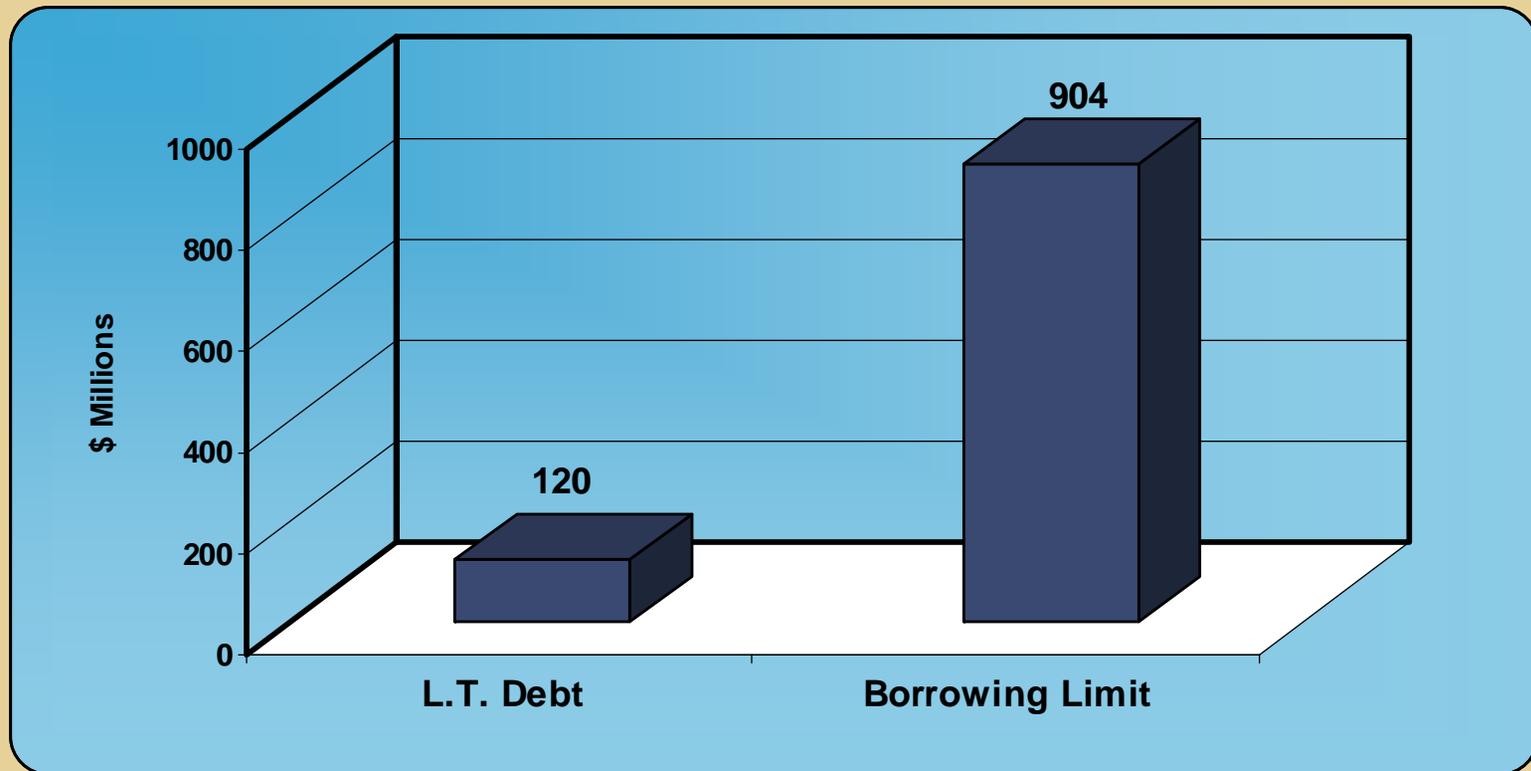


Currently, Levels of CPA Debt Are Low

- While many of the Canadian ports, including the BC ports, are considered relatively efficient, continued underinvestment relative to US ports will limit their growth potential and threaten their competitiveness.
- Current levels of long term debt at \$120 million held by the CPAs are low relative to borrowing limits of \$904 million.
- This situation will significantly change with new infrastructure projects in the next 5-10 years.



L.T. Debt & Borrowing Limits of 19 CPAs in 2004



Source: Developed by PwC from CPA financial statements and Letters Patent.



Canada Marine Act Review

- The CMA was reviewed after its first five years. The Canada Marine Act Review Panel recommended, among other things, that Canada should make appropriate investments in infrastructure.
- Proposed amendments to the CMA include streamlining a number of processes and allowing for federal “contributions” to infrastructure and security.
- Federal contributions are to be limited to 20% of infrastructure projects that meet prescribed criteria.
- The majority of financing for new projects will likely come from revenues and borrowings as a result, with the extent of government contributions being project specific.

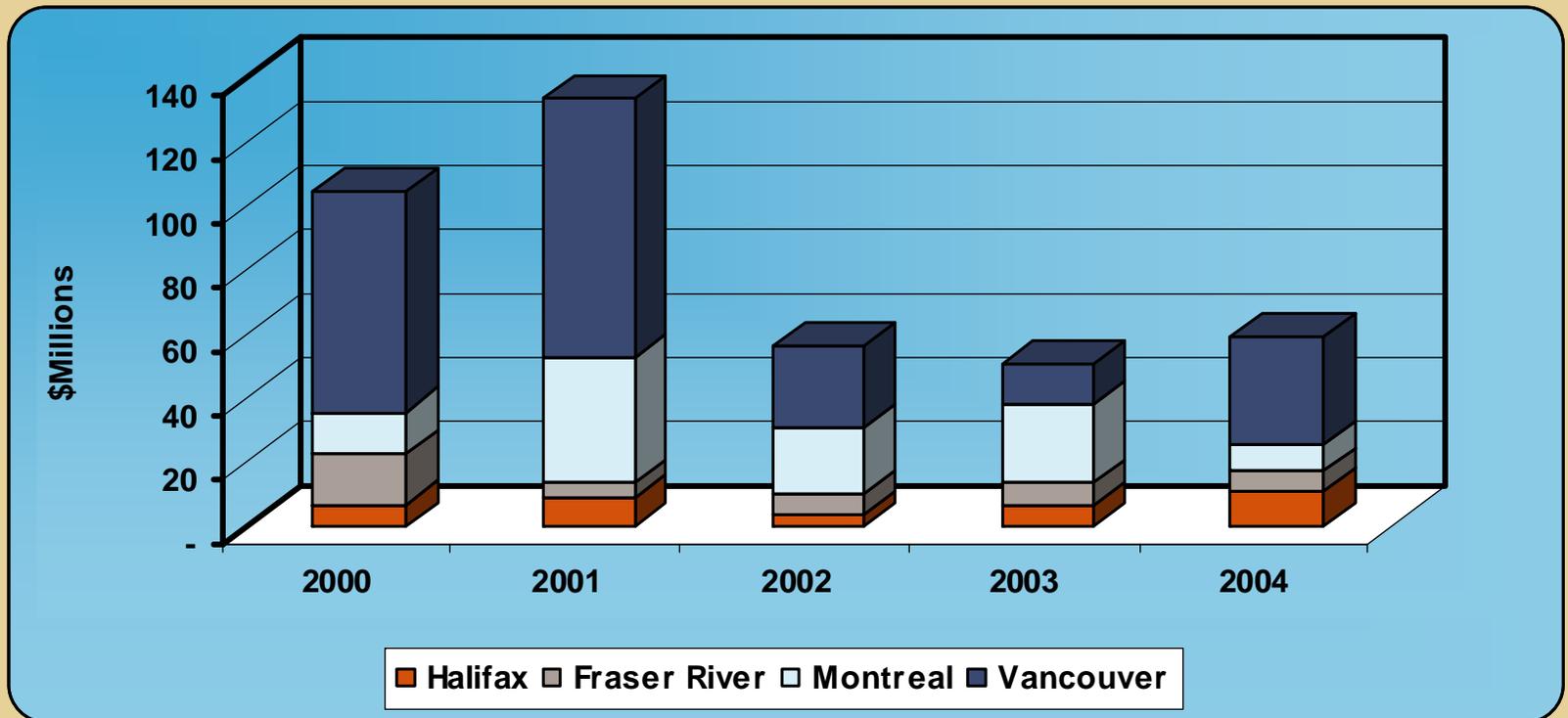


The Largest Capital Projects by CPAs Are Related to Cruises and Containers

- Capital spending by the four largest ports in Canada was \$400 million over the 2000-2004 period.
- The Port of Vancouver has made the largest investments, followed by the Port of Montreal.
- One of the most significant investments by the Vancouver Port Authority (VPA) has been the addition of a new cruise vessel berth.



Level of Investment by Major Ports in Canada 2000-2004



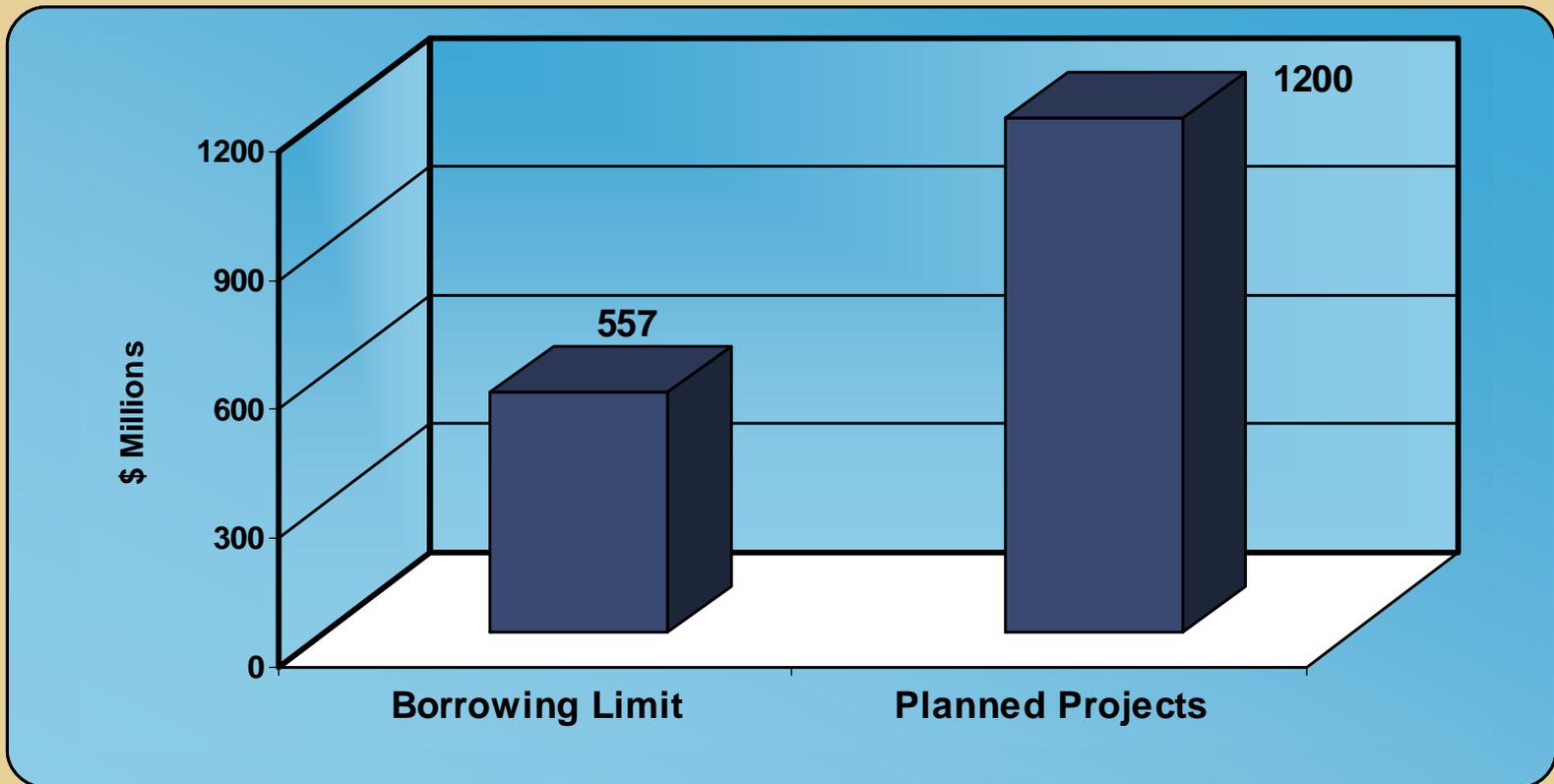


Planned Investments in New BC Port Projects

- Several new container projects are being planned in BC.
 - **These include a second major container terminal at Roberts Bank. This project will involve the construction of a state-of-the art terminal that will increase the container handling capacity of the Port of Vancouver substantially.**
- The VPA will partner with a major terminal operator in the project that could cost upwards of \$1 billion.
- The FRPA will partner to spend \$200 million developing its facilities at Richmond and Surrey Properties.
- The Prince Rupert Port Authority (PRPA) will develop a container terminal
- Total projects in BC the next 5-10 years could total \$1.2 billion or higher.



Borrowing Limit & Planned Projects of Vancouver, Fraser River & Prince Rupert Ports



Source: CPA Letters Patent and PwC estimates



Sources of Financing for CPAs – Debt Financing

- The main sources of debt available to CPAs are:
 - Bank borrowing
 - Private placement
 - Broadly-marketed private placement
 - Public offering
 - Project financing

- In many respects, CPAs resemble Canadian airports:
 - Not-for-profit entities governed by federal legislation
 - Created to operate transport infrastructure in a locally-based autonomous manner
 - Not traditionally active in capital markets



Sources of Financing for CPAs – Debt Financing (cont'd)

- Since their inception in the early to mid-1990s, many airport authorities have raised capital through either public offerings or private placements.
- These financings have been used principally to fund capital projects.
- Investors hold over \$7 billion of debt issued by Canadian authorities.
- While there are material differences between airport authorities and CPAs, the financing completed to date by airport authorities indicate that the capital markets are increasingly familiar with the issues related to infrastructure-type financing undertaken by not-for-profit entities.



Sources of Financing for CPAs – Debt Financing (cont'd)

- The VPA, with EBITDA greater than \$50 million, has the most options and also the largest planned investments.
- Bond issuers will look favorably at the VPAs diversified revenue base and its stable cash flows.
- In contrast, the FRPA is more likely to attract bank borrowing over a shorter term. Fraser River Port is financially sound but faces rising dredging costs.
- Prince Rupert Port Authority is the most limited in terms of cash flows from operations and debt borrowing capacity.



The Major BC Ports Have Different Challenges in Financing Infrastructure

Financial Summary of Major BC Ports in 2004

(\$ Millions)

	Vancouver	Fraser River	Prince Rupert
Revenues	101	19	5
EBITDA	56	9	-
Net Income	24	3	(1)
Federal Stipend	4	0.4	0.1



Sources of Financing for CPAs – Funding from Terminal Operators

- Based on current borrowing limits for major ports in BC, there is a significant funding gap emerging.
- Port authorities will need to seek funding partners.
- Major terminals are much more willing to participate in financing infrastructure in return for long-term concession agreements.
- Examples include a number of container projects:
 - P&O Ports expansion of Centerm
 - TSI expansion of Deltaport
 - Fraser Surrey Docks expansion at Fraser River Port
 - Maher Terminals in Port of Prince Rupert



Sources of Financing for CPAs – Project Finance

- Under a project finance scheme, payments required to service the debt incurred are based solely on the cash flow expected to be generated by the asset.
- Lenders generally will have no recourse or only a limited recourse to the project sponsor, that is, to the CPA.
- A project finance structure may be an option for Roberts Bank Terminal 2.
- The right option depends on VPA's strategy for the project and its financing objectives.
- Lenders will be especially concerned about the efficient management and allocation of risk, including the presence of long-term throughput commitments and reputable terminal operators.



Sources of Financing for CPAs – Project Finance (cont'd)

- Project finance schemes with port infrastructure have not been as prevalent as other transport sectors.
- Issues with project finance schemes include loss of control by the port authority.
- Some exceptions include \$1 billion container terminal projects in Hong Kong and South Korea.
- Port authorities in BC will likely exhaust all other avenues before they will consider project finance schemes.



Summary of PPPs by Country and Sector

Country	Airports	Ports	Heavy Railway	Light Railway	Roads
Australia	●		◐	◎	●
Canada				◎	★
Japan	◎	◎	○	○	○
Mexico	◎			◎	◎
Singapore					○
South Africa	○		◎		★
United States	○	○	○	◎	◎

Legend:

- Substantial # closed projects, majority in operation
- ◎ Projects in Procurement
- Discussions ongoing
- ◐ Substantial # closed projects
- ★ Many procured projects



Concluding Remarks

- From a port competitiveness standpoint, we can't build new container facilities fast enough.
- Financing BC container projects most likely doable, but require partnering between port authorities and terminal operators.
- Equally challenging, if not more so, will be related infrastructure projects.
- The BC Ports Strategy points to a direction that is consistent with port trends worldwide – the key is in its execution.



Thank You.

