Speech by CEO Ron Mock
The international finance club of Montreal
May 4, 2017, lunch hour
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The real infrastructure questions for Canada

Thank you for inviting me to join you here today. Merci de m'avoir invité ici aujourd'hui.

Infrastructure isn't just a popular topic in the news these days, it's a critical conversation, and at Ontario Teachers', we are glad to be a part of it.

We are one of Canada's largest investors. We have more than $175 billion in assets which we invest and manage on behalf of 318,000 working and retired teachers. We are also a large player in the infrastructure sector, with $18 billion (and growing) invested in Canada and around the world. This includes ports, airports, energy transmission and distribution, high-speed rail, and toll roads.

Given our role as an investor, partner, as a fiduciary for our members… and as citizens of Canada, I believe it is essential that we have a voice in the dialogue on why, and most importantly how, to improve Canada's infrastructure.

I certainly don't have all of the answers, and that's not why I'm here today.

Instead, I believe we need to keep having this critical conversation at a national level, and it is very important that our business leaders, including those of you in the room today, are involved.

And so, I'd like to pose a number of questions. I have seven today – which may seem like a lot – but I'm sure in short order we could come up with many more.

I'd like to cover the following questions:

- What is our longer-term vision for a major-project infrastructure strategy for Canada?
- Why should we care?
- What are our priorities?
- How should we fund these projects?
- What are the impediments to execution?
- Have other countries figured this out?
- Does the public support private capital investment in large infrastructure projects?

So to our first question: What is the long-term vision for Canadian infrastructure projects, say, 15 years from now?

Infrastructure encompasses a huge variety of projects, from filling potholes to building hospitals, from creating new regional sewage treatment plants to operating and maintaining airports. Smaller projects such as repairing roads can be handled by government through the taxpayer base, so I'd like to take those off the table for today's discussion. Instead, what we truly need from the outset is a prioritized list of the major projects that will be transformative for our country.

But who will create this list? Or perhaps more importantly, who will create the *parameters* for this list for the vision that will guide it? Is it a vision of national infrastructure strategy that allows all three levels of government to benefit from the ongoing revenues generated by key infrastructure assets? Revenue that can then be deployed in the development of the next project? Whatever the vision is, it must be the starting point.

For example - if the Toronto to Montreal corridor could be well-served by a high-speed train, who is actually going to make this determination? What is the rationale? How does it support the national vision?

And then once this project makes the list, who will do all of the legwork necessary to bring it to life and make it a viable project … the user studies, working with the provinces of Ontario and Quebec, the set-up and governance structure of the project, the negotiations with stakeholders, etc.?

I can't say strongly enough that this is not about the financing. It is about having the projects with ongoing funding plans, guided by the vision that will lead us to success.

My belief is that this vision remains a work in progress and when it is crystallized it will propel us forward.

So my second question is – why should we care?

Should we all care as a country? Should we care as investors about this big, difficult, complicated and often frustrating subject? My view on this one is simple – I believe we can't afford not to. For the sake of productivity, global competitiveness and jobs.

Which leads me to question three – what are our priorities?

Asking ourselves about our priorities ties back to my initial question, "What is our vision?"

Efficient power, transportation, the digital economy, smart cities, climate change … these all factor into the much bigger question of what our shared, forward-looking vision - our united, national vision – is for our country's infrastructure needs over the next decades and generations.

The sense of urgency is clear if we look at the costs of staying still. How much of our global competitiveness will we give away if we don't move forward, for example, if our ports, airports and roads become even more congested, impeding the flow of goods and services?

How much innovation do we lose out on if we decline to build high-speed transport between Toronto and the technology hub of Kitchener-Waterloo? And along the way, just how many jobs will we have failed to create? Moody's estimates infrastructure is amongst the highest stimulus multipliers of GDP growth - creating approximately 30,000 jobs for every billion dollars invested.

So now, more on the dollars and cents – and how it is that we will pay for everything we want to accomplish.

Question four is whether government should fund and operate infrastructure through taxes and borrowing – or if they should share the risk with private partners?

We know that governments are strapped for cash, and that in Canada the public already feels their taxes are high – and that those taxes fund our infrastructure. Consequently, the public resents the concept of paying user fees for infrastructure projects they consider to be fully funded already.

However, we know that our existing tax base will not pay for our infrastructure needs. A study by Mckinsey last month suggests that while Canada invests 18% of its GDP on infrastructure and other structures, which is higher than the global average of 13.9%, we will still need to invest $62b (US) - yes, you heard me correctly - on average per year until 2030 to support economic growth.

We know that governments need capital and, coincidentally, large institutional investors are lining up for infrastructure opportunities that provide a match for their long-term liabilities.

Moreover, sophisticated and experienced private investment partners bring a lot more to the table than an equity cheque.

Ontario Teachers', for example, has a 26-year track record of investing directly in private assets, frequently in partnership with governments and local authorities. We have been a successful partner globally in both adding and deriving significant value from investments as diverse as Chilean water, European airports and Mexican toll roads, and there are many more great examples of infrastructure partnerships with very positive outcomes for everyone involved.

This all sounds good, so what's the problem?

My fifth question for you now – and number five is a tough one – is what are the impediments to governments jointly executing on a large-infrastructure vision with private partners?

This in my view really is the elephant in the room, and I believe the impediments are two-fold. First is the fact that Canada's infrastructure assets are owned by three levels of government - most of them by the provinces and municipalities - and none of them appears to be keen to cede that control to other levels. Second is the political reality of the election cycle, which is far shorter than the actual timeframe needed to deliver a large infrastructure project from the ground up. In fact, such Greenfield projects can span several election cycles, as is the case with your own Montreal transit plan.

I believe it comes down to what role government should play. We know that there has to be strong governance in place with a high level of independence, but we also know that government absolutely must play a key role. Many of the critical, transformative projects we are talking about are owned by provinces and municipalities with a diverse and complex stakeholder base. Getting everyone on-side and moving in the same direction will require an enormous level of cooperation across different levels of government, federal, provincial and municipal, and across our internal borders.

Government must not simply see itself as a financing partner. As I said earlier, there are many large pools of capital out there seeking infrastructure opportunities – and these well-capitalized investors partner with one another on a regular basis and can transact very quickly. In fact, I would suggest the issue is never about the financing … it is always about the funding. Said another way, I believe Canada's infrastructure bank should be a bank of *projects* rather than a bank of *cash.*

Infrastructure projects require long-term sustainability – in which partners can:

- Implement realistic user-pay rates that may move (either up or down) according to market conditions and offer a critical mass of customers,
- Have clarity around government policies and tax incentives,
- Have a clear understanding regarding the need for and role of regulators to protect the public interest.

I could go on, but I think you see the point.

So as the concerns pile up, where can we turn for evidence that this model can actually work?

My sixth question is – have other countries figured out how to do this?

In our experience, the British and Australian approaches are something we can look to as the gold standard for government partnerships with large institutional investors. The UK pioneered the modern partnership approach to such investments in ports, airports, rail, water and energy assets, to name a few. Since 2010, Australia has raised $90 billion (AUD) from these partnerships, much of which was invested straight back into new infrastructure projects.

Unfortunately, getting the right plan in place is often a reality only when governments end up with their backs to the wall, and rather than choosing a solution, they are forced to find one. Let's look at an example that could become a reality, not due to an urgent crisis, but as a result of a visionary opportunity.

A recent, comprehensive review of the Canadian transportation sector, chaired by former cabinet minister David Emerson, outlined the potential benefits of bringing private investment to Canada's airports. It's a compelling list – enhanced operational discipline, return of much-needed funds back to government, and airports in a better financial position for the future.

Globally we have seen this in action through our investments in the UK, Denmark and Belgium. Copenhagen airport, for example, was named the most efficient airport in Europe in 2016 for the seventh consecutive year. In 2015, Brussels airport was recognized as Europe's best. Travelers at these airports are seeing higher levels of service, choice and quality as a result of innovative partnerships.

These global examples clearly demonstrate that with the right projects, structure and governance, these projects are a win-win proposition, and that could certainly be true in Canada.

Frankly, as a large, diversified investor, and as citizens of this country, we are interested in finding opportunities that create significant value in the communities where the majority of our employees, members and retirees work and live.

We know it can be done, and that where there is a will, there is a way.

My final question is on the subject of will – does the Canadian public support private capital investment in large infrastructure projects?

From what I've seen so far, there's a great deal of resistance. We have seen this emerge in relation to the user-pay model through specific proposals (I can speak firsthand to Toronto's resistance to the idea of tolling the Gardiner and Don Valley Parkway highways as a recent loud and clear example of this).

More generally, the worries seem to far outweigh positive sentiment. If we use a recent Hill & Knowlton survey as our guide, 58% of respondents believe private investors will place profit ahead of the public good. Concern that user fees and prices will rise is second on that list. Other worries included the view that accountability and service quality will decline, and that government will sacrifice long-term gain for a short-term focus, bungle negotiations and not get a fair price for the assets they sell.

In order to be successful as a country, if we want to pursue this model, we are going to have to find ways to clearly demonstrate the benefits, and to gain the public trust.

Yet in spite of all of this, I remain very enthusiastic about the direction we are heading, and I see it as a good sign that the issue is sparking so much dialogue and debate. Going back to the Hill & Knowlton survey, I was also very encouraged to see that the greatest support generationally for private infrastructure investment comes from the 18- to 34 year-old age group – our upcoming leaders, with the conclusion drawn that “generational analysis suggests privatization is not the taboo it once was”.

For those here today, it’s also encouraging that I may have a largely friendly audience given the survey also showed that support for private investment in infrastructure is highest nationally in the province of Quebec (tied with Alberta).

We have so many of the right things in our country to make this work – a highly skilled and educated workforce, strong expertise in the construction industry and relevant sectors including energy, transportation and technology, a number of strong institutional investors, and positive initiatives from government, including the federal infrastructure bank.

But the devil is in the details, and in an environment where our productivity is declining as our demography ages, I hope it won't take a crisis for us to be forced to finally sort out those details.

We deserve to grow our economy and global competitiveness, to improve our country for the next generations, and to do so by having world-class infrastructure. I believe we can make this a reality, and at Ontario Teachers' we look forward to continuing to be part of the discussion, and to being part of Canada's infrastructure solution.

Thank you very much for your attention.

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