

OPPORTUNITIES FOR CANADIAN COMPANIES

The opportunities for the participation of Canadian companies in build-operate-transfer (BOT) infrastructure projects have been concentrated mainly in toll roads, power generation projects and wastewater treatment facilities. Recently, public transit systems have also become the object of BOT arrangements involving Canadian companies.

TOLL ROADS

The *Programa Nacional de Carreteras de Cuota Concesionadas*, National Highway Concession Program, has been in operation for about five years. Up to 5,000 kilometres of privately-owned toll highways have been built or are under construction.

Investors are finding that the traffic flow on some of these roads is not as high as expected because drivers are choosing alternate routes to avoid paying the tolls. One reason for this behaviour is the high price of the tolls. A one-way 400 kilometre trip from Mexico City to Acapulco costs almost US \$75. Under the terms of the program, the project developer's return is guaranteed, and concession periods have been extended to compensate.

For the most part, the companies that have participated in the program are Mexico's largest construction firms. Consortia of medium-sized companies have also successfully bid on concessions. Significant cost overruns have been reported. The Mexico City-Acapulco highway reportedly cost US \$1 billion, double the original estimate.

With Mexican interest rates ranging upwards of 90 percent per annum, concession owners and project developers are forced to seek international financing as well as contribute sweat equity from their own profits. Lack of experience in financial markets is cited as a problem. The government is considering extending the terms of concessions from their current 10 to 12 years to as much as 30 years.

The initial difficulties of the concession program create opportunities for Canadian firms for two reasons. First, now that builders are responsible for road maintenance over extended concessions, they are looking for more sophisticated road technologies to reduce long-run costs. The need to control construction costs has also been recognized. Second, Mexican financial institutions are demanding more precise engineering and financial planning. Mexican construction companies, which have traditionally operated in a protected environment, do not have a good track record in this area.