

INTERVIEW

Project Financing for Subway Project in Canada

Supporting Overseas Business Expansion of Japanese
Railway Industry with Canadian Dollar Loan

Interview with Deputy Director **FURUYA Toshihiro** and
NIWA Hayato, Division 1, Social Infrastructure Finance
Department, Infrastructure and Environment Finance Group

The Japan Bank for International Cooperation (JBIC) signed in November 2022 a loan agreement in project financing amounting to up to CAD450 million (JBIC portion) with Canadian company Connect 6ix General Partnership (Connect 6ix). Connect 6ix is invested in by, among others, Hitachi Rail STS S.p.A. (Hitachi Rail STS), an Italian company wholly owned by Hitachi, Ltd. The loan is co-financed with Sumitomo Mitsui Banking Corporation, the Norinchukin Bank, etc., bringing the total co-financing amount to CAD1,100 million.

New Metro Line to Ease Traffic Congestion in Toronto

In this project, Connect 6ix constructs components of the 15.6-km subway line that will connect the center of Toronto, Canada, and its suburbs. Connect 6ix is invested in by a Canadian fund, an Italian company's Canadian subsidiary that is in charge of civil works, and a French company's Canadian subsidiary in charge of operation and maintenance, as well as Hitachi Rail STS. Connect 6ix will also supply the rolling stocks and railway systems, and operate and maintain them for 30 years upon completion.

"The population of Toronto, the largest city in Canada, is growing year by year, and it has become a big issue to address the growing need for the expansion of the transit system in the city and its neighboring areas, known as the Greater Toronto Area. Given this circumstance, four new Greater Toronto Area subway projects, including the one JBIC financed, were initiated. Recognizing them as priority transit projects, the Government of Ontario is facilitating the expansion of the railway network through public-private partnerships (PPPs).

Heavy traffic is observed in roads that link the center of Toronto and suburbs as well as in the center of the city. According to the Government of Ontario, the project will reduce traffic by 28,000 vehicles per day and lower fuel consumption by 7.2 million liters per year, helping to reduce traffic congestion and greenhouse gas emissions," explains NIWA.

Supporting Japanese Company in Competing with World's Renowned Railway Companies

Metrolinx, the project owner, invited tenders in 2020, and a consortium consisting of the Hitachi group and the world's renowned railway companies from Germany and France placed a bid. The dedicated commitment that the Hitachi group had made to social capital improvement through PPPs, including a new LRT construction project to link the cities of Mississauga and Brampton in Ontario, which the group won in 2019, helped this consortium also to win the bid.

"After our first meeting with the stakeholders in 2021, we began our deliberation on the project as one that would contribute toward maintaining and improving the international competitiveness of Japanese industry under our GREEN (Global action for Reconciling Economic growth and ENvironmental preservation) operations. We sent a commitment letter in June 2022, and Connect 6ix became the preferred bidder in September 2022. In November 2022, we reached financial close. This was JBIC's first project financing for a railway PPP project since the British Intercity Express Programme in 2014, which also involved



NIWA Hayato

FURUYA Toshihiro

Hitachi. As the Canadian transport sector is well-developed with more than 80 active PPP projects, we learned the Canadian way in the negotiation process," says NIWA.

Deputy Director FURUYA recalls, "While JBIC provides a 9-year loan until the project's completion, bond holders, private-sector financial institutions, and others also participate in the financing of the construction phase. Having discussions and making arrangements with these lenders was a large part of our job. We also needed to talk with the sponsors about compliance with "JBIC Guidelines for Confirmation of Environmental and Social Considerations" in detail.

Discussions basically took place in web conferences, with the cameras being disabled because there were numerous participants, and negotiations went on with the participants not being able to see each other's face. But in September 2022, when we made a visit to the project site, we had in-person meetings with the sponsors and others, and exchanged candid views with the other stakeholders, such as the lenders, the state government, and Metrolinx. During this visit, I was able to match the names of many of the stakeholders to their faces for the first time, which renewed my awareness of the importance of face-to-face meetings in building a trusting relationship."

The following negotiations went smoothly, and the loan agreement was signed in November.

For Globalizing Advanced Railway Infrastructure Technology of Japan

In the Infrastructure System Overseas Promotion Strategy 2025, the Government of Japan aims to contribute toward carbon neutrality with infrastructure of high environmental performance enabled by Japanese advanced technology, promote the creation of business models by local entities utilizing quality infrastructure, and promote the implementation of projects through global partnerships where Japanese companies assume the leadership in the core technology, value, and/or projects, which is the concept of "Core Japan." The loan is in line with this policy of the Government of Japan.

"The project will introduce the Hitachi group's world-leading digital train control systems, which will allow the trains to run at as high frequency as every 90 seconds. But even for Japanese companies that are equipped with state-of-the-art technologies, it is not easy to join the inner circle of highly public railway infrastructure projects, unless they have comprehensive capability, backed by experience, financial capacity, and reliability. In the global trend of decarbonization to achieve net zero, the world, including developed countries, is revaluing highly environmental railway networks. In that sense, this project is truly significant for the Japanese railway industry in expanding overseas further," summarizes Deputy Director FURUYA.

NIWA expresses his ambitions. "The modal shift from automobiles to railways will advance globally. JBIC will further support long-term projects of railway system construction, operation, and maintenance so that Japanese companies can build their track record in that sector."

As Japan's policy-based financial institution, JBIC will continue to support the overseas business expansion of Japanese companies by drawing on its various financial facilities and schemes for structuring projects, including local currency loans as in this project, and by performing its risk-assuming function.