

BC privatizes railway operations

IN LATE NOVEMBER 2003, the province of British Columbia sold Crown-owned BC Rail Ltd. to Canadian National Railway (CN) for \$1 billion.

Under the agreement, the province retained ownership of the land, rail bed and track; CN acquired the operations, the responsibility for infrastructure maintenance and guaranteed access to the track beds.

Nine parties had requested information packages, five proposals were submitted at round one and four proposals made it to round two – CN, Canadian Pacific Railway Ltd. and a consortium of two US companies: OmniTRAX Inc. and Burlington Northern Santa Fe Corp. According to newspaper reports, Canadian Pacific pulled its bid for BC Rail citing concerns of “general process fairness.”

The province had retained the services of CIBC World Markets to assist in the evaluation of the proposals and retained Charles River Associates Inc. (CRA) to act as an independent fairness monitor. Increasingly, both government and private sector bidders rely on fairness monitors to oversee what are often complex procurement processes and to confirm that they are executed properly. As well, they are to ensure that all stakeholders are treated in a fair and honest manner.

CRA's interim fairness evaluation report, released in mid-November, states that they were “unaware of any concerns they [the bidders] have expressed regarding the fairness and impartiality of the process,” and they concluded that “the Province and its advisors designed and managed the BC Rail restructuring process in a manner consistent in all material respects with current best practices usually followed in similar transactions.” A final report was due mid-December 2003.

According to CRA's interim report, the province chose to “restructure BC Rail in order to take advantage of the economies of scale associated with larger railway operations.” “As well, the province needed to pay down several millions in debt incurred by BC Rail operations and reduce interest payments. According to the *National Post* (November 26, 2003) “BC Rail lost \$84.2 million in 2002 on revenue of \$313 million.” In acquiring those operating losses,

CN's annual tax bill will be reduced considerably over several years.

It is hoped that the deal will result in more cost effective and reliable rail service, as well as new opportunities for business and the communities served by the railways. In its proposal, CN had committed to the province to issue an RFP, in conjunction with BC Rail, to seek proposals from third-party tour operators. That RFP

was released in late November with responses due February 2, 2004. It is proposed that the initial term of an agreement resulting from the RFP would be 10 years, with a possible extension of five years. Bidders were asked to detail the routes, the stations the trains would stop at, the estimated economic impact for each community and the type and duration of service they would offer. ❧ — Anne Phillips