Electric reform works, despite all the sparks 5
Crossed wires over hydro market: Consumer free to choose underOntario model 7
Crossed wires over hydro market: But system would add risk andcosts 9
Power privatization a "straw man" 11
Ontario's plan is not to privatize power....12
Harris hydro power play comes at a high cost 13
Power Exchange won't be Hydro reincarnated 15
Power Exchange won't be Hydro reincarnated 16
Province's Power Exchange is a wolf in sheep'sclothing 17
ELECTRICITY INDUSTRY - ONTARIO HYDRO: Deregulation Won't Help Canada-- Op-Ed....19
The Americas:Ontario Hydro Deregulation Jolted Again....20
California Market Gives Fortnightly 70th Anniversary Present: AMonopoly's Demise To Debate On Its Pages....22
Currents....23
The price tag on Japanese regulation 24
Letters to the Editor:Japan Fears a Free-for-All 25
Letters to the Editor:The Japanese FearAmerican Free-for-All....26
Japan's Economic Miracle Is Still to Come....27
Japan's Economic Miracle Is Still to Come....29
Letters to the Editor:The Japanese FearAmerican Free-for-All....31
Japan's Economic Miracle Is Still to Come....32
A bit of a do over security. 34
FEATURE - Get connected, get encrypted. 36
Letters to the Editor:The Case Against Centralized Electricity....39
Letters to the Editor:A `Stock Market' for Electricity 41
Don't Give Utilities a Monopoly on Power 43
THE INTERNET - PAUL ROMER. 45
U.S. Economy Is Expanding ... But Only in Cyberspace?....47
Keep privacy laws out of cyberspace II. 49
High TechExecs Form Global Internet Project 12/12/96 52
Industry Leaders Announce Global Internet Project and Vision ofInternet'sFuture; Group Unveils First Estimate of Jobs Created by InternetWor... 54

 © 2023 Factiva, Inc. All rights reserved.

The Internet Economy 56

Correction 58

The Internet Economy 59

Privatizing Ontario Hydro: Let consumers choose the marketsENERGY / Ontario mustn't lose sight of the pot of rate-relief gold atthe end of... 61

New York tunes out Quebecer's crusade Americans fail to show at talk by anglo booster 63

Wall Street ignores Galganov's visitFederalist calls trip a success despite lack of attention frominvestment community 65

Quebec crusader draws crowd of oneGalganov tosses out lone investment bankerBy Robert RussoCanadian Press .. 67

HYDRO-QUEBEC DISMISSES CEO, NAMES CHIEF FINANCIAL OFFICER NEW HEAD 68

DISMISSAL OF HYDRO-QUEBEC'S CEO COULD SIGNAL QUICKER MOVE TORESTRUCTURING 70

FEATURE - Ontario set for major privatisation drive. 71

Letters to the Editor:Ontario Hydro CriticArgues With Success 73

Selling off Hydro would be disastrous for Ontario 74

The Americas:Don't Water Down Ontario Hydro Privatization 76

Hydro's role 78

Letters to the Editor --Calling Quebec's Bluff:Some Like It Not 79

Retiring Hydro's debt in one swoop 80

Letters to the Editor:Quebec Protects Its SoulWith a Gallic Cocoon 81

Letters to the Editor:A Rude Awakening in Quebec? 82

Letters to the Editor:Huge RestructuringOf Ontario Hydro 83

The Americas:Tories Must Deregulate and Privatize Ontario Hydro 84

Letters to the Editor:Three-Way PartnershipKey to Quebec's Success 86

The Americas:Quebec's Moribund Economy; It's the System, Stupid! 87

I'll be home for Christmas 89

Letters to the Editor:Quebec's Separatism: It's All in the Timing 91

Letters to the Editor --Quebec's Separatism:It's All in the Timing 92

Quebec's fate 93

'Til Debt Do Us Part 94

What can you say about those wacky Quebeckers? 96

The Bond Market Holds Quebec's Fate 98

The bond market holds Quebec's fateVIEW FROM ABROAD / A U.S. investment banker throws cold water on theprospects for a state-directed ec... 100

The Americas:The Bond Market Holds Quebec's Fate 102

 © 2023 Factiva, Inc. All rights reserved.

A Quebec divorce doesn't rate bedroom privileges ... 104

Quebec Power Company Finds Its High-Voltage Plans Short-Circuited ... 106

Letters to the Editor:Hydro-Quebec FinancesRock Solid, Study Says ... 108

Letters to the Editor:Hydro-Quebec LoomsAs a Possible Whoops ... 109

Canadian Bond Market Teeters While Provinces Fiddle ... 110

Canadian Bond Market Teeters as Provinces Fiddle ... 112

The Americas:Canadian Bond Market Teeters While Provinces Fiddle ... 114

POLITICAL CORRECTNESS LEAVES THE IDLER ON EDGE OF ABYSS: Bureaucratssnub award-winning conservative magazine ... 116

FINALE 92ARTS EASTIn the face of nihilism, there's still a sense of belongingQUEBEC"Just as Quebec itself has backed away from the clear, br... ... 118

Letters to the Editor:Provincialism Triumphant in Canada ... 121

Idler a good friend, but not too dependable ... 122

Letters to the Editor:Provincialism Triumphant in Canada ... 124

Letters to the Editor:Provincialism Triumphant in Canada ... 125

World Markets; Toronto-Dominion's Special Instinct ... 127

Bronfman empire under scrutiny ... 129

Investors Suspect Bronfman Empire May Be Hurting; Canadian SecuritiesLaws Shield Finances of Firm ... 131

Letters to the Editor:Quebec Seen ThroughGlum-Colored Glasses ... 133

A Dynasty of Control; The Reichmanns' Sterling Reputation Helped Spina Web of Real Estate Riches ... 134

Letters to the Editor:Meddling GovernmentFor a Stronger Quebec ... 138

Quebecers won't fall for separatist suicide ... 139

New York's Withdrawal Casts Doubt on Hydroelectric Project in Quebec ... 141

Hydro-Quebec plans in turmoilKey contract loss could hamper megaproject financing ... 143

New York Says Non To Hydro-Quebec; Crees Rejoice ... 145

A little good news, a little bad news ... 147

Albany Cancellation Hits Quebec Power Project ... 149

Will Quebec Bail Out With No Parachute? ... 151

WORTH REPEATING ... 153

Will Quebec Bail Out With No Parachute? ... 155

The Americas:Will Quebec Bail Out With No Parachute? ... 157

Hydro-Quebec's Plan Questioned Analysts point to weak earnings and doubt demand for power from new dam complex ... 159

Canada Moves to Spur Consumers Into Buying ... 162

LETTERS TO THE EDITOR: POWER STRUGGLE ... 164

 © 2023 Factiva, Inc. All rights reserved.

POWER STRUGGLE 165
Hydro-Quebec's big power play. (Corporate Finance) (Company Profile) 166
Toughest Fight Yet For Hydro-Quebec 169

 © 2023 Factiva, Inc. All rights reserved.

NATIONAL POST

Financial Post Editorial
Electric reform works, despite all the sparks

Keith Ritchie
Reform Program
918 words
17 December 1998
National Post
FINP
National
C07
English
(c) Copyright 1998 Financial Post from National Post (formerly The Financial Post Company). All rights reserved.

I note with interest recent articles and letters in the Financial Post regarding electricity restructuring, among them Robert Blohm's article (Harris hydro power play comes at a high cost, Dec. 1); a response from Jim Wilson, Ontario's Minister of Energy, Science and Technology (Ontario's plan is not to privatize power, Dec. 3); and, on the following page, an article by Greg Crone (Ontario urged to privatize Hydro generating system). Sparks are flying, but they are not on the electricity grid.

Make no mistake - electricity and other network-based industries such as natural gas and telecommunications are vital to a jurisdiction's economy and to citizens' quality of life.

Technological and market changes are driving regulatory reform in these industries, changing former state-owned and/or regulated monopolies into more competitive markets.

Businesses and citizens in Ontario should be concerned about reform. But the recent articles don't help readers understand the issues.

Mr. Blohm notes that power-exchange sales should be limited to "last-minute" power, to meet fluctuating and variable demands for power over time. While correct, he fails to point out that power exchanges in other jurisdictions have problems with this type of pricing. A 1998 U.K. White Paper on Energy documents that all generators called to run at a specific time are paid the highest successful bid price, rather than their individually bid prices. This results in higher prices to end users; the U.K. government is reviewing how to correct this deficiency.

Mr. Blohm questions the wisdom of not having private, profit-driven ownership of transmission. Yet most jurisdictions reforming their electricity industries don't. Even in the United States, the independent system operators that manage regional grids are set up as nonprofit organizations. The ISO concept, and similar approaches in other reformed jurisdictions, are improving transmission performance. In addition, the U.K. experience shows that generation will be built where there is demand, resulting in better utilization of the transmission network.

Mr. Wilson's response also clouds the picture. The Energy Competition Act will, he says, "bring about customer choice, lowest possible prices and investment for Ontario - not privatize the utility." However, experiences in the U.K. and the state of Victoria in Australia show privatization attracts more investment.

Should privatization be done in Ontario? Not necessarily. Before parts of the U.K.'s nuclear system were privatized, Nuclear Electric, the state concern that ran the nuclear system, realized enormous productivity improvements in the U.K.'s new competitive generation market. Some states in Australia are introducing reform and competition without privatizing their utilities.

Mr. Wilson notes that the Market Design Committee for Ontario's electricity restructuring is recommending a revenue cap that "removes any incentive Ontario Hydro's generation company might have to abuse its market power." Incentive-based price controls, such as price caps and revenue caps, can be beneficial, as seen in the U.K. for many regulated industries and in North America for telecommunications. But they are not always easy to design and implement, and must be reviewed and adjusted to reflect changing market conditions. U.K. regulators

have periodically intervened to correct problems, including those associated with the market power of dominant firms.

Mr. Crone's article comparing California to Ontario also confuses the issues. Unlike Ontario, most of California's existing generation was in the hands of investor-owned utilities. Regulators directed these utilities to sell off some plants to increase competition, with the proceeds retiring part of their stranded debts. The article points to a surcharge, the Competition Transition Charge, that Ontario consumers will pay toward the retirement of Ontario Hydro's stranded costs. In fact, Californians face a similar charge over the years 1998 to 2002; a trust transfer amount that appears on their bill until 2008 will also pay off stranded costs.

California is the first state to fully reform competition. It was also under pressure to do so. Its electricity rates were among North America's highest. The existing utilities operated in their serving areas, with little interconnection between the networks. Utilities were unable to reliably provide supplemental power when another utility could not generate electricity to meet demand - as in the case of a shutdown. California's reliability is now enhanced through the network co-ordination role of the independent system operator. Ontario, with its coherent province-wide system, is in a better starting position than was California.

During the recent mid-term elections in the U.S., a contentious California referendum to alter the conditions of its competitive electricity market was defeated. Still, many U.S. states are rejecting the California model.

There are other examples of reform, closer to Ontario. Alberta is the first province to reform its electricity industry, with competition in generation and a pool for power trading. Reform in Alberta is still incomplete, and there have been problems; uncertainty about the rules and regulations for market entry has delayed construction of new generation. This, combined with growth in Alberta's economy, has led to occasional shortages.

In every jurisdiction that has undergone reform, a number of contentious issues needed to be resolved, but restructuring and competitive entry will lead to longer-term efficiency gains. Constructive resolution of these issues is achieved by focusing on the facts rather than debating who is right or wrong.

Keith Ritchie is a Senior Research Associate in the Conference Board of Canada's Regulatory

Document finp000020011205duch00lur

 © 2023 Factiva, Inc. All rights reserved.

NATIONAL POST

Financial Post Editorial
Crossed wires over hydro market: Consumer free to choose under Ontario model

Ronald J. Daniels
National Post
906 words
14 December 1998
National Post
FINP
National
C05
English
(c) Copyright 1998 Financial Post from National Post (formerly The Financial Post Company). All rights reserved.

There is almost nothing accurate in the Financial Post's recent commentary by Robert Blohm (Harris Hydro power play comes at a high cost, Dec. 1) regarding either the market rules being developed by the Ontario Market Design Committee (MDC) or how the Ontario electricity market would actually work under those rules.

Mr. Blohm's commentary began with an inaccurate description of the market options available under the MDC's proposed rules. Contrary to his claims, suppliers and their customers will have the choice of entering into contracts at fixed prices or any other type of pricing arrangement to which they mutually agree. They will be free to pursue these contracts bilaterally, or through multilateral arrangements, for any term they want, at any price they want.

Market participants will also be free - not "forced" as Mr. Blohm claims - to sell power into an "exchange" by submitting bids to an independent market operator. The independent market operator will select the least costly generator bids and dispatch those generators to supply enough energy to serve all consumers who have not chosen to engage in scheduled bilateral transactions.

This ability of consumers to choose between a contract market and an independent market operator spot market is at the heart of our recommendations and is the essential precondition for a fair, competitive, and transparent market. If consumers can simply pay the spot price from a competitive independent auction based on least cost, then they have direct access to the "wholesale" market and its competitive prices.

Competing retailers hoping to win new customers will have to offer consumers a better deal with their fixed-price contracts or by offering other inducements, such as efficiency and energy management services. This will ensure that consumers actually benefit from the competition. And unlike other deregulated industries, the Ontario electricity market will give consumers a transparent reference price - the independent market operator's published spot market price - against which to judge the merits of competing proposals, making it much more difficult to mislead consumers.

Once consumers get access to the spot market prices, they will also be free to engage in other types of bilateral contracts, with or without fixed prices, at whatever price the consumer and retailer agree to among the retailer's offers. The retailer can bill the customer directly according to their contract. As a consequence, Mr. Blohm's concerns over speculators and risky derivatives are not relevant.

Mr. Blohm completely overlooks the expensive metering and settlement systems that would be imposed on Ontario if we took his narrow approach to force consumers, no matter how small, to purchase expensive hourly meters. In addition, his approach would require that every customer billing system in the province, including those run by all 270 municipal electricity utilities, be completely redesigned at enormous cost to handle the more complex transactions.

Our recommendation minimizes these mandatory features and their associated costs, while still giving even small consumers meaningful options in choosing how they will be served and billed, and who their supplier will be.

Mr. Blohm complains that cogenerators will be "taxed" by the market rules if they disconnect from the grid. This is simply wrong. We have recommended that the sunk costs of the existing grid be paid for by all those for whom the grid was built.

However, we recognized that some large customers who built on-site generation to serve part of their own demands have traditionally paid only a "net" share of these costs, based on their "net" reliance on the grid. We have not proposed to disturb these existing arrangements. Instead, we recommended that, from this point forward, neither utilities nor large customers should be allowed to bypass their share of these grid costs - and shift those costs to everyone else - if they choose to add new on-site generation and reduce their "net" use of the grid.

Otherwise, new generation investments would be driven by uneconomic incentives, including the desire to avoid a fair share of the common grid costs. The principle is that everyone should pay for the facilities built on their behalf, and no one should be allowed to bypass their share of those costs and shift them to someone else.

Finally, Mr. Blohm misstates how the independent market operator will deal with situations in which market participants want to schedule too many transactions and exceed the reliability limits of the grid, creating congestion and raising costs for the operator and Ontario citizens. Contrary to his statements, the independent market operator's congestion rules do not require it to favour spot market or bilateral participants; both are treated equally and under the same rules, while allowing each participant to bid and indicate the value it places on using a scarce resource. Generators who place the highest value on grid use will use the grid, while all Ontario consumers will be served by the total grid system at the lowest cost indicated by those bids.

Mr. Blohm's comments indicate a fundamental and pervasive lack of understanding of the Ontario market proposals, and his descriptions bear almost no resemblance to our proposed rules. Comments that misrepresent the MDC's recommendations are neither helpful nor fair, and only serve to mislead and confuse the public.

Ronald J. Daniels is Chairman of the Ontario government's Market Design Committee in Toronto.

Document finp000020011205duce00lbr

 © 2023 Factiva, Inc. All rights reserved.

NATIONAL POST

Financial Post Editorial
Crossed wires over hydro market: But system would add risk and costs

Robert Blohm
National Post
741 words
14 December 1998
National Post
FINP
National
C05
English
(c) Copyright 1998 Financial Post from National Post (formerly The Financial Post Company). All rights reserved.

Ronald Daniels is right that there's "nothing accurate" in a straw-man commentary I never made. Contrary to his assertions, I made no exhaustive "description of the market options available under the Market Design Committee's proposed rules" (I focused on physical contracts for power from specific sources, not on financial contracts); I never said people were not "free" to make bilateral contracts under some circumstances (I did lay out three circumstances where people would not be free); and I never suggested forcing consumers to purchase expensive hourly meters (many would, however, voluntarily pay for metering if Mr. Daniels' committee ceased coercing them to pay for the alternative to metering).

In my article, I laid out the cost of the two new unannounced provincial power taxes - totalling $400 per year for a typical family of four - that would be imbedded in Mr. Daniels' new power scheme. On these, Mr. Daniels has been silent.

Even in denying that his scheme is coercive, Mr. Daniels states that "competing retailers . . . will have to offer consumers a better deal [than the spot price from a competitive independent market operator auction] with their fixed-price contracts." He does not permit consumers to ignore his spot market, despite their preference for the fixed price in typical contracts, rather than the fluctuating prices on his spot market.

Is this a trivial issue? In California this issue of consumer choice was central and widely debated for more than a year during that state's power deregulation reform discussions. No proposal to force consumers to continuously buy through a spot-market power exchange has ever been approved in the U.S. In Ontario, the heavy-handedness of Mr. Daniels and the provincial government has entirely stifled such public debate, with the sole exception of the fallout from my newspaper article.

Mr. Daniels tells us not to worry about speculators. Yet, in the government's relentless effort to force as many wholesale electricity purchases as possible into his spot market, long-term contracts increasingly become financial derivatives of physical spot-market transactions. Without a direct long-term physical market of serious suppliers and consumers to act as a reference, pricing these derivatives involves risk and the market becomes rife with speculators.

The financial settlement system that Mr. Daniels would, by law, tax everyone to pay for institutionalizes that arrangement, adding to the cost of the wiser alternative of direct metering. Giving the municipal electric utilities the freedom to opt out of the spot market, as they demand, would tilt the balance toward metering. The cost of metering, which has been steadily declining, would be paid for by the savings available to consumers with meters.

Mr. Daniels also erects and attacks another straw man. I never said those who have already disconnected from the grid would be retroactively charged disconnection fees. I said they would be assessed against generators "who disconnect" in an attempt to leave Mr. Daniels' scheme, supposedly to cover the existing transmission system's cost. But transmission costs are relatively small, unlike the multi-billion-dollar boondoggle in the Darlington nuclear plant and Ontario Hydro's other stranded generation assets.

I know of no jurisdiction that ever worried about the small transmission costs avoided by those disconnecting from a highly valued grid like Ontario's. Pointing to these transmission costs and designing a system supposedly involving their micro-management only further obscures the levies being placed on defectors from the grid (in the

form of the competition transmission charge for stranding generation), in effect double taxing them for daring to leave the new Hydro monopoly system.

Finally, Mr. Daniels claims that his rules to manage congestion along transmission lines will not favour his own spot market system over fixed contracts. Yet the rules clearly will force bilateral fixed-price contractees out of their contracts for power from a specific source, and into the spot market, unless they go voluntarily into the spot market. This can harm the long-term physical market that supports the building of new plants and, therefore, raise spot prices in the future, adding to the damaging economic impact on Ontario of these power taxes.

Robert Blohm, an investment banker and economist, was an advisor to The Hon. Donald Macdonald's Advisory Committee on Competition in Ontario's Electricity System

Cartoon: Crossed wires over hydro market

Document finp000020011205duce00lbp

 © 2023 Factiva, Inc. All rights reserved.

NATIONAL POST

Letters
Financial Post Editorial
Power privatization a "straw man"

Robert Blohm
National Post
287 words
7 December 1998
National Post
FINP
FINAL
C05
English
(c) Copyright 1998 Financial Post from National Post (formerly The Financial Post Company). All rights reserved.

I have only had a single conversation with Ontario Energy Minister Jim Wilson , which I was invited to have after a speech he gave. By saying (Letters, Dec. 3) that I "accosted" him "on the same idea on several occasions," Mr. Wilson indicates his openness to alternative ideas.

In the final paragraph of my article (Harris hydro power play, Dec. 1), I recommended giving municipal electric default suppliers the freedom to combine their purchases to offset the market power of the provincial government-owned lion's share of the generation. I said nothing about privatization - a straw man that the Minister of this free-market government ironically prefers to attack, evidently to protect his left flank.

I never said the Market Design Committee's recommendations "do not support" bilateral contracts, only that they "weaken" bilateral contracts and therefore adequacy of supply. The Minister claims that a revenue cap will keep Ontario Hydro's generation company's prices from being artificially high. Ontario Hydro's generators will never let their revenue, determined by prices on the power exchange, fall below the cap. That's what keeps prices artificially high on the power exchange, as new entrants can push power exchange prices only higher, not lower.

I agree with the Minister that jacking up prices supports investment in an electricity market where prices are high, but what's important to Ontario's economy is energy cost, not the capital expenditure.

While the Minister claims that I am "wrong, wrong, wrong", the latest issue of the quarterly magazine of the Independent Power Producers' Society of Ontario states that I am "right, right, right".

Robert Blohm. New York

Document finp000020011205duc700kd7

NATIONAL POST

Letters
Financial Post Editorial

Ontario's plan is not to privatize power

Jim Wilson
National Post
341 words
3 December 1998
National Post
FINP
FINAL
C07
English
(c) Copyright 1998 Financial Post from National Post (formerly The Financial Post Company). All rights reserved.

Hello! Is anybody listening? There are no new taxes, hidden or otherwise, in the Energy Competition Act, 1998. Writer Robert Blohm couldn't be farther off the mark when he suggests there is a tax grab buried within prices that will be charged in the competitive electricity market. Mr. Blohm, who has accosted me with the same message on several occasions, makes it clear in the final paragraph of his editorial that his real agenda is the privatization of Ontario Hydro. The Mike Harris government introduced the Energy Competition Act to bring about customer choice, lowest possible prices and investment for Ontario - not privatize the utility.

Mr. Blohm claims that the Market Design Committee recommendations do not support bilateral contracts. He is wrong! The MDC recommends both bilateral and spot pricing, giving market participants the best of both worlds.

Mr. Blohm contends that Ontario Hydro will be allowed to keep prices artificially high. He is wrong! The MDC recommends a revenue cap that removes any incentive Ontario Hydro's generation company might have to abuse its market power.

Mr. Blohm says that the new market will cripple investment in Ontario. Again, he is wrong! Since its introduction, the Energy Competition Act has attracted more than $1 billion in proposed new generation by companies like TransAlta, Cascades/Boralex, Northland Power and others. Their projects represent more than 100 jobs.

Mike Harris was not elected to introduce new taxes. I joined his team to fight crippling taxes created by previous governments. And, I am proud of our track record - 66 tax cuts over the past three years - and an average of 30% cut in personal income taxes, now the lowest in Canada.

Our goal is to bring competition to the electricity market in a way that provides customer choice, is fair to all competitors, brings jobs and investment into Ontario, and ultimately brings the lowest possible electricity prices.

Jim Wilson, Ontario Minister of Energy, Science and Technology

Document finp000020011205duc300jvl

NATIONAL POST

Financial Post Editorial
Harris hydro power play comes at a high cost

Robert Blohm
National Post
943 words
1 December 1998
National Post
FINP
FINAL
C07
English
(c) Copyright 1998 Financial Post from National Post (formerly The Financial Post Company). All rights reserved.

The Harris government will soon stick Ontario consumers with two new electricity taxes in an effort to erase decades of debt piled up by Ontario Hydro. Those Harris taxes - totalling about $400 a year for a typical family of four - will give Ontarians power prices 15% above market, representing an unannounced 4% increase in annual provincial income taxes.

One tax, called a Competition Transition Charge, is relatively small and explicit. The bigger Harris tax, obscured through a complicated pricing mechanism, will be hidden in wholesale electricity prices. This is deceptive and economically harmful; the taxes won't boost economic growth, failing to create the new sources of revenue that should be used to reduce the deficit and debt.

The government decided to hide its tax plan to avoid political embarrassment, and so far it is succeeding. Under the convoluted market regime developed by its Market Design Committee, headed by Ron Daniels, University of Toronto law dean, most electricity transactions will be conducted through a government-operated power exchange. In this contorted equivalent to a stock exchange, everyone buys power on a spot market at the highest price fetched for the given hour, giving power generators a big incentive to manipulate prices upward.

In theory, power exchanges - in place in the U.K., Norway, and other jurisdictions - should be limited to last-minute power, not power previously secured at a fixed price. Under Ontario's regime, the new Ontario Hydro - still virtually a monopoly - would be allowed to maintain artificially high prices on the power exchange for at least four years, in the process allowing other generators to push prices even higher.

To make its power exchange work, the Daniels Committee had to undermine the market for fixed-price transactions (the normal kind, where purchasers know the price in advance of the transaction) on the pretext that "fixed prices mask price signals to customers." In fact, fixed prices summarize the market's estimate of future spot prices. Since new generating plants are financed by long-term fixed-price contracts, if too few get signed, too few plants will get built in time, pushing prices up.

To force the industry into the power exchange, the Daniels Committee will shackle power marketers - companies who buy in bulk to resell to smaller customers - by forcing everyone to pay for a convoluted province-wide billing system, whether they use it or not. That billing system will discourage power marketers from investing in the metering technology needed to retail the power they buy outside the power exchange to small consumers, who tend to prefer a fixed price for a long term.

Here's how the billing system works: If you, as a consumer, decide to buy your power at an agreed fixed rate from an independent supplier, the billing system will record that fact, but will bill you for power purchased at the power exchange's ever-fluctuating rate. Say your annual bill from the province comes to $1,600, while the deal you had negotiated privately would have come to $1,500. Your supplier has to pay you the difference of $100. If the province's bill comes to $1,400, you would pay your supplier the $100.

Two contracts are involved here: a fixed contract - known in the financial world as a derivative - between you and your supplier, and a fluctuating contract involving you and the province. These derivatives can be traded, creating an opportunity for banks and other financial speculators to become big players. That adds risk and cost of the derivatives.

The government would further force transactions onto the power exchange using its ownership of transmission. To discourage companies from producing their own power through cogeneration and other low-cost on-site technologies, the system will tax self-generators who disconnect from the grid and therefore from the power exchange.

The Daniels committee justifies this tax by claiming the existing transmission system will be heavily under-utilized, and unable to recover its fixed costs in the marketplace. In fact, due to the transmission system's high density and strategic location between the huge power markets in the U.S. Northeast and Midwest, it will be over-utilized, leading to congestion which makes prices high.

The Daniels Committee recognizes the congestion, but would manage it by fiat, curtailing plants with long-term commitments in favour of plants that bid into the power exchange, again weakening the fixed-price market. Incredibly, instead of having private ownership and operation of transmission with a profit motive to expand the system, he would create transmission congestion contracts that would give holders the incentive to hoard, increasing congestion and prices.

The Daniels Committee would also deny Ontario's municipal electric utilities access to independent suppliers offering low long-term fixed rates, by forcing the utilities to charge their customers the fluctuating power-exchange rate. In the process, the municipal utilities would be denied the buying power to band together to offset the new Ontario Hydro's near monopoly of production. Fortunately for consumers, the municipalities' political clout has forced the Daniels Committee to reconsider this last, most egregious requirement in a vote this Friday.

A reversal, though desirable, would be thin gruel for Ontario consumers. If Mike Harris doesn't want to cripple the province's future economic growth from electricity deregulation, he will scrap this exercise in interventionism and give Ontarians the truly open and competitive system they deserve.

Robert Blohm, an investment banker and economist, was an adviser to The Hon. Donald Macdonald's Advisory Committee on Competition in Ontario's Electricity System.

Document finp000020011205duc100jdp

 © 2023 Factiva, Inc. All rights reserved.

LETTER
Power Exchange won't be Hydro reincarnated

422 words
4 September 1998
The Toronto Star
TOR
MET
A23
English
Copyright (c) 1998 The Toronto Star

Re the Aug. 26 Opinion page article by Robert Blohm, Province's Power Exchange is a wolf in sheep's clothing. The Independent Electricity Market Operator (IMO) will be a new crown corporation, completely separate from Ontario Hydro.

It will have its own board of directors, many of whom will be nominated by electricity market participants. Great care is being taken to ensure that the corporation will be run professionally and accountably, and independent from Ontario Hydro.

The IMO and the rules for the competitive electricity market are being designed through a stakeholder process - the Market Design Committee - that ensures all views and ideas are considered. The committee is supported by a team of international experts, and is carefully studying the structures and rules that are in use in other jurisdictions.

The committee has also solicited, and benefited from, contributions from the general public. The restructuring process being followed in Ontario is, in my opinion, an example of public policy making at its best, a far cry from the process Blohm describes.

Blohm asserts that "the government plan would force as much as possible of the bulk buying and selling of electricity through the Power Exchange." In fact, the Market Design Committee has recommended that the spot market be set up as a voluntary pool.

Wholesale market participants will be able to buy and sell in the spot market, or enter bilateral physical contracts outside the pool if they wish. The recommended market design is based on the principle of maximum commercial flexibility to participants, subject only to fair sharing of system costs. The primary function of the IMO is to match supply and demand in the market, and then arrange for efficient dispatch of generation.

The IMO will administer the power market but it will not buy and sell power; it will not own generators; it will not own or manage the transmission system. In short, the IMO is not Ontario Hydro reincarnated.

Finally, Blohm claims that "too much trading on the power exchange will mean eventual shortages both of generating plants and of transmission lines." Secure and reliable supplies of electricity are a critical goal in the current restructuring, along with more efficiency and customer choice, and measures have been recommended as part of the market design to ensure adequate future capacity.

The Market Design Committee is not aware of any evidence supporting Blohm's assertion that a competitive, bid-based market would lead to shortages.

Don Dewees Market Design Committee Toronto

Document tor0000020011206du9400x55

 © 2023 Factiva, Inc. All rights reserved.

LETTER
Power Exchange won't be Hydro reincarnated

422 words
4 September 1998
The Toronto Star
TOR
MET
A23
English
Copyright (c) 1998 The Toronto Star

Re the Aug. 26 Opinion page article by Robert Blohm, Province's Power Exchange is a wolf in sheep's clothing. The Independent Electricity Market Operator (IMO) will be a new crown corporation, completely separate from Ontario Hydro.

It will have its own board of directors, many of whom will be nominated by electricity market participants. Great care is being taken to ensure that the corporation will be run professionally and accountably, and independent from Ontario Hydro.

The IMO and the rules for the competitive electricity market are being designed through a stakeholder process - the Market Design Committee - that ensures all views and ideas are considered. The committee is supported by a team of international experts, and is carefully studying the structures and rules that are in use in other jurisdictions.

The committee has also solicited, and benefited from, contributions from the general public. The restructuring process being followed in Ontario is, in my opinion, an example of public policy making at its best, a far cry from the process Blohm describes.

Blohm asserts that "the government plan would force as much as possible of the bulk buying and selling of electricity through the Power Exchange." In fact, the Market Design Committee has recommended that the spot market be set up as a voluntary pool.

Wholesale market participants will be able to buy and sell in the spot market, or enter bilaterial physical contracts outside the pool if they wish. The recommended market design s based on the principle of maximum commercial flexibility to participants, subject only to fair sharing of system costs. The primary function of the IMO is to match supply and demand in the market, and then arrange for efficient dispatch of generation.

The IMO will administer the power market but it will not buy and sell power; it will not own generators; it will not own or manage the transmission system. In short, the IMO is not Ontario Hydro reincarnated.

Finally, Blohm claims that "too much trading on the power exchange will mean eventual shortages both of generating plants and of transmission lines." Secure and reliable supplies of electricity are a critical goal in the current restructuring, along with more efficiency and customer choice, and measures have been recommended as part of the market design to ensure adequate future capacity.

The Market Design Committee is not aware of any evidence supporting Blohm's assertion that a competitive, bid-based market would lead to shortages.

Don Dewees Market Design Committee Toronto

Document tor0000020011206du9400x52

TORONTO STAR

OPINION
Province's Power Exchange is a wolf in sheep's clothing

By Robert Blohm
827 words
24 August 1998
The Toronto Star
TOR
MET
A15
English
Copyright (c) 1998 The Toronto Star

The government's proposal to open Ontario's electricity market to competition and consumer choice won't result in the lowest possible electricity prices.

The public's concern about high electricity prices is justified, because a government-owned offspring of Ontario Hydro will continue to "operate" the market regardless of who participates. The Harris government is letting technology junkies from Hydro, who brought us the $26 billion nuclear fiasco, actually design and "operate" their latest expensive technology fad, called the Power Exchange.

Similar market-opening attempts elsewhere in the world failed to lower electricity prices. Repeatedly the electric utility managers who controlled the old system use their knowledge and vast resources to get control of the new system. Accordingly, Ontario Hydro's current Central Market Operator will become the government's proposed Independent Market Operator with little change in management, staff or operation. It will operate the Power Exchange, which is a market for moment-to-moment electricity at prices that continuously fluctuate.

Under the government's market opening plan, electricity consumers and electricity generators are supposed to be free to deal with one another regardless of location and regardless of who owns the wires carrying the electricity. As in a stock market, bulk buying and selling would normally be done either through the Power Exchange or over the counter. Since consumers prefer a price that doesn't fluc tuate, the Power Exchange would normally be used just for last-minute purchase and sale of power not already contracted for under long-term fixed-price contracts outside the exchange. However, the government plan would force as much as possible of the bulk buying and selling of electricity through the Power Exchange, which is but the reincarnation of Ontario Hydro.

This is bad news for consumers because central power exchanges are notorious for upward manipulation of the electricity price by generators who "set" the exchange price. On power exchanges, buyers have no buying power: They buy the power from the exchange, not from individual generators. Annual Power Exchange volume could be as high as $4 billion and screw-ups could be worth hundreds of millions a year. Long-term, over-the-counter or bilateral contracts for electricity from generators outside the exchange support the building of new plants and the market for green power. Too much trading on the power exchange will mean eventual shortages both of generating plants and of transmission lines, and thus even higher prices. This has been demonstrated time and again, in England, Alberta, New Zealand and the midlantic U.S. states. Add to that lower environmental quality.

The government will force the Power Exchange on consumers in three ways. First, it will require that all electricity through congested transmission lines be bought and sold over the Power Exchange. No one may have a contractual or property right to priority dispatch of specific electricity, say green power, through a congested transmission line.

Second, the province's 270 municipal utilities (MEUs) will be required to buy on the Power Exchange the "default" supply of electricity for the vast majority of households and commercial establishments that don't initially elect to buy power from an "aggregator." (An aggregator supplies many small consumers with power it purchases in bulk for them at a long-term fixed price.) MEUs want, inst ead, to be allowed to band together to buy this default power directly from generators at a fixed price. That would offset the market power of the 80 per cent of generation still to be owned and operated by the provincial government.

Third, all consumers will pay for a convoluted province-wide billing system to support a scheme of purely financial contracts designed to fix the price of electricity that the MEU would always supply from the fluctuating-price

Power Exchange. Financial contracts are riskier and more expensive than long-term contracts for physical power. By making all consumers pay for this financial infrastructure , the government will discourage the building of the metering infrastructure that aggregators or the MEUs need in order to sell to consumers physical power that they buy outside of the Power Exchange. Meanwhile, the government will pay for the metering infrastructure for large industrial consumers, which will take all the best, lowest, fixed-price deals possible on the physical long-term market. Big dogs will eat first.

A legislated rate freeze and environmental requirement is not the way to assure Ontarians the low price and environmental benefits of an electricity market. It's the government's proposed market mechanism that's at fault.

The Power Exchange is a wolf in sheep's clothing.

The Power Exchange is Ontario Hydro all over again: purveyor of high prices and environmental danger.

Robert Blohm is an investment banker operating in Toronto and New York. He was an adviser to Donald Macdonald's Advisory Committee on Competition in Ontario's Electricity System.

Document tor0000020011206du8o00vpj

 © 2023 Factiva, Inc. All rights reserved.

ELECTRICITY INDUSTRY - ONTARIO HYDRO: Deregulation Won't Help Canada -- Op-Ed

131 words
1 December 1997
Daily Energy Briefing
DEB
English
Copyright 1997 by National Journal Group Inc. All rights reserved.

In an op-ed in the Wall Street Journal, Robert Blohm, a former adviser to the Macdonald Committee on Competition in Ontario's Electricity System, writes that Canadians will not be able to take advantage of the savings promised to US consumers when the electricity market opens to competition because of the Canadian government's "greed and distrust of free markets."

Ontario has said it will not privatize state-owned Ontario Hydro "any time soon," and will instead establish a "tightly controlled electricity market." Blohm writes that the resulting "government money machine for taxing ratepayers" will not achieve its goal of repaying debts, but rather will cost Ontario economic growth from "foregone" electricity rate reductions (Wall Street Journal, 11/28).

Document deb0000020011006dtc1000ae

THE WALL STREET JOURNAL.

The Americas: Ontario Hydro Deregulation Jolted Again

By Robert Blohm
1,069 words
28 November 1997
The Wall Street Journal
J
A11
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

The great American electricity deregulation rush is on, promising consumers rate reductions of 10% to 30% from the supplier of their choice. U.S. utilities are positioning themselves in an emerging national market, selling this asset and buying that one. Too bad most Canadians won't participate in this bonanza, thanks to government bureaucrats' greed and distrust of free markets.

If any Canadian province were to break the mold of provincial electricity monopoly, one would expect it to be the popular tax-cutting and downsizing government of Ontario Premier Mike Harris. But Ontario just announced it won't privatize state-owned Ontario Hydro -- North America's biggest electricity company, with a supply monopoly over 42% of Canada's economy -- any time soon. For now Ontario will set up a tightly controlled electricity market. The new plan is touted as a competitive electricity rate-reduction scheme, but in fact it's a government money machine for taxing ratepayers, reducing public debt and relieving pressure to further downsize the public sector.

Ontarians aren't normally a passive lot. A year ago Ontario's large industrial electricity users assembled a "stakeholders' coalition" that stormed into the premier's office. They demanded progress on the break-up and privatization of Ontario-Hydro, recommended 18 months ago by the government's own blue-ribbon committee chaired by former federal minister Donald Macdonald. Otherwise, the industrials threatened to flee to the U.S.

Fearing more political downside than economic upside, Mr. Harris's government has been loathe to act on the Macdonald Committee recommendations. Enter Bill Farlinger, an accountant who is Mr. Harris's chief fund-raiser and chairman of Ontario Hydro. Mr. Farlinger has insisted on keeping the utility a monopoly, to make fortress Ontario a formidable player in a deregulated U.S. electricity market. To sell his vision to the government, he calls for maximum repayment of Hydro's government-guaranteed debt, either from the state-monopoly's high electricity rates, or from the proceeds of privatizing it as a monopoly.

The stakeholders' coalition since met interminably in clubby "technical advisory teams" with government and Ontario Hydro. Based on reports from these meetings, the government drafted a plan that still preserves much of Mr. Farlinger's debt-hawkish and jingoistic vision.

Meanwhile Mr. Farlinger got more than he bargained for in a report released in August by U.S. experts that he commissioned to examine Hydro's nuclear plants, which represent a high 40% of the company's capacity. The report exposed surreal mismanagement at those facilities and called for rapid decommissionings and writeoffs at a cost of some 7 billion Canadian dollars. Faced with a looming shortage of electricity over the next two years, the government finally released its plan.

The plan will end Ontario Hydro's supply monopoly by breaking a single government monolith into three or four government-owned giants: a single generation company, a central market "operator" to run a power exchange for all bulk electricity buying and selling, and a regulated monopoly on power lines with a possible energy supply and services subsidiary. Independent power producers and a limited amount of U.S. imports will be allowed to compete with the Ontario Electric Generation Corp. for 20% of the market.

The plan does follow the Macdonald Committee's innovative interim recommendation to put investor- and government-owned electricity companies on a level playing field. Ontario will levy full corporate taxes on provincially owned electricity companies, and on the municipal utilities that distribute electricity to 75% of Ontario's end users. The new taxes will flow entirely to the provincial treasury to pay off the "stranded" debt of Ontario Hydro that exceeds the company's assets.

But the Macdonald Committee predicated that idea on breaking up and privatizing much of Ontario Hydro's generation. Instead the government proposes not to break up generation and only to make each of the new government-owned giants' balance sheets look like a private corporation's. To do this it is taking some debt off their books and collecting a dividend. This only gives the treasury more cash and shelters existing management jobs from market discipline.

As if these measures didn't put enough upward pressure on electricity rates, the plan proposes a single compulsory power exchange for selling electricity. If Britain's privatization experience is any lesson, prices on such an exchange tend to be manipulated upward since they are set by the highest-price producer. That pleases the provincial treasury because it raises the value of the generation assets, thus reducing stranded debt. By restricting the market to two significant producers, Britain made the upward price pressure greater than if there were many producers.

The power-exchange development team was dominated by Ontario Hydro and its reports treat the burgeoning electricity market as a kindergarten needing the central government market "operator" as a babysitter. It never canvassed the opinion of electricity auction-design experts. It instead commissioned the developers of the widely discredited British power exchange and a similar mechanism in Australia.

A centralized market, while operable in an island electricity system, is incompatible with a deregulated U.S. market and would harm system reliability by discouraging new capacity. Interposing a mandatory market operator into electricity transactions, or allowing the system operator to control a market, may dissuade the U.S. Federal Energy Regulatory Commission from finally giving Ontario "open access" to the deregulated U.S. market.

To add insult to injury, the government plans soon to ram through legislation that would consecrate this central market "design" for all time. Supermajority voting by the board of the market operator will be required for changing any rules -- the very feature that has stymied reform of Britain's centralized market and prompted the new Labor government to levy a windfall-profits tax on electricity producers.

The trifecta of new taxes, dividends and high "centralized market" prices from electricity "deregulation" may make for good deficit-reduction re-election campaigning by Mr. Harris's government. But a government money-making machine in the guise of electricity deregulation won't wither away upon accomplishing its alleged purpose of debt repayment. The loss to Ontario's economic growth from foregone electricity rate reductions will continue for lack of real electricity competition.

Mr. Blohm was an adviser to the Macdonald Committee on Competition in Ontario's Electricity System.

Document j000000020011007dtbs00rj9

 © 2023 Factiva, Inc. All rights reserved.

PR Newswire
a CISION company

California Market Gives Fortnightly 70th Anniversary Present: A Monopoly's Demise To Debate On Its Pages

496 words
17 November 1997
11:52 AM
PR Newswire
PRN
English
(Copyright (c) 1997, PR Newswire)

VIENNA, Va., Nov. 17 /PRNewswire/ -- California's competitive system of buying and selling electricity begins January 1, and Public Utilities Fortnightly will offer readers a look at the pros and cons of such a market in its 70th Anniversary Issue.

On Jan. 12, 1928, Public Utilities Reports, Inc. began publishing the "Fortnightly Issues," devoted to "the many interesting and important questions which are constantly arising in this field." Public Utilities Fortnightly is still analyzing regulatory questions - right through to the California experiment. The Fortnightly throws light on issues and gives experts a chance to be heard.

Seven decades in the business have established the magazine as the utility publication of record for senior-level energy executives.

To celebrate the coming of California competition and its own longevity, Public Utilities Fortnightly again will use its clout to attract opinion leaders. More than 15 experts will comment on whether the new California market will work and who will win or lose. Among the participants will be William W. Hogan of the Kennedy School of Government at Harvard University, economist Robert Blohm, Ashley Brown of the Harvard Electricity Policy Group, Stephen L. Baum of Enova Corp. and Robert Levin of the New York Mercantile Exchange.

"Choice in a massive economy like California's will be the true test of the consumer's desire for lower prices, and also, of the utility industry's ability to transform into competitive entities," says Susan Johnson, publisher. "To keep our readers informed, Public Utilities Fortnightly will continue to predict and debate changes in this market and in states across the country."

As more marketers and utilities carve out their piece of the $300 billion electricity market, new advertisers have been signing on to Public Utilities Fortnightly in record numbers. In the past year, the Fortnightly has added close to three dozen new advertisers, including Deloitte & Touche, PeopleSoft, Southern Company, Aquila Energy, ABB Information Systems, Ameritech, TransEnergy, SPS Payment Systems and Utilities International. Public Utilities Fortnightly has run more than 400 pages of advertising aimed at senior-level utility and energy services executives.

"We expect the January 1, 1998 issue to be chock full of advertising messages. Product and service providers are interested in the special editorial regarding the launch of competition in California. Plus, utilities and organizations allied to the industry have expressed interest in 'congratulations and best wishes' advertising," according to Jeff Grizzel, advertising sales manager. "The deadline for reserving advertising space in the January 1, 1998 issue is November 21."

In addition to Public Utilities Fortnightly, Public Utilities Reports, Inc. publishes professional books and newsletters, conducts seminars and maintains an extensive legal and regulatory database focusing on the utility industry.

/CONTACT: Susan Johnson, 703-847-7734, or e-mail, smj@pur.com, or Jeff Grizzel, 703-847-7729 or e-mail, grizzel@pur.com, both of Public Utilities Reports/ 11:36 EST

Document prn0000020011008dtbh02xft

 © 2023 Factiva, Inc. All rights reserved.

B
Currents

120 words
8 September 1997
The Las Vegas Review-Journal
LVGS
Final
8b
English
(Copyright 1997)

THE JOYS OF CENTRAL PLANNINGRecall, if you will, all those newspaper and magazine stories about Japan Inc. - the Japanese economic miracle - so prevalent in the late 1980s. You don't hear much about the Japanese success story these days. Recently, investment bankers Takuma Amano and Robert Blohm totaled up the losses that accrued in Japan when its system of state-managed capitalism went south, beginning in the early 1990s. Japan's refusal to liberate critical sectors of its economy from interference by government ministries led to a business collapse that, in recent years, wiped out $10 trillion in asset values - equivalent to Japan's total economic loss from World War II.Source: The American Enterprise, September/October 1997.

Document lvgs000020011007dt9800f04

The price tag on Japanese regulation

112 words
1 September 1997
American Enterprise
IAEN
16
Vol. 8, No. 5
English
Copyright UMI Company 1997. All Rights Reserved.

Investment bankers Takuma Amano and Robert Blohm recently totaled up the losses that accrued in Japan when its system of state-managed capitalism collapsed earlier this decade. Japan's refusal to liberate critical sectors of its economy from interference by government ministries caused pressure to build up that finally led to a business collapse which wiped out a staggering total of nearly $10 trillion in asset values in the first half of the 1990s. That, the authors note in the Wall Street Journal, is "equivalent to Japan's estimated economic loss from World War II."
****** Copyright American Enterprise Institute for Public Policy Research Sep/Oct 1997

Document iaen000020011007dt9100054

THE WALL STREET JOURNAL.
ASIA EDITION

Letters to the Editor: Japan Fears a Free-for-All

249 words
18 July 1997
The Asian Wall Street Journal
AWSJ
10
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

Specialists on Japan's political economy will take issue with "Japan's Economic Miracle Is Still to Come," by Takuma Amano and Robert Blohm (editorial page, July 3). I am inaccurately cited as a "vocal admirer of Japanese-style capitalism," simply because my new book reveals a Japan that will not readily embrace the American ideals of free markets, deregulation and consumer sovereignty ("Molding Japanese Minds: The State in Everyday Life").

The writers counter that the Japanese now recognize the "failure" of regulated structures, and the economy will soon prosper again under American-style deregulation. Their argument rests on two untenable assumptions.

First, they fail to demonstrate that deregulation is the primary source of current U.S. prosperity, nor regulation the cause of Japan's recent difficulties. Indeed, the Japanese economy now seems to be recovering, despite continued regulation.

Second, although Japanese officials and businessmen endorse deregulation when speaking to Americans, few wish to adopt U.S.-style capitalism. When the leading employers' federation, Nikkeiren, recently unveiled its plan for "deregulation," it urged government and companies to devise measures to contain the feared rise in unemployment, and called on employers to "check the dangers of the market economy and capitalism." Dubbing its manifesto the Blue Bird Plan, Nikkeiren warned against adopting the U.S. free-market approach. Instead, Japanese were encouraged to find their own "blue bird" of happiness.

Sheldon Garon

Professor, Japanese History

Princeton University

Princeton, New Jersey

Document awsj000020011005dt7i008a3

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
EUROPE EDITION

Letters to the Editor: The Japanese Fear American Free-for-All

256 words
15 July 1997
The Wall Street Journal Europe
WSJE
7
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

Specialists on Japan's political economy will take issue with "Japan's Economic Miracle Is Still to Come," by Takuma Amano and Robert Blohm (editorial page, July 4). I am inaccurately cited as a "vocal admirer of Japanese-style capitalism," simply because my new book reveals a Japan that will not readily embrace the American ideals of free markets, deregulation and consumer sovereignty ("Molding Japanese Minds: The State in Everyday Life").

The writers counter that the Japanese now recognize the "failure" of regulated structures, and the economy will soon prosper again under American-style deregulation. Their argument rests on two untenable assumptions.

First, they fail to demonstrate either that deregulation is the primary source of current U.S. prosperity, or that regulation is the cause of Japan's recent difficulties. Indeed, the Japanese economy now seems to be recovering, despite continued regulation.

Second, although Japanese officials and businessmen endorse deregulation when speaking to Americans, few wish to adopt U.S.-style capitalism, human costs and all. When the leading employers' federation, Nikkeiren, recently unveiled its plan for "deregulation," it urged government and companies to devise measures to contain the feared rise in unemployment, and called on employers to "check the dangers of the market economy and capitalism." Dubbing its manifesto the Blue Bird Plan, Nikkeiren warned against adopting the American free-market approach. Instead, Japanese were encouraged to find their own "blue bird" of happiness.

Sheldon Garon

Professor, Japanese History

Princeton University

Princeton, New Jersey

Document wsje000020011009dt7f0086n

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
EUROPE EDITION

Japan's Economic Miracle Is Still to Come

By Takuma Amano and Robert Blohm
1,398 words
4 July 1997
The Wall Street Journal Europe
WSJE
8
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

Until the end of the 1980s, Japan was regarded as the postwar economic miracle, having risen from ruin to G-7 status. But Japan's current economic woes, like its success, have been due to its unique form of capitalism, in which government bureaucracy removed or controlled a substantial part of the systematic risk inherent in a market economy. Japan was pointed in that direction by New Deal social engineers, who were given run of the roost under Gen. Douglas MacArthur's occupation.

As Chalmers Johnson documented in "MITI and the Japanese Miracle," (1982), the occupation administration saw eye to eye with Japan's particular style of bureaucratic economic management. Bureaucrats had played an ever bigger role in directing Japan's economy during the interwar years and World War II. The postwar occupiers gave them even more power. Indeed, according to Princeton historian Sheldon Garon, a vocal admirer of Japanese-style capitalism, U.S. postwar policy right up to the Reagan years was to fight communism by bolstering the moderate left in Japan and Europe -- and do it by encouraging industrial policy aimed at increasing output and productivity even more than by encouraging redistribution.

So in the 1950s Japanese leaders wasted no time in setting economic targets for the country and persuading legislators and business leaders of their wisdom. The government allocated resources in pursuit of those targets, namely for the promotion of export-oriented heavy industry. Such industries received favorable tax treatment, special low-cost financing and preferential allocation of scarce foreign exchange to buy raw materials and U.S. equipment.

In the late 1950s, both the Ministry of International Trade and Industry and the steel industry, which consisted of privately owned companies, decided that Japanese industry needed a massive supply of low-cost, high-quality steel to compete in the global market. MITI, together with the Ministry of Finance, channeled huge resources to the steel industry through the Japan Development Bank, a government agency, while encouraging the steel companies to get additional financing from the World Bank. In the early 1960s, the World Bank recommended that the steel companies begin placing bonds in the private U.S. market. Since Japanese steel-company credit wasn't well recognized in the U.S. private market, MITI and the Ministry of Finance arranged credit support through an effective guarantee by the Japan Development Bank.

Japanese commercial banks and life insurance companies had no credit concerns in lending to the steel companies, especially when they saw that a government bank was guarantor. Once the industry secured financing for its massive expansion, MITI and the Ministry of Finance arranged a tax break on the export income generated by this massive, newly equipped industry. High-quality, low-cost steel helped the Japanese shipbuilding industry make world-class tankers for export, also subject to a tax break for export income.

Favorable financial treatment of heavy export industry, together with the inflow of bright graduates into favored industries, worked as planned for Japan's economic development until the 1973 oil shock. Japan, which relied heavily on cheap energy, was jolted hard. MITI finally decided in the mid-1970s that Japan had to change its industrial structure, shifting from energy-consuming production to more value-added and knowledge-intensive industries like electronics and car making.

By setting economic targets and picking favored industries, the bureaucracy guided the private sector to invest heavily in new equipment for those industries. Of course, MITI and other government planners made some tactical decisions that were perfectly dreadful -- like their attempts to discourage Sony's growth in the 1950s, or their original advice that Honda and other future car giants stay out of the auto industry. But when private-sector managers took the planners' advice, the managers became so eager to invest that they paid little attention to the basic measures of return on investment or return on equity. After all, a substantial part of the needed funds were

 © 2023 Factiva, Inc. All rights reserved.

being made available by or through the government. With all Japan's companies in the same boat, there was hardly any danger of being fired for low returns, even though those returns would have been low enough to incite stockholder rebellions in the U.S.

Japanese consumers as well as stockholders paid the price of these policies. Real interest rates on savings were kept artificially low so that companies could borrow cheaply. An antiquated domestic distribution system resulted in high domestic prices and impossibly high property prices. In short, consumers were forced to endure inflation at a time when domestic prices should have been dropping. From the 1950s until the economic bubble burst in 1990, the only compensation enjoyed by ordinary Japanese was high real annual wage increases (even higher in the target industries), which kept workers' noses to the grindstone. In other words, they had (or believed they had) job security and guaranteed income increases, but accumulating any real wealth was beyond their grasp. That wealth was reserved for the promotion of mercantilist industries.

In effect, disproportionately more and better resources, money and labor got allocated to export-oriented industry, which thus became increasingly productive and extremely competitive in the global market. Fewer resources were allocated to domestic and consumer industries in which productivity increase was limited, as evidenced in wholesale price index growth forever below consumer price index growth (the genuine measure of inflation) since the 1950s. In other words, Japanese consumers were forced to pay the difference between the annual growth in CPI and a lower change -- sometimes a decline -- in WPI.

These policies were part and parcel of a deliberate attempt by bureaucrats and business leaders to control the risk inherent in capitalism for their own benefit -- an effort that ultimately proved to be in vain. In market capitalism, reward corresponds to risk. But Japanese industrial policy tried to give the private sector the full benefit of rewards without having to pay the munificent government for minimizing the risks. The Japanese were able to reap an economic miracle -- but, at the same time, they were sowing the seeds of its undoing.

That's because controlled-risk capitalism created a "moral hazard" among Japanese private-sector management. The best example was the great chase by management of the real estate industry after ever-increasing property prices without due concern for investment return, in the expectation that the government would support an increasingly irrational market. In the latter 1980s, the securities industry entered into illegal verbal agreements with investors guaranteeing them a fixed return from stocks above the interest rate on bonds, unconsciously expecting that the government would likewise support the equity market. Worse yet, the Bank of Japan supplied money to fuel the hyperspeculation in the equity and real estate markets. The logical consequence of all this tacit collusion between the private and public sectors was the bust of the economic bubble, realized in the early 1990s.

Japan is finally emerging from an unprecedented six years of self-inflicted recession. Prime Minister Ryutaro Hashimoto has announced that Japan's version of the Big Bang for its financial industry is to be completed by 2001, along with electricity and telecommunications deregulation. At long last the financial sector, the most regulated and controlled industry in Japan and precisely the one crippled by world-class fraud, will be completely deregulated. In an increasingly deregulated economy, pervasive group behavior will become less and less rewarding and Japan will finally be able to emerge as a powerful market of competitive companies and individual entrepreneurs.

Japan paid a huge economic price for prolonged controlled-risk capitalism. Total asset value suffered a loss of close to $10 trillion during the first half of the 1990s, equivalent to Japan's estimated economic loss from World War II. And the Japanese consumer, so long promised a better tomorrow, was ultimately served up a stagnant, hopeless future of relative austerity for the old and diminished opportunity for the young. Japan's big-time success and failure, like those of history's other great adventures in control economics, serves as one more cautionary tale for countries seeking strong sustained growth and prosperity.

Mr. Amano and Mr. Blohm are investment bankers, based in Tokyo and New York respectively.

(See related letter: "Letters to the Editor: The Japanese Fear American Free-for-All" -- WSJE July 15, 1997)

Document wsje000020011009dt74007m4

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
ASIA EDITION

Japan's Economic Miracle Is Still to Come

By Takuma Amano and Robert Blohm
1,397 words
3 July 1997
The Asian Wall Street Journal
AWSJ
8
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

Until the end of the 1980s, Japan was regarded as the postwar economic miracle, having risen from ruin to G-7 status. But Japan's current economic woes, like its success, have been due to its unique form of capitalism, in which government bureaucracy removed or controlled a substantial part of the systematic risk inherent in a market economy. Japan was pointed in that direction by New Deal social engineers, who were given run of the roost under Gen. Douglas MacArthur's occupation.

As Chalmers Johnson documented in "MITI and the Japanese Miracle" (1982), the occupation administration saw eye to eye with Japan's particular style of bureaucratic economic management. Bureaucrats had played an ever bigger role in directing Japan's economy during the interwar years and World War II. The postwar occupiers gave them even more power. Indeed, according to Princeton historian Sheldon Garon, a vocal admirer of Japanese-style capitalism, U.S. postwar policy right up to the Reagan years was to fight communism by bolstering the moderate left in Japan and Europe -- and do it by encouraging industrial policy aimed at increasing output and productivity even more than by encouraging redistribution.

So in the 1950s Japanese leaders wasted no time in setting economic targets for the country and persuading legislators and business leaders of their wisdom. The government allocated resources in pursuit of those targets, namely for the promotion of export-oriented heavy industry. Such industries received favorable tax treatment, special low-cost financing and preferential allocation of scarce foreign exchange to buy raw materials and U.S. equipment.

In the late 1950s, both the Ministry of International Trade and Industry and the steel industry, which consisted of privately owned companies, decided that Japanese industry needed a massive supply of low-cost, high-quality steel to compete in the global market. MITI, together with the Ministry of Finance, channeled huge resources to the steel industry through the Japan Development Bank, a government agency, while encouraging the steel companies to get additional financing from the World Bank. In the early 1960s, the World Bank recommended that the steel companies begin placing bonds in the private U.S. market. Since Japanese steel-company credit wasn't well recognized in the U.S. private market, MITI and the Ministry of Finance arranged credit support through an effective guarantee by the Japan Development Bank.

Japanese commercial banks and life insurance companies had no credit concerns in lending to the steel companies, especially when they saw that a government bank was guarantor. Once the industry secured financing for its massive expansion, MITI and the Ministry of Finance arranged a tax break on the export income generated by this massive, newly equipped industry. High-quality, low-cost steel helped the Japanese shipbuilding industry make world-class tankers for export, also subject to a tax break for export income.

Favorable financial treatment of heavy export industry, together with the inflow of bright graduates into favored industries, worked as planned for Japan's economic development until the 1973 oil shock. Japan, which relied heavily on cheap energy, was jolted hard. MITI finally decided in the mid-1970s that Japan had to change its industrial structure, shifting from energy-consuming production to more value-added and knowledge-intensive industries like electronics and car making.

By setting economic targets and picking favored industries, the bureaucracy guided the private sector to invest heavily in new equipment for those industries. Of course, MITI and other government planners made some tactical decisions that were perfectly dreadful -- like their attempts to discourage Sony's growth in the 1950s, or their original advice that Honda and other future car giants stay out of the auto industry. But when private-sector managers took the planners' advice, the managers became so eager to invest that they paid little attention to the basic measures of return on investment or return on equity. After all, a substantial part of the needed funds were

 © 2023 Factiva, Inc. All rights reserved.

being made available by or through the government. With all Japan's companies in the same boat, there was hardly any danger of being fired for low returns, even though those returns would have been low enough to incite stockholder rebellions in the U.S.

Japanese consumers as well as stockholders paid the price of these policies. Real interest rates on savings were kept artificially low so that companies could borrow cheaply. An antiquated domestic distribution system resulted in high domestic prices and impossibly high property prices. In short, consumers were forced to endure inflation at a time when domestic prices should have been dropping. From the 1950s until the economic bubble burst in 1990, the only compensation enjoyed by ordinary Japanese was high real annual wage increases (even higher in the target industries), which kept workers' noses to the grindstone. In other words, they had (or believed they had) job security and guaranteed income increases, but accumulating any real wealth was beyond their grasp. That wealth was reserved for the promotion of mercantilist industries.

In effect, disproportionately more and better resources, money and labor got allocated to export-oriented industry, which thus became increasingly productive and extremely competitive in the global market. Fewer resources were allocated to domestic and consumer industries in which productivity increase was limited, as evidenced in wholesale price index growth forever below consumer price index growth (the genuine measure of inflation) since the 1950s. In other words, Japanese consumers were forced to pay the difference between the annual growth in CPI and a lower change -- sometimes a decline -- in WPI.

These policies were part and parcel of a deliberate attempt by bureaucrats and business leaders to control the risk inherent in capitalism for their own benefit -- an effort that ultimately proved to be in vain. In market capitalism, reward corresponds to risk. But Japanese industrial policy tried to give the private sector the full benefit of rewards without having to pay the munificent government for minimizing the risks. The Japanese were able to reap an economic miracle -- but, at the same time, they were sowing the seeds of its undoing.

That's because controlled-risk capitalism created a "moral hazard" among Japanese private-sector management. The best example was the great chase by management of the real estate industry after ever-increasing property prices without due concern for investment return, in the expectation that the government would support an increasingly irrational market. In the latter 1980s, the securities industry entered into illegal verbal agreements with investors guaranteeing them a fixed return from stocks above the interest rate on bonds, unconsciously expecting that the government would likewise support the equity market. Worse yet, the Bank of Japan supplied money to fuel the hyperspeculation in the equity and real estate markets. The logical consequence of all this tacit collusion between the private and public sectors was the bust of the economic bubble, realized in the early 1990s.

Japan is finally emerging from an unprecedented six years of self-inflicted recession. Prime Minister Ryutaro Hashimoto has announced that Japan's version of the Big Bang for its financial industry is to be completed by 2001, along with electricity and telecommunications deregulation. At long last the financial sector, the most regulated and controlled industry in Japan and precisely the one crippled by world-class fraud, will be completely deregulated. In an increasingly deregulated economy, pervasive group behavior will become less and less rewarding and Japan will finally be able to emerge as a powerful market of competitive companies and individual entrepreneurs.

Japan paid a huge economic price for prolonged controlled-risk capitalism. Total asset value suffered a loss of close to $10 trillion during the first half of the 1990s, equivalent to Japan's estimated economic loss from World War II. And the Japanese consumer, so long promised a better tomorrow, was ultimately served up a stagnant, hopeless future of relative austerity for the old and diminished opportunity for the young. Japan's big-time success and failure, like those of history's other great adventures in control economics, serves as one more cautionary tale for countries seeking strong sustained growth and prosperity.

Mr. Amano and Mr. Blohm are investment bankers, based in Tokyo and New York respectively.

(See related letter: "Letters to the Editor: Japan Fears a Free-for-All" -- AWSJ July 18, 1997)

Document awsj000020011005dt7300a8k

THE WALL STREET JOURNAL.

Letters to the Editor: The Japanese Fear American Free-for-All

253 words
1 July 1997
The Wall Street Journal
J
A18
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

Specialists on Japan's political economy will take issue with "Japan's Economic Miracle Is Still to Come," by Takuma Amano and Robert Blohm (editorial page, June 24). I am inaccurately cited as a "vocal admirer of Japanese-style capitalism," simply because my new book reveals a Japan that will not readily embrace the American ideals of free markets, deregulation and consumer sovereignty ("Molding Japanese Minds: The State in Everyday Life").

The writers counter that the Japanese now recognize the "failure" of regulated structures, and the economy will soon prosper again under American-style deregulation. Their argument rests on two untenable assumptions.

First, they fail to demonstrate that deregulation is the primary source of current U.S. prosperity, nor regulation the cause of Japan's recent difficulties. Indeed, the Japanese economy now seems to be recovering, despite continued regulation.

Second, although Japanese officials and businessmen endorse deregulation when speaking to Americans, few wish to adopt U.S.-style capitalism, human costs and all. When the leading employers' federation, Nikkeiren, recently unveiled its plan for "deregulation," it urged government and companies to devise measures to contain the feared rise in unemployment, and called on employers to "check the dangers of the market economy and capitalism." Dubbing its manifesto the Blue Bird Plan, Nikkeiren warned against adopting the American free-market approach. Instead, Japanese were encouraged to find their own "blue bird" of happiness.

Sheldon Garon

Professor, Japanese History

Princeton University

Princeton, N.J.

Document j000000020011009dt71000h5

THE WALL STREET JOURNAL.

Japan's Economic Miracle Is Still to Come

By Takuma Amano and Robert Blohm
1,398 words
24 June 1997
The Wall Street Journal
J
A22
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

Until the end of the 1980s, Japan was regarded as the postwar economic miracle, having risen from ruin to G-7 status. But Japan's current economic woes, like its success, have been due to its unique form of capitalism, in which government bureaucracy removed or controlled a substantial part of the systematic risk inherent in a market economy. Japan was pointed in that direction by New Deal social engineers, who were given run of the roost under Gen. Douglas MacArthur's occupation.

As Chalmers Johnson documented in "MITI and the Japanese Miracle," (1982), the occupation administration saw eye to eye with Japan's particular style of bureaucratic economic management. Bureaucrats had played an ever bigger role in directing Japan's economy during the interwar years and World War II. The postwar occupiers gave them even more power. Indeed, according to Princeton historian Sheldon Garon, a vocal admirer of Japanese-style capitalism, U.S. postwar policy right up to the Reagan years was to fight communism by bolstering the moderate left in Japan and Europe -- and do it by encouraging industrial policy aimed at increasing output and productivity even more than by encouraging redistribution.

So in the 1950s Japanese leaders wasted no time in setting economic targets for the country and persuading legislators and business leaders of their wisdom. The government allocated resources in pursuit of those targets, namely for the promotion of export-oriented heavy industry. Such industries received favorable tax treatment, special low-cost financing and preferential allocation of scarce foreign exchange to buy raw materials and U.S. equipment.

In the late 1950s, both the Ministry of International Trade and Industry and the steel industry, which consisted of privately owned companies, decided that Japanese industry needed a massive supply of low-cost, high-quality steel to compete in the global market. MITI, together with the Ministry of Finance, channeled huge resources to the steel industry through the Japan Development Bank, a government agency, while encouraging the steel companies to get additional financing from the World Bank. In the early 1960s, the World Bank recommended that the steel companies begin placing bonds in the private U.S. market. Since Japanese steel-company credit wasn't well recognized in the U.S. private market, MITI and the Ministry of Finance arranged credit support through an effective guarantee by the Japan Development Bank.

Japanese commercial banks and life insurance companies had no credit concerns in lending to the steel companies, especially when they saw that a government bank was guarantor. Once the industry secured financing for its massive expansion, MITI and the Ministry of Finance arranged a tax break on the export income generated by this massive, newly equipped industry. High-quality, low-cost steel helped the Japanese shipbuilding industry make world-class tankers for export, also subject to a tax break for export income.

Favorable financial treatment of heavy export industry, together with the inflow of bright graduates into favored industries, worked as planned for Japan's economic development until the 1973 oil shock. Japan, which relied heavily on cheap energy, was jolted hard. MITI finally decided in the mid-1970s that Japan had to change its industrial structure, shifting from energy-consuming production to more value-added and knowledge-intensive industries like electronics and car making.

By setting economic targets and picking favored industries, the bureaucracy guided the private sector to invest heavily in new equipment for those industries. Of course, MITI and other government planners made some tactical decisions that were perfectly dreadful -- like their attempts to discourage Sony's growth in the 1950s, or their original advice that Honda and other future car giants stay out of the auto industry. But when private-sector managers took the planners' advice, the managers became so eager to invest that they paid little attention to the basic measures of return on investment or return on equity. After all, a substantial part of the needed funds were

 © 2023 Factiva, Inc. All rights reserved.

being made available by or through the government. With all Japan's companies in the same boat, there was hardly any danger of being fired for low returns, even though those returns would have been low enough to incite stockholder rebellions in the U.S.

Japanese consumers as well as stockholders paid the price of these policies. Real interest rates on savings were kept artificially low so that companies could borrow cheaply. An antiquated domestic distribution system resulted in high domestic prices and impossibly high property prices. In short, consumers were forced to endure inflation at a time when domestic prices should have been dropping. From the 1950s until the economic bubble burst in 1990, the only compensation enjoyed by ordinary Japanese was high real annual wage increases (even higher in the target industries), which kept workers' noses to the grindstone. In other words, they had (or believed they had) job security and guaranteed income increases, but accumulating any real wealth was beyond their grasp. That wealth was reserved for the promotion of mercantilist industries.

In effect, disproportionately more and better resources, money and labor got allocated to export-oriented industry, which thus became increasingly productive and extremely competitive in the global market. Fewer resources were allocated to domestic and consumer industries in which productivity increase was limited, as evidenced in wholesale price index growth forever below consumer price index growth (the genuine measure of inflation) since the 1950s. In other words, Japanese consumers were forced to pay the difference between the annual growth in CPI and a lower change -- sometimes a decline -- in WPI.

These policies were part and parcel of a deliberate attempt by bureaucrats and business leaders to control the risk inherent in capitalism for their own benefit -- an effort that ultimately proved to be in vain. In market capitalism, reward corresponds to risk. But Japanese industrial policy tried to give the private sector the full benefit of rewards without having to pay the munificent government for minimizing the risks. The Japanese were able to reap an economic miracle -- but, at the same time, they were sowing the seeds of its undoing.

That's because controlled-risk capitalism created a "moral hazard" among Japanese private-sector management. The best example was the great chase by management of the real estate industry after ever-increasing property prices without due concern for investment return, in the expectation that the government would support an increasingly irrational market. In the latter 1980s, the securities industry entered into illegal verbal agreements with investors guaranteeing them a fixed return from stocks above the interest rate on bonds, unconsciously expecting that the government would likewise support the equity market. Worse yet, the Bank of Japan supplied money to fuel the hyperspeculation in the equity and real estate markets. The logical consequence of all this tacit collusion between the private and public sectors was the bust of the economic bubble, realized in the early 1990s.

Japan is finally emerging from an unprecedented six years of self-inflicted recession. Prime Minister Ryutaro Hashimoto has announced that Japan's version of the Big Bang for its financial industry is to be completed by 2001, along with electricity and telecommunications deregulation. At long last the financial sector, the most regulated and controlled industry in Japan and precisely the one crippled by world-class fraud, will be completely deregulated. In an increasingly deregulated economy, pervasive group behavior will become less and less rewarding and Japan will finally be able to emerge as a powerful market of competitive companies and individual entrepreneurs.

Japan paid a huge economic price for prolonged controlled-risk capitalism. Total asset value suffered a loss of close to $10 trillion during the first half of the 1990s, equivalent to Japan's estimated economic loss from World War II. And the Japanese consumer, so long promised a better tomorrow, was ultimately served up a stagnant, hopeless future of relative austerity for the old and diminished opportunity for the young. Japan's big-time success and failure, like those of history's other great adventures in control economics, serves as one more cautionary tale for countries seeking strong sustained growth and prosperity.

Mr. Amano and Mr. Blohm are investment bankers, based in Tokyo and New York respectively.

(See related letter: "Letters to the Editor: The Japanese Fear American Free-for-All" -- WSJ July 1, 1997)

Document j000000020011007dt6o00geu

A bit of a do over security.

913 words
3 June 1997
Yorkshire Post
YP
English
(c) 1997

It seems like the realms of science fiction but computer security is becoming more complex not just for governments but for business too. Simon Page reports.

Forget applets, baud rates and java. Computer experts say they don't matter - not without cryptography.

With new technology fuelling an explosive growth in communication over the Internet, companies are looking to cash in on developing codes so tough they will render information unintelligible.

Cryptography - encoding data, establishing its authenticity and preventing its undetected modification and unauthorised use - is seen as the key to the future of the booming virtual business world.

But throw in terms, abbreviations and acronyms, such as TTPs (trusted third parties), LEAKs (law-enforcement access to keys), key escrow, key recovery and algorithms, and confusion reigns.

"I've been working in this industry for four years and I don't know what some of the terms mean," complained a member of the high-powered audience at the snappily named Encryption Feasibility Summit, in London, last month.

Nearly 200 million people expect to be connected over the Internet in the next few years.

Investment bankers Takumo Amano and Robert Blohm say the Internet market is the single most important factor behind the strength of the US economy.

They estimate that, as business on the Internet met demand for software, hardware products and communications lines, it contributed some $200bn, or roughly three per cent, to last year's US gross domestic product.

But while everyone agrees that it is crucial to encourage electronic commerce by allowing secure transactions across international borders, law enforcers and the business community stand diametrically opposed on how to do it.

Should encryption, which hides data from both computer-hacking corporate rivals and the police, be regulated? And if so, how?

"There are two approaches," says David Hendon, the British government's Internet regulation expert at the DTI. "One is the fear that strong encryption will become available on the Internet. The other is the fear that it will not become available on the Internet."

The drawn-out debate has spawned new creatures - cryptoanarchists (those wanting no controls on cryptography), cryptofascists (those wanting total government control) and the middle-of-the-road cryptoconservatives and cryptoliberals (those believing in some controls).

While companies say they need to keep transactions over the Internet secret, governments are reluctant to accept technology that, for the first time, might make legally intercepted messages unreadable.

What is not at issue is whether cryptography, like a spell checker, will soon be available on all software. It will.

The issue is how impenetrable it should be and whether state security agencies should have access to the keys, or algorithms, that can unscramble codes.

Codes come in various "bits" - or key lengths. The longer the bit, the tougher the code is to crack. While companies say they won't do business over the Internet unless they can use the toughest security available,

 © 2023 Factiva, Inc. All rights reserved.

governments are afraid that such codes will prevent them from uncovering crimes ranging from international guerrilla warfare to child pornography.

The US government bans top US software firms like Netscape from exporting their toughest 128-bit encryption technology. To the outrage of companies, US export laws permit only ready exports of not more than 40-bit keys for all but a narrow category of products for financial transactions.

"Too many consumers have heard about successful computer hackers. Without strong encryption, electronic commerce cannot advance beyond where it is today - a nascent industry with less than approximately $500m in total sales," says Netscape.

In Britain, a consultation paper on cryptography regulation suggests licensing trusted third parties - those firms offering cryptographic services to the public.

To qualify for a licence, companies might have to share copies of the keys that decode their users' private files so that law enforcers, and some private parties, can intercept communications under certain circumstances.

Critics complain that they no longer understand the definition of trusted third parties. "It seems to have changed from who the user trusts to who the government trusts," noted one speaker at the encryption conference.

Encryption is not new. A range of technologies designed to encrypt data that is stored and transmitted in cyberspace has been used for years by military and diplomatic government bodies.

Although some companies already encrypt internal electronic information, the technology has not been open to full, international commerce.

With multi-national, lawful access to electronic data also at stake without multinational policies, international bodies such as the European Commission and the Organisation for Economic Co-operation and Development (OECD) have muscled in on negotiations that are moving in the direction of international law.

After a year of talks with more than 100 government and business representatives, the OECD has called on countries to avoid creating unjustified obstacles to trade in the name of cryptography policy.

Publishing eight, non-binding recommendations, the 29-country group did not rule out giving governments access to keys to unlock encrypted material.

But it also suggested that the right to privacy should be respected.

General Motors, the world's biggest car maker, operating in 170 countries and employing 745,000 staff, is calling for prompt multi-national agreements that will allow it to choose its own encryption requirements which will be legal in all the countries in which it operates.

"If we fail here, it is going to have devastating economic consequences for us," says James Dunn, a representative of General Motors' international operations.

Document yp00000020011004dt630092w

 © 2023 Factiva, Inc. All rights reserved.

REUTERS

FEATURE - Get connected, get encrypted.

By Kirstin Ridley
955 words
7 May 1997
08:38 PM
Reuters News
LBA
English
(c) 1997 Reuters Limited

LONDON, May 8 (Reuter) - Forget applets, baud rates and java. Computer experts say they don't matter -- not without cryptography.

With new technology fuelling an explosive growth in communication over the Internet, companies are looking to cash in on developing codes so tough they will render information unintelligible.

Cryptography -- encoding data, establishing its authenticity and preventing its undetected modification and unauthorised use -- is seen as the key to the future of the booming virtual business world.

But throw in terms, abbreviations and acronyms such as TTPs (trusted third parties), LEAKs (law enforcement access to keys), key escrow, key recovery and algorithms -- and confusion reigns.

"I've been working in this industry for four years and I don't know what some of the terms mean," complained a member of the high-powered audience at the snappily-named "Encryption Feasibility Summit" in London last month.

INTERNET MARKET DRIVES ECONOMIC GROWTH

Nearly 200 million people expect to be connected over the Internet in the next few years.

Investment bankers Takumo Amano and Robert Blohm say the Internet market is the single most important factor behind the strength of the United States economy.

They estimate that as business on the Internet met demand for software, hardware products and communications lines, it contributed some $200 billion, or roughly three percent, to last year's U.S. gross domestic product.

But while everyone agrees that it is vital to encourage electronic commerce by allowing secure transactions across international borders, law enforcers and the business community stand diametrically opposed on how to do it.

REGULATION DEBATE

Should encryption, which hides data from both computer-hacking corporate rivals and the police, be regulated? And if so, how?

"There are two approaches," says David Hendon, the British government's Internet regulation expert at the Department of Trade and Industry (DTI).

"One is the fear that strong encryption will become available on the Internet. The other is the fear that it will not become available on the Internet."

The drawn-out debate has spawned new creatures -- cryptoanarchists (those wanting no controls on cryptography), cryptofascists (those wanting total government control) and the middle-of-the-roaders -- crytoconservatives and cryptoliberals (those believing in some controls).

IS NATIONAL SECURITY AT RISK?

While companies say they need to keep transactions over the Internet secret, governments are reluctant to accept technology that, for the first time, might make legally intercepted messages unreadable.

What is not at issue is whether cryptography, like a spell checker, will soon be available on all software. It will.

The issue is how impenetrable it should be and whether state security agencies should have access to the keys, or algorithms, that can unscramble codes.

Codes come in various "bits" -- or key lengths. The longer the "bit", the tougher the code is to crack.

While companies say they won't do business over the Internet unless they can use the toughest security available, governments are afraid that such codes will prevent them from uncovering crimes ranging from international guerrilla warfare to child pornography.

THE AMERICAN ANSWER

The U.S. government bans top U.S. software firms, like Netscape Communications Corp, from exporting their toughest 128-bit encryption technology.

To the outrage of companies, U.S. export laws permit only ready exports of not more than 40-bit keys for all but a narrow category of products for financial transactions.

"Too many consumers have heard about successful computer hackers. Without strong encryption, electronic commerce cannot advance beyond where it is today -- a nascent industry with less than approximately $500 million in total sales," says Netscape.

THE BRITISH SUGGESTION

In Britain, a consultation paper on cryptography regulation suggests licensing trusted third parties -- those firms offering cryptographic services to the public.

To qualify for a licence, companies might have to store copies of the keys that decode their users' private files so that law enforcers, and some private parties, can intercept communications under certain circumstances.

Critics complain that they no longer understand the definition of trusted third parties. "It seems to have changed from who the user trusts to who the government trusts," noted one speaker at the encryption conference.

Another added: "I'm beginning to wonder whether there is a third party I can trust to tell me which third party to trust."

Encryption is not new. A range of technologies designed to encrypt data that is stored and transmitted in cyberspace has been used by military and diplomatic governmental bodies for years.

Although some companies already encrypt internal electronic information, the technology has not been open to full, international commerce.

INTO THE REALM OF INTERNATIONAL LAW

With multinational, lawful access to electronic data also at stake without multinational policies, international bodies such as the European Commission and the Organisation for Economic Co-operation and Development (OECD) have muscled in on negotiations that are moving in the direction of international law.

After a year of talks with more than 100 government and business representatives, the OECD has called on countries to avoid creating unjustified obstacles to trade in the name of cryptography policy.

Publishing eight, non-binding, recommendations, the 29-country group did not rule out giving governments access to keys to unlock encrypted material. But it also suggested that the right to privacy should be respected.

General Motors, the world's biggest car maker operating in 170 countries and employing 745,000 staff, is calling for prompt multinational agreements that will allow it to choose its own encryption requirements which will be legal in all the countries in which it operates.

"If we fail here, it is going to have devastating economic consequences for us," says James Dunn, a representative of General Motors International Operations.

 © 2023 Factiva, Inc. All rights reserved.

(c) Reuters Limited 1997

Document lba0000020011002dt58060su

THE WALL STREET JOURNAL.

Letters to the Editor: The Case Against Centralized Electricity

755 words
21 April 1997
The Wall Street Journal
J
A23
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

Correction

In Shmuel S. Oren's April 21 Letter to the Editor on centralized electricity markets there was an editing error. The acronym ISO should have been identified as "independent system operator." (WSJ April 24, 1997)

Prof. William W. Hogan ("A `Stock Market' for Electricity," Letters to the Editor, April 2) uses engineering, bereft of the fundamental economic element of time, to justify a centralized electricity market to most economically dispatch electricity in a timeless, myopic single period. In the real electricity marketplace participants are constantly trading off buying electricity long or short term, trading off today's optimality against tomorrow's. A central dispatcher must throw up his hands at performing at any moment such a multiperiod optimization or smoothing. Moreover, Prof. Hogan's grand design would stand reality on its head by making the spot market, properly the market for last-minute adjustment to long-term fixed-price purchases, drive the long-term market.

Operating a marketplace is itself a competitive service, not a "clearing house" utility or monopoly function "much like the stock market." Also, zero profit doesn't preclude competition: it is a theorem in economics that perfect competition requires zero-profit. And growth alone will drive management when zero profit is assured.

In my March 11 column, I never said the highest price on a bilateral market is "the market clearing price." For one thing, electricity is not a homogeneous good with a single price: the spot price is not the long-term price. That the average price on a bilateral market can be below the market-clearing price on a single-price poolco must be subject to experiment, not dismissed by clever verbal imputation. If it's true, I'm saying not that bilaterals are super-competitive "free-lunch," but that poolco is certainly uncompetitive outside its niche market for last-minute spot power and so needs the congestion information it gets as central dispatcher to lower the price risk to its buyers. By artificially hurting the bilaterals market, poolco prices will eventually rise and so prices to everyone. No free lunch here, just old-fashioned misrepresentation. That goes for Gordon L. Weil's accompanying April 2 letter. I said "management" of the pools, not the pools themselves, will run the system under a regime designed by the utilities. That the New England Power Pool persists as a shell is uninteresting.

Robert Blohm

Princeton, N.J.

Prof. Hogan's rationalization of the poolco approach to restructuring of the electric power industry makes it sound as if it is the only game in town. The truth is that giving economic dispatch responsibility to the information system operator (ISO) is a debatable policy decision and not a technical necessity.

Reliability of the electric power system does not require centralized economic dispatch. It can be assured with a decentralized approach, leaving the pursuit of economic efficiency to market participants. The California proposal, for instance, presents a viable decentralized design that separates the power exchange from the ISO and allows independent scheduling coordinators to compete with the power exchange while the ISO's activities are restricted to the minimum needed for assuring reliable service. Such a restriction on the ISO's activities is essential in order to maintain a leveled field for competitive market-making services.

Governance of the ISO and the design of incentives that will induce its fair and efficient operation are yet unresolved issues. Even with a "perfect" ISO, efficient central scheduling requires not just hourly energy price bids, but also disclosure of intertemporal information on operational constraints, no-load cost, start-up costs, etc. Evidence from the U.K. system shows that generators can "game" the rules by submitting false information to the

 © 2023 Factiva, Inc. All rights reserved.

central dispatcher. Even with truthful information there are typically multiple "least cost" schedules that have equal system cost, but differ in terms of their financial implications for individual generators or consumer groups -- leaving it up to the ISO's discretion to pick winners and losers.

While the poolco approach may be the most expedient way (at least from a power pool's perspective) for complying with the Federal Energy Regulatory Commission's (FERC) open access ruling, it misses the mark on the primary objective for deregulation, namely long-term efficiency. The ultimate gains from electricity deregulation will come from long-term economic efficiency achieved through prudent investments and technological innovation.

Shmuel S. Oren

Professor of Industrial Engineering

and Operations Research

University of California at Berkeley

Berkeley, Calif.

Document j000000020011007dt4l00avu

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

Letters to the Editor: A `Stock Market' for Electricity

941 words
2 April 1997
The Wall Street Journal
J
A15
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

Robert Blohm's March 11 op-ed page article "Don't Give Utilities a Monopoly on Power" misses the critical fact that explains why so many restructured electricity systems in the U.S. and around the world are based on systems with central coordination of power dispatch. He has the right objective -- supporting a competitive market in generation -- but comes to the wrong conclusion when he rejects the so-called "poolco" approach of using an independent system operator offering an economic dispatch service. The poolco approach would not give utilities a monopoly. To the contrary, it is designed to handle the unavoidable complexities of the electricity system while simplifying entry into the market by new generators and marketers.

The fact ignored by Mr. Blohm is the need for system reliability and all that this implies. Even in Mr. Blohm's world, there must be a system operator controlling and coordinating the use of the transmission grid. And that system operator must be a monopoly in providing this essential function and associated services such as load balancing. Making this operator independent of the utilities is part of the poolco approaches being implemented. Hence, the issue is the degree to which the operator will allow the participants to bid against each other in offering to buy or sell the necessary services, the degree to which the operator will organize the necessary service to minimize costs, and the extent to which market participants will pay for the energy and services they use.

The poolco approach places no limits on the degree to which participants would offer bids, would seek to minimize costs, and would charge based on market prices. Mr. Blohm's approach would not prohibit the system operator from coordinating these services, because this cannot be avoided. Rather, he would prohibit market participants from bidding against each other to buy and sell through the poolco, would apply arbitrary monopoly rules in selecting which generators to run in providing services, and would socialize the costs that would be imposed. Contrary to his stated objective, a failure of the system operator to offer an economic dispatch service would create more power for arbitrary decisions by the monopoly, not less.

The power pools are seeking to operate poolco power exchanges (Mr. Blohm's terminology) as the solution to the puzzle of how to operate the transmission system reliably, without discrimination and in support of a competitive market. This reality is in stark contrast to the story Mr. Blohm tells, which pretends that power pools seek the job of system operator as a way to create advantages for their operation of a poolco power exchange. In fact, the idea that the poolco power exchange would be in competition with other electricity trading markets is simply incorrect. Rather, the poolco would operate as a clearinghouse for bids to use the transmission system and exchange electricity, much like the stock market functions to clear bids to buy and sell stocks. The poolco would not trade on its own account or make a profit; it would operate the market, but would not itself be a market participant.

In addition to overlooking the fundamental physics of the operation of electricity systems, Mr. Blohm offers a free-lunch fiction about how products are priced in a competitive market. He argues that in a competitive "bilateral" market, electricity would be sold, on average, for less than the market-clearing price, which he refers to as the "highest" price. In a competitive electricity market it is true that buyers and sellers could agree individually on the sales price for power in bilateral trades -- indeed, such trades will occur in a poolco. Some of these negotiated prices will be higher and some will be lower due to many reasons. However, it is not true that, on average, the sales price for these contracts will be below the market-clearing price for electricity. The idea that, on average, sellers will sell for less than the market-clearing price is a mirage. If we ignored the physics and assumed the pure bilateral model were possible, on average the price in either of the two approaches would be the same. There is no free lunch or cheap electricity here.

William W. Hogan

Professor of Public Policy and

Management

John F. Kennedy School of

Government

Harvard University

Cambridge, Mass.

(Prof. Hogan is or has been a consultant on electric market reform and transmission issues for a number of foreign and domestic energy companies, including New York Power Pool, New York Utilities Collaborative and San Diego Gas & Electric Corp.)

Mr. Blohm's assertion that Northeast power pools want to be designated as system operators, thus perpetuating the power of vertically integrated utilities in the emerging competitive market, is misinformed. As one of the negotiators of the New England Independent System Operator Agreements, I can state with certainty that the New England Power Pool (NEPOOL) will not run the system. While NEPOOL will continue to function, the Independent System Operator (ISO) will have the ultimate authority for reliability and market administration. The ISO will have no utility representatives on its board or staff.

New England will have a bilateral market of far larger scope than the voluntary power exchange. There will be no poolco in which trading would be mandatory. Mr. Blohm's concern for independent system operation is well-founded; he is simply wrong about the New England system. His misstatements do the region a disservice. We want competition.

Gordon L. Weil

Augusta, Maine

(See related letters: "Letters to the Editor: The Case Against Centralized Electricity" -- WSJ April 21, 1997)

Document j000000020011007dt420091a

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

Don't Give Utilities a Monopoly on Power

By Robert Blohm
1,093 words
11 March 1997
The Wall Street Journal
J
A23
English
(Copyright (c) 1997, Dow Jones & Company, Inc.)

Imagine a market in which a central operator controlled all sales of a commodity and charged everyone the price of the highest-priced sale. That sounds neither free nor good for buyers. But that's the vision of the "deregulated" electricity market being championed before the Federal Energy Regulatory Commission by the members and management of the three "power pools" that supply electricity to the Northeastern states. If other countries' experience is any guide, rejecting that vision may be the single most important determinant of how low deregulation will bring North American electricity prices.

Power pools are a regime unique in the U.S. to the Northeastern states. In a power pool all the region's member utilities defer to a central dispatcher who turns on each plant, regardless of owner, in a "merit order" of increasing cost until demand is filled, thus assuring "least cost" dispatch to consumers. Acting on behalf of their member utilities, the managers of the three power pools are proposing to "deregulate" by merely translating the current regime into a "poolco" power exchange, albeit independent of direct utility control. They would still centrally dispatch electric power, on the basis not of cost but of the price at which each generator is offering to sell its electricity into the exchange. Buyers would all pay the price of the highest-price plant dispatched.

In theory, this shouldn't be so bad for consumers. After all, the Federal Energy Regulatory Commission opened the country's electric grid to competition on Jan. 1, and if a poolco overcharged its customers, it would put itself at a competitive disadvantage. To prevent buyers from seeking a lower price on a competing type of trading exchange, the single-price poolco exchange would need some compensating advantage, bringing it closer to the monopoly it enjoyed prior to deregulation.

But it is precisely such a competition-killing advantage that the power pools are seeking from FERC. In a region that has a power pool, FERC is charged with appointing an independent coordinator, known as the "system operator," whose job is to ensure fair and reliable operation of the electric system. Management of each of the Northeast power pools is seeking FERC designation as the regional system operator, while at the same time proposing to run a power exchange.

If FERC granted such a request, the poolco would be in effect the region's traffic cop. Compared with its competitors, it would have privileged information about the transmission system. Such an arrangement would tilt the competitive balance in favor of the poolco and could ultimately put a region's other electricity trading markets out of business. Indeed, giving such favored treatment to the poolco exchange could well violate FERC's own nondiscrimination rule for transmission "open access."

The PJM Transmission Association (which covers Pennsylvania, New Jersey and Maryland, and is headquartered at that cradle of liberty, Valley Forge, Pa.) was the first power-pool operator to file for FERC approval as both system operator and exchange operator. PJM's proposal was remanded by FERC in November for lack of stakeholder input and consensus. Then FERC approved the only other filing by then, from California's three investor-owned utilities -- a proposal that separates the system operator from the exchange operator. But the full contingent of poolco forces are back: In December and January, PJM, the New England Power Pool and the New York Power Pool each filed an application to become both system operator and exchange operator in its respective region. A ruling on the applications may come this spring.

The idea of a poolco has dubious market credentials. The "pooled dispatch" of electricity, practiced by regulated electric utilities in the Northeastern U.S. after the historic 1927 Pennsylvania-New Jersey interconnection, also became the backbone of the postwar British and French state electricity monopolies. The exclusively poolco electricity "market" was the creation and the bane of England and Wales's 1990 electricity privatization. It discredited that privatization by depriving consumers of rate relief, and transformed free-market Hayekian

 © 2023 Factiva, Inc. All rights reserved.

Stephen Littlechild, the United Kingdom's director general of electricity supply, into a committed regulator. Besides the U.K., ex-PJM employees helped set up monopoly poolco electricity "markets" in Australia, Argentina and the Canadian province of Alberta. They could soon do so in Ontario, too.

Poolco proponents benefit from the public's lack of exposure to the underlying age-old debate over how to operate a trading market. Economists used to favor an exchange in which buyers all pay the same price -- as in a poolco -- because, before the advent of computerization, a multitude of sales at different prices was expensive to administer. The trouble is that the single sale price turns out to be the price of the highest-priced piece of the total supply needed to fill the total demand, so most of the sellers pocket a surplus.

A competing "bilateral" type of trading exchange could, say, allow each buyer and seller to agree individually on a sale price, making the price over the whole exchange the average of all those individual sale prices, and so below the highest price. Indeed, long-term physical contracts for electricity are made that way and support construction of new electricity plants or market-driven conservation, which tend to be done by nonutility companies.

Giving too much power to a poolco-type exchange at the expense of bilateral markets may end up not only driving up prices but also causing shortages. It could also hinder the development of environmentally friendly electricity, which can't be easily differentiated in a poolco. Yet this hasn't prevented the environmentalist Natural Resources Defense Council, ever wary of deregulation, from making deals with PJM for regulated solutions.

For rate payers to enjoy the full benefits of the deregulation of North America's $250 billion electricity industry, regulators must let electricity trade unhindered among free markets. The Northeast's three power pools have quietly weighed in at FERC with proposals that would give them control of electricity trading. FERC mustn't lay a central dispatcher's heavy hand on any power markets.

Mr. Blohm is an American and Canadian investment banker and was an adviser to the Macdonald Advisory Committee on Competition in Ontario's Electricity System.

Holman Jenkins is on vacation.

(See related letters: "Letters to the Editor: A `Stock Market' for Electricity" -- WSJ April 2, 1997)

(See related letters: "Letters to the Editor: The Case Against Centralized Electricity" -- WSJ April 21, 1997)

Document j000000020011007dt3b005gt

 © 2023 Factiva, Inc. All rights reserved.

The Observer

THE INTERNET - PAUL ROMER.

By JOHN NAUGHTON.
803 words
2 March 1997
The Observer
OB
10
English
(c) 1997

A firm that makes 40m products for the price of one. Who's the boss Lewis Carroll?

It's hard to imagine Gordon Brown surfing. Indeed it's hard to imagine Gordon Brown doing anything remotely frivolous or enjoyable. Nevertheless, there is a link between Labour's Iron Chancellor and the assorted Netheads, hackers, geeks and nerds who make the Internet work. His name is Paul Romer.

Professor Romer is an economist who divides his time between Stanford, the University of California at Berkeley and the Hoover Institution. He learnt his trade at that temple of monetarism, the University of Chicago, but for years has been trying to persuade his peers to abandon their professional conviction that the potential for economic growth - and hence for world prosperity is limited because supplies of labour, capital, and raw materials are limited.

All baloney, according to Romer, who maintains that ideas and the technologies they create are the real engines of growth and wealth. `We used to use iron oxide to make cave paintings,' he says, `and now we put it on floppy disks. The point here is that the raw material we have to work with has been the same for all of human history there's the stuff in the earth's crust and the stuff in the atmosphere. So when you think about growth, the only place it can come from is finding better recipes for rearranging the fixed amount of stuff we have.' In this view, mankind's material future is bounded only by the capacity of the imagination to generate new ideas a capacity which is, for practical purposes, infinite.

For some time, Gordon Brown has been going round enthusing about a concept that Romer has made famous. This is his theory of `endogenous growth' the notion that economic expansion can be generated from within an economy rather than outside say, by increasing international trade. The key to this magical process is having an adequate stock of what Romer calls `human capital' ie smart, well-educated people.

In recent years, what these people have produced most spectacularly are the new information technologies, of which the Net is the most significant. `If you want to know the importance of human capital,' says Victor Keegan in a recent issue of the journal Prospect, `look at Microsoft. It is housed in a handful of buildings with a few thousand employees yet its capital value on the stock markets is $58bn.' What does Microsoft produce that makes it so rich and productive? Answer: streams of `bits' ones and zeroes. Some of these streams constitute programs like Word or Windows 95 or the Explorer Internet browser. Others make up multimedia publications such as the Encarta encyclopedia.

Open a box containing a Microsoft product and what do you find? Mostly fresh air. The only physical objects in the package are a booklet and a disk containing the aforementioned ones and zeroes. The disk is an obsolete embarrassment a crummy piece of plastic that has to be manufactured, pressed, packaged and shipped.

Microsoft would like to do away with it as soon as possible and deliver its ones and zeroes over the Internet. Indeed, this is already the way the company mainly delivers its Web browser, Internet Explorer, to users.

To a conventional economist, the implications of this must seem weird. In less than a year, for example, a company called Netscape came from nowhere to having 40m users of its Navigator software worldwide. Most of them paid nothing for the product Netscape simply gave it away in pursuance of some arcane marketing strategy.

The company was able to do this because, although it cost millions of dollars to produce the program, once it had been finished the costs of producing and delivering extra copies were effectively zero. It was as cheap, in other words, for Netscape to produce 40m copies as to produce one. The same logic is driving Microsoft to give away its browser in an attempt to exterminate Netscape. `There are,' writes Victor Keegan, `no longer any diminishing

 © 2023 Factiva, Inc. All rights reserved.

returns because nothing is diminishing and there were no returns in the first place.' It is as if the laws of economics were being rewritten by Lewis Carroll. And yet the end result seems to be serious economic growth. A survey conducted late last year by American investment bankers Takuma Amano and Robert Blohm suggested that the Internet contributed $200bn almost three per cent of GDP to the US gross domestic product in 1996. If this is the `endogenous growth' of which Professor Romer writes so eloquently, it's hardly surprising that our would-be Chancellor Brown salivates about it. The next time James Naughtie asks him about his economic policy, he should say he found it on the Net.

Document ob00000020011002dt320077i

 © 2023 Factiva, Inc. All rights reserved.

BUSINESS
U.S. Economy Is Expanding ... But Only in Cyberspace?

Gene Koprowski
INSIGHT
961 words
6 January 1997
Insight Magazine
INSI
Vol. 13, No. 1
40
English
(Copyright 1997)

SUMMARY: New research suggests that the modest growth in the American economy is tied entirely to the Internet and the computer industry, with a lot of help from savvy marketers exploiting cyberspace. Second City comedy club at the height of the presidential campaign and offers an explanation of the impact of his presidency on the economy. "Before I was president, there was no Windows 95. There was no Internet," declaims the ersatz Clinton. "You can thank me for them."

The barb is right on target. Clinton hyperbolically took credit for economic expansion during his tenure, an expansion he used to defeat GOP nominee Bob Dole. But new research is emerging that suggests the Internet and computer-related companies - not White House policies - spawned the modest 2.5 percent economic growth in the United States.

According to research by Takuma Amano and Robert Blohm of Columbia University in New York City, estimated value creation due to Internet market expansion has resulted in value estimated in excess of $200 billion - in addition to the development of "metaphysical capital" in the form of entrepreneurial talent.

What's more, Amano and Blohm predict that barring a crisis the Internet will continue to grow the economy. Netscape Communications Corp. and Yahoo! Corp. may garner all the headlines and billions of dollars in initial public offerings on Wall Street, but smaller start-ups, unknown to most of the general public, are creating hundreds of thousands of high-skilled jobs at an incredible pace, validating the Columbia research.

Antoine Toffay, president and chief executive officer of TheTrip.com, a discount Internet-based travel agency for executives, says that his Denver company, started last summer with five people, has expanded to 15 and is likely to grow to 50 or more employees during the next six months. "We're part of an entrepreneurial wave brought on by the Internet," he tells Insight. Indeed, futurist Alvin Toffler, who has influenced the thinking of House Speaker Newt Gingrich, writes in his book Powershift that communications technologies are shifting power from bureaucrats to entrepreneurs.

Computer companies are not the only beneficiaries of the Internet explosion. A team of reclusive programmers and digital-marketing specialists in Silicon Valley quietly is helping engineer the U.S. auto industry to keep abreast of Japanese carmakers by transforming the Internet into a sales and customer-service tool for Detroit.

According to senior advertising-agency executives and analysts, a central element of General Motors Corp.'s reconquest of U.S. market share once conceded to Japanese automakers has been an extensive, unpublicized interactive-marketing campaign in cyberspace - especially in regard to its Saturn line. The cyberspace sales effort is set to intensify as more than 300 Saturn dealers (as well as those for other leading manufacturers such as Ford and Chrysler) gear up their own marketing campaigns on the Internet.

GM launched the Saturn division in the late 1980s to combat the influx of Hondas, Toyotas, Mitsubishis and Nissans that eroded its market share for midsized and small vehicles. Doris Mitsch, owner of the World Wide Web marketing agency Doris and Clancy Ltd. in San Francisco, tells Insight that Saturn has been using on-line services since 1992 to beat back Japanese imports. Mitsch worked extensively on the on-line project for Saturn, along with a group of other Internet pioneers in the Bay area.

"Back in 1987, when Saturn asked people what they thought about buying a new, small American car, most of them said they would rather eat paint," says Mitsch. "The others just laughed. The problem was introducing an American car to a market that was very much in love with their imports. And battling the impressions that people had of American carmakers: that they were big, bureaucratic organizations that don't care about customers. That

they have disinterested autoworkers who don't care about their jobs. Saturn had a lot of problems to deal with. And one of the things they did was to decide they would be the opposite of everything everybody thought."

Saturn began working with the on-line service Prodigy. The carmaker posted information, including fact sheets, on Prodigy's bulletin board about each of its models. The strategy makes sense, given the demographics of the Web. According to a recent survey by Yankelovich Partners, more than 28 million adult Americans cruise the Internet; 90 percent are males age 25 to 35 with an annual household income of $52,000 to $65,000. This is the exact audience Saturn targeted, says Saturn spokeswoman Mary Holliday. And, indeed, about 25 percent of all customer inquiries came from on-line sources.

Still other marketing research shows the depth of the Internet's impact on the economy. According to research by London-based Intervid Ltd. and Durlacher Multimedia Ltd., the Internet soon will be capable of handling international calls at local prices from a computer direct to a phone rather than to another computer. "It is issues such as these that are causing telephone companies to finally start taking the Internet seriously," says the report.

But Clinton, who likes to get out in front of trends and take credit for them, is coming close to matching the spin of his caricature from Chicago's Second City. In recent weeks, he appointed David L. Aaron, the U.S. ambassador to the Organization for Economic Cooperation and Development, as special envoy for cryptography, charged with the growth of international electronic commerce and "robust, secure communications" over the Internet. But promoting such standards is an issue more likely to be settled in a place other than the White House - namely the free market, experts indicate

Illustration (color), NO CAPTION, By Bob Daly/Insight

Document insi000020011007dt160000n

 © 2023 Factiva, Inc. All rights reserved.

Keep privacy laws out of cyberspace II.

Robert J. Posch
2,187 words
1 January 1997
Direct Marketing
DM
56
Vol. 59, No. 9, ISSN: 0012-3188
English
COPYRIGHT 1997 Hoke Communications Inc.

Robert Gellman's erudite articles in DM News are always worth reading. Unlike some in the privacy field, he never indulges in Orwellian commentary or subjectivity.

In catching up on some of Mr. Gellman's columns, he still appears to be part of a trend finding a privacy constituency in the next technology. I've seen this argument for 20 years. For example, his "2 Studies 1 Fed., 1 FTC - Focus on Net Privacy," while well written, asserts the theme we've seen in the U.S. for 20 years. Namely that databases, targeted mail, telemarketing, interactive television, the mere arrival of the Year 1984, and now the Internet, will somehow prompt someone, somewhere to stop the U.S.'s juggernaut of hi-tech dominance and impose privacy rules/regulations/laws/directives and bureaucrat boards to oversee the legalese. It isn't going to happen in the cyber economy. It also begs the question of what real benefit to anyone the passage of the laws in the U.S. would have had for anyone.

Further, like all privacy advocates, he asserts privacy in the abstract as if it were some obvious good with no better trade-offs. Intentions, not results, are the leitmotif of the privacy advocates. They can point to no loss of freedom in the U.S. visa vis Europe (the opposite is true) while anyone can see the massive shift in the U.S. to information economy leadership since 1976 when the Linowes Commission embraced self-regulation and a freer economy. Obviously, it isn't all due to privacy laws but unneeded "nice to have" privacy laws which reflect an attitude - an attitude at war with third wave technological growth.

Privacy is a solid value when accomplished in the U.S.'s constitutional First Amendment context of self-regulation to enhance free speech/association and not in the European efforts "to be left alone" regardless of free speech or technological/job realities and real world trade-offs.

The technology has won and we're all better for it. There will be no over-reaching privacy laws in our future for the simple fact that the jurisdictional issues alone are too complex (see future Legal Outlook's on this topic) and, through encryption and cybercash, cybercitizens will be as private as they elect to be in all aspects of commerce. The multifaceted, rapidly unfolding global revolution cannot be thwarted by a directive from Brussels or a law in Washington.

What is really happening in 1997 America in contrast to continental Europe which hinders growth/jobs/education by EC directives and Privacy Boards which put a premium on legalese rather than the U.S.'s bias on computer literacy? This is the real context in which privacy laws, which are not needed in the U.S., should be contrasted with unnecessary privacy laws in-place in Europe.

The Internet Was The Entire 1990s U.S. Economic Growth?

As discussed in my March 1995 column which disagreed with a U.S. News piece arguing for privacy laws/commission (while U.S. News argues against Avrahami's suit for "privacy" restrictions on their business):

"In context, what do we have that European countries don't-jobs and Primary Leadership in the worldwide information economy.

In Europe, today, private-sector job creation is at a standstill. Small, high-tech start up companies are stopped by inflexible labor laws, regulations to make D.C. blush, and a lack of ability to compete in the information economy because of the society's privacy bias. Europe has privacy commissions and the European Commission permits the French Government to pour 2.1 billion into the perennial loser (i.e., des Machines Bull). In contrast, the U.S. has job creation in the information economy which is the only growth economy for the third millennium. Maybe U.S. News could tell the Europeans it's not so strange that we don't have privacy commissions. We have jobs and information leadership instead."

 © 2023 Factiva, Inc. All rights reserved.

A year has gone by and U.S. leadership in every aspect of database/communications technology expands while Europe debates their latest modifications to their Brussels directives.

According to research by Takuma Amano and Robert Blohm of Columbia University in New York City, Internet market expansion and other computer related activity has resulted in value creation estimated in excess of $200 billion-in addition to the development of "metaphysical capital" in the form of entrepreneurial talent.

The white-hot development of computer related technology accounts for the entire economic growth in the U.S. during this period-growth which will, like all computer technology, build and expand geometrically. Information expands as it is used. This growth will create more highly-skilled jobs than qualified individuals a government controlled public school system can produce-so we'll need to continue to import the best talent in the world who are attracted here due to our freedom of thought and commerce and few pointless laws restricting interactive communication.

Insight magazine recently highlighted innovative ways in which the Internet is benefiting traditional second wave industries such as autos. GM reclaimed market share from Japanese car makers since 1992 by effective use of Prodigy's bulletin boards. Saturn targeted these Web citizens and received 25 percent of all customer inquiries from online sources.

While the U.S. is exploding in hi-tech growth which will revolutionize our lives-from phone systems to how we receive our television transmissions, our potential competitors continue to concede the field to the U.S.

For example, the 12/27/96 Wall Street Journal (WSJ) page one headline states, "European Consumers Decide High Tech Is A Low Priority."

A number of U.S. companies expect a high-tech boom to take off in Europe any day now. David Perry, the head of European retail for Microsoft Corporation, sees "a tremendous opportunity." Only 12 percent of European homes have PCs, compared with 37 percent in the U.S. "When I see small numbers, I think big," he says.

But there are plenty of reasons to think small. The chief one: Many Europeans are quite happy staying low tech.

The article doesn't discuss the stifling privacy restrictions on Europe but does relate how antiquated monopoly laws in telecommunications stifled consumption and adaptation: "PCs are 'pricey' because Europeans don't have the disposable income of their U.S. counterparts." Any reader of the WSJ, or the financial press in general, knows European labor and fair pricing laws have stymied growth as, of course, did the attitudes that permit the creation of privacy boards.

The choices cultures make shouldn't be dictated by the U.S. However, when those who articulate present their arguments for privacy laws, privacy boards, etc., they should consider presenting the context of trade-offs. For whatever "feel good" these laws may create (the U.S. experience since 1976 obviously proves they have no real social or economic value that motivates any candidate to tap this "constituency"), they create and support a system of governmental attitudes which intrude into and stifle free speech, free association, open communications, and the technology to expand both.

So, despite Europe's accelerated privatization and restructuring in 1996, the dead hand of privacy boards and Directives will stifle the free speech, communication, and ease of database exploitation we take for granted in the U.S. Naturally, the nation which has such freedom of speech will lead in the content development/licensing and in the creation of the technology to distribute such content. The U.S. will remain the freest people on earth demonstrating that overreaching privacy laws possess no intangible or tangible benefit. The contrary is true and objectively demonstrated by what nations have these restrictions and how it has hindered third wave economic development.

What Laws Will Govern The Internet?

A common phrase you've all heard is that the ability to frame the question is the ability to frame the answer. By analogy, the nation that creates the technology will permeate it with its culture. English is, and will remain, the language of commerce. As the first global nation, the U.S.'s laws are ideally adaptable to Internet communication. The First Amendment was enacted for pamphleteers and letters and the Internet will usher in a new era that will rediscover the letter and pamphlet.

"The core law that will govern speech in the Internet is already in place. The world's law will look a lot like existing U.S. law; just as the world's communication infrastructure was created in the U.S. As the first global nation, our technology, mores, open right to speak and associate freely, and laws are easily exportable to the larger global

 © 2023 Factiva, Inc. All rights reserved.

economy that has always evidenced a thirst for U.S. cultural normatives whether Windows, blue jeans or Mickey Mouse."

The Internet will be a superior First Amendment forum due to its immediacy, interactive nature and right to associate with (hypothetically) anyone on the planet. This digitalization should lead to a completely unregulated system with the marketplace offering selective censorship technology for parents and others desiring to selectively employ filtering technology to opt out rather than broad based regulation. If this sounds like the current U.S. versus European privacy distinguishments, you can see why the U.S. won the third wave technological war and privacy rules hindered Europe. The Internet is the best argument ever for allowing free people and free markets to create economics and communication. U.S. laws created and fostered everything to date that we call the information economy.

The whole issue of "privacy" in cyberspace is an oxymoron for those trying to implant second wave thinking in a world beyond borders. The merchants of cyberspace will choose any jurisdiction in the world. Hong Kong or the Caymans could function for the world the way Delaware did for the U.S. Localities will compete for cyber cash. Burdensome privacy laws, like burdensome tax laws, will possess no competitive advantage.

It is quaint to think of U.S./Brussels bureaucrats "imposing" pointless rules on people so private that through encryption and cybermoney, such people could commercially be off the radar screen of governments. The technology will make each individual semi-sovereign and increasingly free of all government control except that he/she voluntarily contracts for. Governments will bid for cyber-citizens the way smart states like South Carolina always bid to attract employers.

Free and unfettered speech and association on the Internet will be similar to that which Americans have long enjoyed. The only difference is digital speech will be more plentiful, more robust, and less regulated.

Conclusion

The 1996 election/primary campaign once again demonstrated that in the real world where candidates ponder issues that matter to real constituencies, NO ONE raised the privacy issue. There are no votes there. It is not an issue that resonates without prompting and then even with prompting it evaporates. We have had polls for 20 years stating this is an issue but no candidate has ever argued the issue. As the expression goes, "the only poll that matters is election day."

To be candid, I'm amazed at how this is a total non-issue which is never raised. If the privacy advocates had any influence, they could at least get a Ralph Nader type to raise these issues. However, judging by electoral experience, no such measurable constituency exists.

The privacy issue is another example of articulate advocates who interview, quote, and validate each other in a vertical fact-free environment outside of a measurable real world context-at least in the U.S.

So remember, the three realities of the 1990s real world experience in the U.S.:

1. No candidate articulated in any meaningful way a privacy position impacting our business. The fact that privacy was not mentioned by any candidate anywhere in 1996 as a vote puller is evidence that demands a verdict. There was no constituency to capture, so privacy was not on any candidate's radar screen.

2. Not being burdened with attitudinal destinations and directives, the U.S. will continue to reject broad based privacy laws in favor of free speech and the technology/content to amplify such freedoms.

3. In the world of the information age, the individual will be sovereign, creating his/her own speech, association, and other contacts and increasingly de-coupling from any governmental oversight. The laws that worked for first and second wave economies will radically be altered in third wave economies. The U.S., by avoiding needless privacy rules, has a leg up. All nations that wish to compete effectively in the cyber economy will have to jettison pointless, burdensome rules or lose their cybercitizens to locales that favor self-regulation.

Robert J. Posch Jr., has a JD/MBA and is the author of two books published by McGraw-Hill and three by Prentice Hall, including his latest book, The Complete Guide to Marketing And The Law. He can be reached at 3151 Grand Boulevard, Baldwin Harbor, NY 11510, (516) 873-4628.

Document dm00000020011006dt110000f

 © 2023 Factiva, Inc. All rights reserved.

High TechExecs Form Global Internet Project 12/12/96

726 words
12 December 1996
Newsbytes
NBYT
English
(COPYRIGHT 1996 Newsbytes Inc.) Copyright 1996 Information Access Company. All rights reserved.

WASHINGTON, DC, U.S.A., 1996 DEC 12 (NB) -- By Bill Pietrucha. Senior executives from 16 of the leading Internet software, telecommunications, and digital commerce companies from around the world yesterday announced the formation of the Global Internet Project (GIP). The GIP was formed to promote the growth of the Internet across geographic boundaries worldwide.

"Because the Internet is global, we must address its challenges globally," Netscape Communications' chairman and co-founder Jim Clark, said in announcing the project.

Clark who also is chairman of the GIP, said, "We cannot leave the outcome of the challenges to chance, which is why top business executives have come together through the GIP. We will work with appropriate national and international bodies to find answers to a variety of difficult issues to assure the best possible future for all members of the Internet community."

Clark said that the GIP members believe the growth of the Internet will depend on the ability of companies and consumers worldwide "to use this network of networks to obtain products and services in a secure, flexible, convenient and easy-to- use manner."

GIP will focus its efforts on a global education effort to include government officials around the world, national legislatures, and international organizations that influence Internet policy decisions, Clark said.

GIP vice Chairman John Gerdelman, MCI's president of networkMCI services, said that "every day, we're growing concerned about various countries that are trying to regulate the Internet. Although many of GIP's member companies are fierce competitors in the marketplace, we recognize the need to work together to ensure these myriad regulations do not stifle the growth of this important new medium.

According to Gerdelman, the Internet is a job engine. He noted that an estimated 1.1 million jobs worldwide were created by the Internet in 1996.

Commissioned by the GIP, investment bankers Takuma Amano and Robert Blohm derived the number of jobs created by the Internet from a calculation that extrapolated from this year's growth in US Internet, software, computer, chip, telecommunications and equipment companies' market capitalization and employment. Amano and Blohm had previously estimated value creation due to Internet market expansion to be in excess of $200 billion, a number that reflects the sum-total stock-market capitalization of all of Netscape and Yahoo! and of those other companies' contributions to the Internet.

The group also issued its first white paper, "The Emergence of a Networked World." The paper explains the relationship between the Internet and aspects of people's lives such as education, health care, commerce and finance, media and publishing, small business and the workplace.

In addition to Clark and Gerdelman, members of the Global Internet Project include: Marc Benioff, senior vice president, marketing, Oracle Corp.; Francois Dutray, group executive vice president, Visa International; Tom Evslin, vice president, AT&T WorldNet Service; Robert Foster, manager, Online & Multimedia, British Telecom; Paul Gudonis, president, BBN Planet; Tim Krauskopf, chief technology officer, Spyglass, Inc.; Vic Langford, senior vice president, Internet Strategies, Novell, Inc.; Doug Michels, chief technical officer, SCO; Yukio Mizuno, executive advisor, NEC Corp.; Michio Naruto, executive vice president, Fujitsu Limited; John Patrick, vice president, Internet Technology, IBM Corporation; Dr. Eric Schmidt, chief technology officer, Sun Microsystems, Inc. ; Volker Steiner, senior executive director, multimedia communications, Deutsche Telekom; and Barry Sullivan, corporate vice president, Electronic Data Systems Corp.

GIP members outlined several public policy priorities for 1997, including information security and authentication, and protecting the Internet from unnecessary regulation by governments. The Global Internet Project is managed and staffed by the Information Technology Association of America, a high-tech trade group representing 9,000 members and affiliates in the Internet, software, systems integration, services and telecommunications segments of the industry.

Copies of "The Emergence of a Networked World" can be ordered through the GIP's Web site at http://www.gip.org or by contacting Jon Englund at 703-284-5301 or by email at jenglund@itaa.org .

(19961212/Press Contact: Bob Cohen, Information Technology Association of America; 703-284-5333; email: bcohen@itaa.org/ Reported by Newsbytes News Network at http://www.newsbytes.com)

Subscription: $300 per year as of 1/92. Published semi-weekly. Contact Newsbytes, 406 West Olive Street, Stillwater, MN 55082-4945. Phone (612) 430-1100. FAX (612) 430-0441. 1507150

Document nbyt000020020422dscc006qw

 © 2023 Factiva, Inc. All rights reserved.

PR Newswire
a CISION company

Industry Leaders Announce Global Internet Project and Vision of Internet's Future; Group Unveils First Estimate of Jobs Created by Internet Worldwide

1,086 words
11 December 1996
10:14 AM
PR Newswire
PRN
English
(Copyright (c) 1996, PR Newswire)

NEW YORK, Dec. 11 /PRNewswire/ -- A group of senior executives, representing 16 of the leading Internet software, telecommunications and digital commerce companies from around the world, today announced the formation of the Global Internet Project (GIP) to promote the growth of the Internet across geographic boundaries worldwide. The GIP also released a report exploring the present and future impact of the Internet upon commerce and society and offered the first estimate of the worldwide impact of the Internet on job creation.

"Because the Internet is global, we must address its challenges globally," said Netscape Communications' chairman and co-founder Jim Clark, Chairman of the GIP. "We cannot leave the outcome of the challenges to chance, which is why top business executives have come together through the GIP. We will work with appropriate national and international bodies to find answers to a variety of difficult issues to assure the best possible future for all members of the Internet community."

GIP members believe that the growth of the Internet will depend on the ability of companies and consumers worldwide to use this network of networks to obtain products and services in a secure, flexible, convenient and easy-to- use manner. GIP will focus its efforts on a global education effort to include government officials around the World, national legislatures as well as international organizations that influence Internet policy decisions.

Vice Chairman John Gerdelman, MCI's president of networkMCI Services, added that "Every day, we're growing concerned about various countries that are trying to regulate the Internet. Although many of GIP's member companies are fierce competitors in the marketplace, we recognize the need to work together to ensure these myriad regulations do not stifle the growth of this important new medium. In short, working together, we can be the rising tide that lifts all boats for extending the benefits of the Internet worldwide."

The Internet is a job engine: the Global Internet Project also announced that an estimated 1.1 million jobs worldwide were created by the Internet in 1996. Commissioned by the GIP, investment bankers Takuma Amano and Robert Blohm derived the number of jobs created by the Internet from a calculation that extrapolated from this year's growth in US Internet, software, computer, chip, telecommunications and equipment companies' market capitalization and employment. Amano and Blohm had previously estimated value creation due to Internet market expansion to be in excess of $200 billion, a number that reflects the sum-total stock-market capitalization of all of Netscape and Yahoo! and of those other companies' contributions to the Internet. Amano and Blohm declared the Internet accounts for this year's entire US economic growth and they proclaimed the era of "the Internet economy."

"The Internet is creating jobs while also improving productivity and lowering inflation. Moreover, because the Internet is in the growth stage it is, it still hasn't realized its full job-creating potential," they added.

The GIP's white paper, "The Emergence of a Networked World," explains the relationship between the Internet and aspects of people's lives such as education, health care, commerce and finance, media and publishing, small business and the workplace. The paper is designed to help educate politicians and government officials in countries around the world on the nature of the Internet and its revolutionary impact upon commerce and society. GIP will distribute the white paper to organizations worldwide.

In addition to Clark and Gerdelman, members of the Global Internet Project include:

Mr. Marc Benioff, Senior Vice President, Marketing, Oracle Corporation

Mr. Francois Dutray, Group Executive Vice President, Visa International

Mr. Tom Evslin, Vice President, AT&T WorldNet Service

Mr. Robert Foster, Manager, Online & Multimedia, British Telecom

Mr. Paul Gudonis, President, BBN Planet

Mr. Tim Krauskopf, Chief Technology Officer, Spyglass, Inc.

Mr. Vic Langford, Senior Vice President, Internet Strategies, Novell, Inc.

Mr. Doug Michels, Chief Technical Officer, SCO

Mr. Yukio Mizuno, Executive Advisor, NEC Corporation

Mr. Michio Naruto, Executive Vice President, Fujitsu Limited

Mr. John Patrick, Vice President, Internet Technology, IBM Corporation

Dr. Eric Schmidt, Chief Technology Officer, Sun Microsystems, Inc.

Mr. Volker Steiner, Senior Executive Director, Multimedia Communications,

Deutsche Telekom

Mr. Barry Sullivan, Corporate Vice President, Electronic Data Systems

Corporation

GIP members outlined several public policy priorities for 1997.

1) Information Security and Authentication: The GIP's goal is to shape national policies on information security that work globally, giving companies and individuals the ability to ensure that their communications have an adequate level of security. The group developed a set of principles on the Global Information Security Infrastructure that was presented to the Organization of Economic Cooperation and Development (OECD) as part of its efforts to create international guidelines on cryptography. It will shortly be releasing recommendations related to implementing the OECD guidelines. In early 1997, the GIP will host a one-day summit on information security in London to explore questions associated with how various global key management infrastructure proposals would work. At this summit, various experts from around the world will explore practical global key management infrastructure considerations.

2) Protecting the Internet from Unnecessary Regulation by Governments: The computer industry has demonstrated the power of innovation in a largely unregulated environment by bringing new capabilities and tremendous increases in performance without additional costs. The GIP believes that the market- driven computer industry is the right model for the Internet. The telecommunications industry is now undergoing a sea change from a largely regulated regime to a deregulated environment. The GIP believes that the Internet should be at the vanguard of the deregulatory trend -- reflecting the current dynamic of the computer industry and leading the future trend of the telecommunications industry. The GIP will be working with global bodies such as the World Trade Organization, G-7 and the International Telecommunications Union to ensure a deregulatory approach to the Internet globally.

The Global Internet Project is managed and staffed by the Information Technology Association of America, a high tech trade group representing 9,000 members and affiliates in the Internet, software, systems integration, services and telecommunications segments of the industry. For copies of "The Emergence of a Networked World," contact Jon Englund at 703-284-5301; email: jenglund@itaa.org. The GIP's web site can be found at www.gip.org.

/CONTACT: Jon Englund of the Information Technology Association of America, 703-284-5301 or jenglund@itaa.org/ 09:05 EST

Document prn0000020011015dscb028ys

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
EUROPE EDITION

The Internet Economy

By Takuma Amano and Robert Blohm
802 words
23 October 1996
The Wall Street Journal Europe
WSJE
6
English
(Copyright (c) 1996, Dow Jones & Company, Inc.)

Belying the pessimism of limits-to-growth advocates, the U.S. economy grew at a seemingly robust annualized rate of 4.8% in this year's second quarter despite frequently reported downsizings or restructurings of U.S. corporations -- even causing the U.S. Federal Reserve Board to consider tightening monetary policy. This healthy economic growth and a declining unemployment rate haven't been accompanied by inflationary pressure; the most recent annual increase of the producer price index was just 2.6%.

While President Clinton takes credit for this happy turn of events, and Bob Dole pooh-poohs it, what both men overlook is that the single most important factor behind this economic performance is the Internet. Conceived by the U.S. Defense Department in the mid-1960s and beefed up by the Reagan administration to provide massive computing capability for Star Wars and backup in case of war, the Internet was accessible until the end of the 1980s only by a limited number of government and academic users.

With the end of the Cold War, the advantages of the Internet for individual users soon became apparent and a new products market developed -- both for Internet access, browsers and search and directory guides, such as Netscape and Yahoo!, and for computer networking equipment, like the electronic message switching systems and routers of Cisco Systems Inc. Thus, the Internet's marketable features were developed by the forces of capitalism, not by planned, information superhighway building projects, such as France's Minitel and other hard-wired clunkers.

The estimated value creation due to this Internet market expansion is in excess of $200 billion, a sum that reflects the total stock market capitalization of Netscape, Yahoo!, and all other Internet developers. What is remarkable is the value derived from the Internet market by some of the largest computer and telecom companies: 25% of the stock market capitalization of Microsoft and Cisco, 20% of Sun MicroSystems, 15% of IBM and all PC manufacturers and 5% of telephone companies.

While these values are cumulative rather than generated in a specific year, they were created mainly in the past 18 months. And since total stock market capitalization at any point in time is 60% to 80% of annual gross domestic product, 1.5 times the estimated market capitalization of these Internet-related companies should be fairly close to their contribution to the GDP in one year. In other words, this year's expected U.S. economic growth is accounted for by the Internet market.

Beyond the development of physical capital, there is also the development of metaphysical capital (to borrow a phrase from George Gilder) in the form of the new entrepreneurial talent being created by folks whose creative lives have become enmeshed in the Web. Once, a substantial percentage of young graduates with degrees in science and engineering would start their careers in defense-related industries. Now many go directly into young software and hardware companies.

The Internet market represents a successful shift of this country's most important economic resource -- the human brain -- to the highest value-added sector of the economy, demonstrating the optimum resource allocation inherent in our free market. In addition to helping with our increased output and efficiency, this shift also has contributed to reducing inflationary pressure, in wages and in product prices. True, there is a huge demand for computer programmers, which has put upward pressure on compensation levels for programmers and system engineers. But because of America's open-door policy to international trade, and because of the borderless character of the Internet market, software development companies have been able to outsource a substantial part of their programming requirements through the Internet itself to overseas vendors, working as yet another safety valve for inflationary pressure in the Internet market.

 © 2023 Factiva, Inc. All rights reserved.

One potential inflationary pressure comes from the prices of telephone lines, as an ever-increasing number of users enter the Internet market. However, because of America's ongoing deregulation of telecommunications, telephone-line rates have decreased, not increased.

The impact of the Internet market is also reflected in improvement in America's international trade balance. Ever-increasing software exports account for a substantial portion of the improvement in the trade balance. The export of Internet-related software and hardware will contribute even further to this year's improvement.

Barring another oil crisis, or excessive government spending, the Internet market will continue pushing the U.S. economy into a growth era qualitatively different from the past, with little inflationary pressure. This is a nonpartisan development in which every American can take pride.

Mr. Amano is an investment banker and CEO of a major U.S.-based multinational software producer. Mr. Blohm is an investment banker and Ph.D candidate in economics at Columbia University.

Document wsje000020011015dsan00cxf

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

Correction

36 words
18 October 1996
The Wall Street Journal
J
A19
English
(Copyright (c) 1996, Dow Jones & Company, Inc.)

In an article published yesterday titled "The Internet Economy," by Robert Blohm and Takuma Amano, Mr. Blohm's identification was incorrect. Robert Blohm is an investment banker.

(See: "The Internet Economy" -- WSJ Oct. 18, 1996)

Document j000000020011014dsai00t1x

THE WALL STREET JOURNAL.

The Internet Economy

By Takuma Amano and Robert Blohm
829 words
17 October 1996
The Wall Street Journal
J
A22
English
(Copyright (c) 1996, Dow Jones & Company, Inc.)

Correction

In an article published yesterday titled "The Internet Economy," by Robert Blohm and Takuma Amano, Mr. Blohm's identification was incorrect. Robert Blohm is an investment banker. (WSJ Oct. 18, 1996)

Belying the pessimism of limits-to-growth advocates, the U.S. economy grew at a seemingly robust annualized rate of 4.8% in this year's second quarter despite frequently reported downsizings or restructurings of U.S. corporations -- even causing the Federal Reserve Board to consider tightening monetary policy. This healthy economic growth and a declining unemployment rate haven't been accompanied by inflationary pressure; the most recent annual increase of the producer price index was just 2.6%.

While President Clinton takes credit for this happy turn of events, and Bob Dole pooh-poohs it, what both men overlook is that the single most important factor behind this economic performance is the Internet. Conceived by the Defense Department in the mid-1960s and beefed up by the Reagan administration to provide massive computing capability for Star Wars and backup in case of war, the Internet was accessible until the end of the 1980s only by a limited number of government and academic users.

With the end of the Cold War, the advantages of the Internet for individual users soon became apparent and a new products market developed -- both for Internet access, browsers and search and directory guides, such as Netscape and Yahoo!, and for computer networking equipment, like the electronic message switching systems and routers of Cisco Systems Inc. Thus, the Internet's marketable features were developed by the forces of capitalism, not by planned, information-superhighway building projects, such as France's Minitel and other hard-wired clunkers.

The estimated value creation due to this Internet market expansion is in excess of $200 billion, a sum that reflects the total stock-market capitalization of Netscape, Yahoo!, and all other Internet developers. What is remarkable is the value derived from the Internet market by some of the largest computer and telecom companies: 25% of the stock-market capitalization of Microsoft and Cisco, 20% of Sun MicroSystems, 15% of IBM and all PC manufacturers and 5% of telephone companies.

While these values are cumulative rather than generated in a specific year, they were created mainly in the last 18 months. And since total stock-market capitalization at any point in time is 60% to 80% of annual gross domestic product, 1.5 times the estimated market capitalization of these Internet-related companies should be fairly close to their contribution to the GDP in one year. In other words, this year's expected economic growth is accounted for by the Internet market.

Beyond the development of physical capital, there is also the development of metaphysical capital (to borrow a phrase from George Gilder) in the form of the new entrepreneurial talent being created by folks whose creative lives have become enmeshed in the Web. Once, a substantial percentage of young graduates with degrees in science and engineering would start their careers in defense-related industries. Now many go directly into young software and hardware companies.

The Internet market represents a successful shift of this country's most important economic resource -- the human brain -- to the highest value-added sector of the economy, demonstrating the optimum resource allocation inherent in our free market. In addition to helping with our increased output and efficiency, this shift also has contributed to reducing inflationary pressure, in wages and in product prices. True, there is a huge demand for computer programmers, which has put upward pressure on compensation levels for programmers and system engineers. But because of America's open-door policy to international trade, and because of the borderless

character of the Internet market, software development companies have been able to outsource a substantial part of their programming requirements through the Internet itself to overseas vendors, working as yet another safety valve for inflationary pressure in the Internet market.

One potential inflationary pressure comes from the prices of telephone lines, as an ever-increasing number of users enter the Internet market. However, because of this country's ongoing deregulation of telecommunications, telephone-line rates have decreased, not increased.

The impact of the Internet market is also reflected in improvement in America's international trade balance. Ever-increasing software exports account for a substantial portion of the improvement in the trade balance. The export of Internet-related software and hardware will contribute even further to this year's improvement.

Barring another oil crisis, or excessive government spending, the Internet market will continue pushing the U.S. economy into a growth era qualitatively different from the past, with little inflationary pressure. This is a nonpartisan development in which every American can take pride.

Mr. Amano is an investment banker and CEO of a major U.S.-based multinational software producer. Mr. Blohm is an investment analyst and Ph.D candidate in economics at Columbia University.

Document j000000020011014dsah00srw

 © 2023 Factiva, Inc. All rights reserved.

THE GLOBE AND MAIL

Features

Privatizing Ontario Hydro: Let consumers choose the markets ENERGY / Ontario mustn't lose sight of the pot of rate-relief gold at the end of the privatization rainbow.

BY ROBERT BLOHM
822 words
16 September 1996
The Globe and Mail
GLOB
Metro
A19
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

Toronto -- IN mapping out the delicate task of privatizing Ontario Hydro, the recent report of Donald Macdonald's advisory committee on electricity competition may be a stroke of political-economic genius. Mr. Macdonald emerges as a master of finesse, particularly in recommending that the municipal electric utilities pay the same taxes as private companies, which would be used to pay down the balance of Hydro's debt, and would eventually prompt those utilities to privatize as well.

But his report, prepared for the Ontario government and released in June, would impose a clumsy structure on the market for trading electricity, the most important determinant of how low prices to the consumer will drop. He sides with those who consider an electricity market to be a natural monopoly. He recommends that consumers be forced to buy electricity through a single "poolco" market, grouping all the sellers: Regardless of what they buy and from whom, the consumers will all have to pay the "marginal price," the price of the most expensive piece of the total supply needed to fill the total demand. Naturally consumers will pay more than they would otherwise.

This recommendation stands in stark contrast to the situation south of the border, where none of the states that recommend letting customers choose their electricity supplier has endorsed a permanent poolco. The poolco electricity "market" was the invention and the bane of England's and Wales's 1990 electricity privatization, and it deprived consumers of rate relief. Poolco is now the rule only in anglophile Australia, Alberta and Argentina.

But in Norway, New Zealand and Chile, which have predominantly hydroelectric systems that are easier to operate, buyers and sellers are free to choose any type of electricity market from the variety of local markets made available to them, in a veritable "market of markets." While the Norwegians haven't completely privatized yet, they have already created a market of markets that is the rave of electricity traders. Ontario's hydro-electrified neighbours, Quebec and Manitoba, wouldn't adopt poolco.

Historically, economists have tended to favour the market with a single price for all transactions rather than a price unique to each. For one thing, a single-price market is cheaper to administer -- or used to be, before the advent of software that can easily handle a great many transactions at different prices.

The trouble is that the single price turns out to be the marginal price -- and that means that most of the suppliers pocket a surplus beyond their individual selling prices. So the single-price trading market needs to be a monopoly, because otherwise buyers would seek a less expensive alternative by dealing with individual sellers. Under the single-price system, the sellers are all effectively combined into a single poolco, which alone deals with individual buyers at the marginal rate.

Devotees defend the poolco monopoly by saying that it most efficiently allocates the single, "pure" commodity of instantly consumed electricity from whatever source -- a textbook model. The problem is that participants tend to want to transact individually with each other for different kinds of electricity: electricity contracted-for over a fixed number of years, or environmentally friendly "green" power, or even transmission rights. These are products that determine distinct markets of their own, and force the reductionist models of the textbooks back to the drawing board.

Normally, demand for the "pure" kind of electricity is made on the spot, by those who haven't contracted ahead of time for one of the specific kinds of electricity. That "pure" variety accounts for only a fraction of the total demand for electricity; yet poolco enthusiasts would force all electricity demand to be met through that "spot" market.

Contracts for the other kinds of electricity would have to be artificially grafted onto the required spot-market transactions -- an inefficient arrangement that would increase the risks and therefore the price.

The Macdonald report proposes letting Ontario's central dispatcher, whose job is maintaining system reliability, also run the spot market. No U.S. jurisdiction has recommended this, because the dispatcher's superior knowledge of the transmission system would give a dispatcher-operated exchange an unfair advantage over any competing electricity exchanges that might be created.

In transforming the Macdonald report into policy, Ontario mustn't lose sight of the pot of rate-relief gold at the end of the privatization rainbow. To keep rates as low and competitive as possible, it should promise customers a full choice of markets for their diverse electrical needs, and keep the dispatcher's hands off the electricity exchange.

Robert Blohm, an investment banker, was an adviser to the Advisory Committee on Competition in Ontario's Electricity System, which was chaired by former federal energy minister Donald Macdonald.

Document glob000020011014ds9g0166p

 © 2023 Factiva, Inc. All rights reserved.

TORONTO STAR

NEWS

New York tunes out Quebecer's crusade Americans fail to show at talk by anglo booster

By Sandro Contenta Toronto Star
774 words
13 September 1996
The Toronto Star
TOR
MET
A11
English
Copyright (c) 1996 The Toronto Star

NEW YORK CITY - In the Big Apple, Howard Galganov's federalist crusade had the impact of a tiny pit.

Galganov brought his battle against separatists and French language laws here yesterday, but the New York media and the investors he had hoped to reach were nowhere to be seen.

The bus trip that sparked heated debate in Quebec did little more than add to the clogged traffic in the communications and financial capital of the world.

Galganov, an advertising executive at the forefront of a new militancy among Quebec anglophones, had booked a room at the prestigious Harvard Club for what was billed as a brunch speech to foreign investors.

But as the morning wore on, it became clear the only people enjoying the coffee and muffins were the 36 supporters Galganov brought with him from Montreal.

When an unknown man in a beige suit walked in, he was immediately swarmed by Canadian journalists.

He turned out to be Robert Blohm, an independent investor and sometime contributor to the opinion pages of the Wall Street Journal.

But he didn't stick around long - Galganov's two burly bodyguards threw him out.

"Look, you can't throw out one of the few investors who came, this doesn't make any sense," Blohm said.

Galganov's press attache, Denis Kotsoros, explained the expulsion by describing Blohm as a pesty "groupie" who wanted to "ride Howard's coattails."

"We told him he could stay as long as he behaved - and he didn't. He was causing a ruckus," Kotsoros added.

Before he got thrown out, Blohm had been explaining that Galganov did a poor job of publicizing his trip to Americans. Later, Blohm stood on the sidewalk and denounced Galganov for "practising the worst of what they accuse French nationalists of doing."

New Yorkers rushing to and fro slowed down at the crowd of journalists outside the Harvard Club to ask if a celebrity was inside.

The answer - a leader of Quebec's anglophone minority protesting French language laws and the separatist threat in a francophone province - sent them on their way.

"Whether you guys end up speaking English or French doesn't change our day one way or the other," said a cigar-smoking Richard Wyckoff, 35.

The only American reporters to show up at Galganov's speech were from Knight-Ridder news service and Financial World magazine.

Rick Brown, a Canadian investment analyst with Scotia McLeod, attended the talk after being told about it by a Canadian journalist the night before. John MacArthur, publisher of Harper's magazine, said he came under the same circumstances.

"The oppression of the English minority in civilized Canada just isn't going to play in the United States. I don't think anybody's going to sympathize," MacArthur said.

Compared to the oppression of American blacks and the massacres in Bosnia, "the average American, isn't going to take this kind of (linguistic) oppression very seriously," he added.

"You guys behave in an amazingly civilized fashion compared to Americans. You're not shooting each other over this," MacArthur said.

The 36 Montrealers who spent $200 each to come and support Galganov were visibly disappointed.

"I'm a little sad. I would have liked to have seen more Americans in the audience," said Seymour Weiner, a Montreal pharmacist in a pin-striped suit.

"Maybe someone has to be really oppressed. I mean, we don't look oppressed. We don't fit the mold," he said.

Weiner said he was told Galganov's organization had sent out hundreds of invitations to New Yorkers.

But at a news conference later in the morning, Galganov said he sent out no invitations. He said he had been contacted by some 25 investors before his trip, all of whom promised to show up at his brunch.

"They contacted me and there's no one here. It's a bit incredible."

Still, he described the trip as having "exceeded my wildest hopes and imaginations."

Galganov then suggested officials with the Canadian consulate in New York threatened business leaders with the loss of government contracts if they attended his brunch.

A spokesperson for the Canadian consulate, Kevin O'Shea, flatly denied the charges.

"The Canadian consulate did not discourage anyone from going to the Galganov event," O'Shea said.

Gazette columnist William Johnson, a Galganov supporter, described the event as successful "guerrilla theatre" that worked because its main aim was to get the attention of the Canadian media.

Color Photo: Howard Galganov

Document TOR0000020080121ds9d00088

 © 2023 Factiva, Inc. All rights reserved.

THE GLOBE AND MAIL

News

Wall Street ignores Galganov's visit Federalist calls trip a success despite lack of attention from investment community

BY BRIAN MILNER
The Globe and Mail
1,017 words
13 September 1996
The Globe and Mail
GLOB
Metro
A12
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

NEW YORK -- Quebec English-rights activist Howard Galganov arrived in New York with only his own fanfare and a busload of Montreal supporters -- and he departed the same way yesterday.

Not a single investment banker, analyst or investor -- in fact, almost no one at all from the influential Wall Street crowd -- showed up at the posh Harvard Club in midtown Manhattan to listen to his passionate assault on Quebec separatists.

Mr. Galganov also failed to attract the U.S. media. Such influential publications as The Wall Street Journal, The New York Times and Washington Post ignored the visit.

The one daily U.S. news service that did show up, a financial newswire called BRIDGE News, branded the event a "farce."

Porters at the staid 95-year-old club for Harvard University alumni have rarely seen anything like the whirlwind that blew into their hushed quarters yesterday morning.

A supporter wrapped in the Fleur-de-Lys stood outside, as New Yorkers hurried past on their way to work.

Inside, before Mr. Galganov began speaking, aides tossed out Robert Blohm, a self-described investment banker who follows Quebec events.

Mr. Blohm, they said, had broken a cardinal club rule by speaking with reporters. He showed up later at a news conference a few doors away in the Algonquin Hotel and ended up in a shouting match with Galganov supporters.

Mr. Galganov billed the U.S. trip, which included a meeting in Washington Wednesday evening with influential California congressman Tom Campbell, as a complete success, "beyond my wildest hopes."

He told reporters in Washington that his 45-minute meeting with Mr. Campbell was encouraging. Mr. Galganov was accompanied in Washington by English-rights crusader William Johnson.

"I wish we had this meeting a year ago, though," Mr. Galganov said. "It would have dispelled the myth that no one was listening and no one really cared whether the Americans would accept a separate Quebec into NAFTA. Now there's all kinds of questions."

A Congressional subcommittee will hold hearings on Canada and the possible impact of Quebec's separation later this month, but no Canadian witnesses will be called.

It was clear almost from the start of his much-ballyhooed bus trip that the real purpose was to boost the profile of his English-rights cause at home and put added pressure on the Quebec government.

Mr. Galganov had said he was coming to New York to counter the sunny view of separation presented by Premier Lucien Bouchard to a Wall Street audience in June. He said he would address financiers, lenders and other people of influence.

He was joined by 32 supporters chosen to represent a cross-section of Montreal's diverse population. Each paid $200 for the privilege, but most didn't realize they would comprise the bulk of his audience.

"It's a success to the extent that it's being reported back to Canada," said Seymour Weiner, a Montreal pharmacist and brother of former federal Liberal cabinet minister Gerry Weiner. "It's a failure to the extent that there weren't Americans here."

Mr. Galganov said in his speech that what he wanted from "captains of industry and the merchants of Wall Street" was their confidence and investment and he called Quebec and the city of Montreal "the most undervalued markets in North America."

He also repeated claims that the Parti Quebecois is spent as a political force.

Mr. Galganov acknowledged later that no invitations were sent to anyone in the U.S. investment community, and said they didn't need to be there in any case.

"There's no one on Wall Street who needs to hear from me about the realities of the Quebec economy," he said at the news conference.

Nevertheless, he suggested that the Canadian government had advised members of the investment community not to attend, and alluded to possible pressure on investment houses that market Quebec's debt.

"If I had an opportunity to lose billions of dollars in sales, I would be dissuaded too," Mr. Galganov said, although he added that he had no proof of any government interference.

In fact, Canadian diplomats in New York knew nothing about his plans, apart from what they had read in Canadian newspapers, and received no invitation to the event or request for help in organizing it.

"He's emphatically wrong," said David Ryan, deputy consul-general in New York. "We're not in the business of encouraging or discouraging people from attending that kind of event. We knew very little about what was happening."

Mr. Galganov said he had received a "plethora" of calls from people expressing interest in attending, but didn't identify them and said he didn't know if any attended.

Wall Street's Canada watchers are fully aware of Mr. Galganov's campaign.

"People here are aware of the sensitivities involved in the issue," said Scott MacDonald, head of sovereign economics at brokerage house Donaldson Lufkin Jenrette. Mr. MacDonald did not know about the speech. "Most people who deal with Quebec as an investment issue have heard the arguments ad nauseam."

Americans have been bombarded with images of human rights abuses in Africa, Central America and Bosnia, Mr. MacDonald said. "Montreal doesn't quite compare with Sarajevo."

One person who did attend was Jean-Marc Dessureault, a press officer with the Quebec office in New York.

The provincial civil servant was allowed to stay by Mr. Galganov, but then singled out as an uninvited Parti Quebecois interloper.

Mr. Dessureault later cancelled a planned response to the speech by Quebec's delegate-general in New York, Kevin Drummond, saying "there was nothing to comment on."

Mr. Galganov supported a call by the B'nai Brith Canada for the resignation of Bloc Quebecois Leader Michel Gauthier, who earlier this week called on the Canadian Jewish Congress to dissociate itself from Mr. Galganov.

Mr. Gauthier refused to resign.

Washington and Anne McIlroy in Charlevoix, Que.

Illustration

Document glob000020011014ds9d015ff

 © 2023 Factiva, Inc. All rights reserved.

Winnipeg Free Press

International News

Quebec crusader draws crowd of one Galganov tosses out lone investment banker By Robert Russo Canadian Press

Canadian Press
368 words
13 September 1996
Winnipeg Free Press
WFP
b11
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

NEW YORK - A single Wall Street financier showed up yesterday for what was billed as a meeting between English-rights crusader Howard Galganov and the New York investment community.

The lone American, investment banker Robert Blohm, was dragged out of the tony Harvard Club for speaking to reporters. ''You can't throw out the only investment banker here,'' an agitated Blohm cried out as he was forced out by two of Galganov's burly security men.

Almost everyone else who turned up for Galganov's address had accompanied him by bus from Montreal. Only one American reporter attended his news conference after the speech.

The cool reception drew a sigh of relief from the federal intergovernmental affairs minister. ''It's very good to hear that,'' commented Stephane Dion in Montreal. Later in Brossard, Que., Dion predicted that Galganov ''will become more and more marginalized, especially if (Quebec Premier Lucien) Bouchard gives firm guarantees that there won't be any return to unilingualism in commercial signs.''

Bouchard said he doesn't believe Galganov will affect the province's image south of the border. ''I think Quebec's position in the United States is much stronger than that.''

Gilles Rheaume, a Quebec sovereigntist who originally planned to shadow Galganov to New York but later changed his mind, had a blunt assessment of Galganov's trip. ''The only word is flop,'' Rheaume said. ''A big flop . . . Mr. Galganov scored in his own goal.''

But Galganov sees it differently. The advertising executive called his trip to the United States ''a success beyond my wildest imagination.''

Getting a committee of the U.S. Congress to examine the effect of Quebec separation on the United States was a coup, Galganov said. He met with Tom Campbell, a Republican congressman from California, in Washington Wednesday night. Campbell emerged with a warning for Quebecers: don't count on easy relations with the United States if the province separates.

Galganov blamed the absence of U.S. investor interest on the Quebec government, suggesting it intimidated American financiers with a loss of business.

Galganov: 'a success'

PHOTO

Document wfp0000020011015ds9d00jek

platts Northeast Power Report

RESTRUCTURING
HYDRO-QUEBEC DISMISSES CEO, NAMES CHIEF FINANCIAL OFFICER NEW HEAD

529 words
19 July 1996
Northeast Power Report
NEPR
8
English
(Copyright 1996 McGraw-Hill, Inc.)

At Hydro-Quebec, forces favoring faster utility restructuring and at least some degree of generation competition appear to be winning out over what one outsider termed ``the old guard.''

At an emergency meeting of the provincial utility's board of directors on July 4, Hydro-Quebec president and chief executive officer Benoit Michel was dismissed after less than eight months in those posts. The board named Andre Delisle, Hydro-Quebec's chief financial officer, to replace him on an interim basis.

In a terse statement issued upon Michel's departure, the utility said, ``The major challenges that Hydro-Quebec currently faces, which include a restructuring of its activities during a period of budget restrictions, require a cohesion that has been difficult to maintain during the past few months.''

Michel, who could not be reached for comment, has been criticized in recent months for what one outsider last week called ``excessive spending'' on outside consultants, and reportedly has clashed with utility chairman Yvon Martineau on how--and how quickly--Hydro-Quebec should restructure itself, and on personnel matters.

The Quebec utility has been seen by many in eastern Canada and the northeastern U.S. as the most reluctant to provide open access to its transmission system. And Quebec and Hydro-Quebec officials alike have generally been opposed to any discussion of utility privatization.

Robert Blohm, a private investment banker who has advised Canadian governments on utility issues, said he views the appointment of Delisle as ``a good sign'' because he is ``from the financial--not the generation--side'' of Hydro-Quebec.

Blohm explained that, in his view, the utility's top generation executives are much more protective of Hydro-Quebec's traditional monopoly role, and are much less aware than financial officials of the financial and public pressures pushing the utility toward at least ``functional'' unbundling of generation, competition among generators, and open transmission access.

He added he believes Quebec Premier Lucien Bouchard and utility chairman Martineau understand those pressures for change, and may be interested in a restructuring and deregulation approach like that undertaken in Norway.

There, the government has retained ownership of generation--which, as in Quebec, is largely hydroelectric--but has functionally unbundled generation and introduced competition among generators.

``There are real tensions within Hydro-Quebec about how to respond to everything that is going on around them,'' said a consultant familiar with the utility. He noted that Ontario Hydro--the Quebec utility's chief rival in Canada--has been actively exploring how it might be restructured and privatized.

And he said the North American Free Trade Agreement and recent Federal Energy Regulatory Commission orders are putting pressure on Hydro-Quebec to open its transmission lines.

This past spring, a committee appointed by the Quebec government took a relatively conservative view of how Hydro-Quebec might be restructured, asserting the utility would not be a good candidate for deregulation and disaggregation. The panel said the utility should instead adopt integrated resource planning, scale back its plans for new hydro capacity, implement rates that more closely reflect costs and emphasize demand-side management (NPR, 7 June, 10).

Document nepr000020011014ds7j000ez

 © 2023 Factiva, Inc. All rights reserved.

platts Electric Utility Week

Management

DISMISSAL OF HYDRO-QUEBEC'S CEO COULD SIGNAL QUICKER MOVE TO RESTRUCTURING

524 words
15 July 1996
Electric Utility Week
EUW
3
English
(Copyright 1996 McGraw-Hill, Inc.)

Hydro-Quebec's sudden dismissal of the utility's president and chief executive officer last week may signal that the provincial utility will now move more aggressively toward restructuring itself, sources familiar with the utility said.

Benoit Michel, a long-time Hydro-Quebec employee who held those two top posts for less than eight months, was fired by the utility's board of directors at an emergency meeting on July 4. Andre Delisle, Hydro-Quebec's chief financial officer, was named to replace him on at least an interim basis.

In a terse statement issued upon Michel's departure, the utility said, ``The major challenges that Hydro-Quebec currently faces, which include a restructuring of its activities during a period of budget restrictions, require a cohesion that has been difficult to maintain during the past few months.''

Michel, who could not be reached for comment, has been criticized in recent months for what one outsider last week called ``excessive spending'' on outside consultants, and reportedly has clashed with utility chairman Yvon Martineau on how--and how quickly--Hydro-Quebec should restructure itself, and on personnel matters.

The Quebec utility has been seen by many in eastern Canada and the northeastern U.S. as the most reluctant to provide open access to its transmission system. And Quebec and Hydro-Quebec officials alike have generally been opposed to any discussion of utility privatization, a view supported by a provincial energy-policy report issued this past spring (EUW, 10 June, 9).

Robert Blohm, a private investment banker who has advised Canadian governments on utility issues, said he views the appointment of Delisle as ``a good sign'' because he is ``from the financial--not the generation--side'' of Hydro-Quebec.

Blohm explained that, in his view, the utility's top generation executives are much more protective of Hydro-Quebec's traditional monopoly role, and are much less aware than financial officials of the financial and public pressures pushing the utility toward at least ``functional'' unbundling of generation, competition among generators, and open transmission access.

He added he believes Quebec Premier Lucien Bouchard and utility chairman Martineau understand those pressures for change, and may be interested in a restructuring and deregulation approach like that undertaken in Norway. There, the government has retained ownership of generation--which, as in Quebec, is largely hydroelectric--but has functionally unbundled generation and introduced competition among generators.

Other sources contacted by Electric Utility Week last week echoed Blohm's interpretation of Michel's dismissal and the future direction of Hydro-Quebec, while still another said simply, ``I at least hope that's the case.''

``There are real tensions within Hydro-Quebec about how to respond to everything that is going on around them,'' one consultant familiar with the utility said. He noted that Ontario Hydro--the Quebec utility's chief rival in Canada--has been actively exploring how it might be restructured and privatized.

And he said the North American Free Trade Agreement and recent Federal Energy Regulatory Commission orders are putting pressure on Hydro-Quebec to open its transmission lines.

Document euw0000020011013ds7f000oo

REUTERS

FEATURE - Ontario set for major privatisation drive.

By Darren Schuettler
829 words
24 April 1996
07:34 PM
Reuters News
LBA
English
(c) 1996 Reuters Limited

TORONTO, April 25 (Reuter) - Ontario, Canada's wealthiest and most populous province, is poised to hang out a For Sale sign as its Conservative government kicks off a massive privatisation effort to fight ballooning public debt.

The sell-off of government assets, which may include everything from North America's largest power utility to state-owned liquor stores, is the next stage of a tough, right-wing revolution in Canada's industrial heartland.

"Everything is on the table. I think you will see significant changes in the province of Ontario over the next two or three years," Finance Minister Ernie Eves told reporters recently.

Ontario's moves follow a privatisation drive by the federal government, which last year raised billions of dollars selling off stakes in the former national oil company, Petro-Canada, and the historic Canadian National Railway Co.

Ontario has already announced plans to privatise 15 provincial parks, some museums and the contracting out of various public services.

A full privatisation agenda is expected later this spring, which may involve asset sales, partnerships with business and more contracting out of government services.

ONTARIO HYDRO

The biggest privatisation candidate is Ontario Hydro, North America's largest electricity producer with more than C$44 billion in assets, including 69 hydro-electric stations, six fossil-fuel stations and five nuclear power plants.

"It would be among the biggest asset sales of a single entity in the world," said Robert Blohm, a Canadian investment banker with an interest in utility financing.

Some financial analysts estimate the move could result in a C$6 billion public offering, the biggest in Canada to date.

The utility is carrying a huge C$33 billion debt due to overexpansion and is facing calls for a major restructuring, including the sale of major portions to the private sector.

Ontario Hydro has already taken tough measures to put its finances in order. After cutting capital spending and one-third of its workforce or 11,000 jobs, the utility has averaged annual profits of around C$600 million since a C$3.6 billion loss in 1993.

But even Ontario Hydro chairman Bill Farlinger acknowledges that the 90-year-old utility's power monopoly is nearing an end.

Electricity rates across North America, particularly in neighbouring U.S. states, are falling due to large capacity surpluses. These low-cost producers are anxious to gain access to Ontario's captive market.

"It is inconceivable in an era of free trade that we could go on protecting the Ontario market from U.S. competition," Farlinger told a business audience recently.

Farlinger supports spinning off the utility's power generation operations. But there is fierce opposition from consumers and labor. The Power Workers Union has called the privatisation push a "theft of public assets" that will reward private investors and drive up power rates for consumers.

THE LIQUOR CONTROL BOARD OF ONTARIO

Another high-profile candidate for privatisation is the Liquor Control Board of Ontario, the largest bulk purchaser of liquor and wine in the world. The government estimates a sell-off could net up to C$2 billion.

Pressure has been building for several years to break up Ontario's liquor monopoly. Limited store hours and dry Sundays reinforce consumers' view that buying liquor in Ontario is reminiscent of Prohibition.

Hard spirits and imported wine are available only at 595 provincially run outlets, while beer is sold through a 430-store monopoly controlled by Canada's two major brewers, Molson Breweries and John Labatt Ltd.

Shopkeepers are also lobbying for a piece of the booze trade. "We believe consumers should be able to come into their neighborhood food store and buy beer and wine for consumption, much like they do in Quebec," said Susan Walsh, director of the Coalition for Ontario Private Enterprise.

The Coalition represents 6,000 food store operators.

Opponents argue private liquor outlets would offer less selection and that prices would rise if the LCBO loses its monopoly buying power. The government would also lose about C$630 million in annual net income from liquor sales.

Another likely privatisation candidate is TV Ontario, the provincially owned television network. The government also holds stakes in several private companies, including a 49 percent interest in aircraft manufacturer de Havilland.

The Power Workers Union and LCBO employees union are spending millions of dollars on advertising campaigns aimed at swaying public opinion against privatisation.

Opinion polls indicate, however, that most Ontarians favor some form of privatisation.

The privatisation push comes amid the most dramatic cost-cutting in Ontario since the Second World War.

Almost a year since sweeping to power on a platform similar to U.S. House Speaker Newt Gingrich's Contract with America, Ontario Premier Mike Harris has set plans to cut between C$6 billion and C$8 billion in spending over the next five years to erase a C$9.3 billion deficit.

(c) Reuters Limited 1996

Document lba0000020011018ds4o08vwa

THE WALL STREET JOURNAL.

Letters to the Editor: Ontario Hydro Critic Argues With Success

382 words
15 April 1996
The Wall Street Journal
J
A19
English
(Copyright (c) 1996, Dow Jones & Company, Inc.)

If only the rest of us here in Ontario saw things as clearly as Robert Blohm does from his perch in New York ("Don't Water Down Ontario Hydro Privatization," Americas, March 15), we wouldn't be wasting our time discussing such apparently trivial issues as whether or not to break up and sell off Ontario Hydro, one of the world's most successful public enterprises. To him it seems obvious that even though we in Ontario enjoy the lowest marginal generation costs in our sector of the continent and lower average rates than 90% of all U.S. jurisdictions, a public utility simply can't, by definition, be better for its customers than a privately owned utility. Fixated as we have been on low rates and high reliability up here, we missed this point completely. How could this have happened?

Mr. Blohm has the answer: Special interests are preventing economic logic from running its course. He even names them: Hydro labor and management; retail distribution utilities; private generators; politicians and investment bankers. But he didn't name them all. Other groups opposed to Hydro's privatization include: agricultural federations, Northern municipalities, First Nations organizations, most environmental groups, the Consumers Association of Canada and approximately two-thirds of all Ontario's residents who have been polled on the subject over the past two years. Special interests all of them, about to be swept aside by Donald Macdonald, the man Blohm credits as the midwife that brought NAFTA into the world when he recommended 12 years ago that Canada take "a leap of faith" into a free trade agreement with the U.S.

Coincidentally, Ontario is a good illustration of Mr. Macdonald's astuteness in economic matters. Since the first free trade agreement was signed in 1989 (by a Conservative government that was wiped out in the last federal election), Ontario's unemployment rate has gone up by 50% as a result of our loss of more than a half-million manufacturing jobs. We're all on the edge of our seats up here, waiting to see how Mr. Macdonald tops that one now that he has a $50 billion electricity system to play with.

John D. Murphy

President

Power Workers' Union

Toronto

Document j000000020011014ds4f00cvl

 © 2023 Factiva, Inc. All rights reserved.

TORONTO STAR

OPINION
Selling off Hydro would be disastrous for Ontario

By James Laxer
767 words
14 April 1996
The Toronto Star
TOR
SU2
F3
English
Copyright (c) 1996 The Toronto Star

A decade from now, when Ontarians reflect on the Mike Harris years, many of the experiments of the Common Sense Revolution likely will have been discontinued by a future government.

But one impending Tory initiative which would not be so easy for a future government to reverse would be the privatization of Ontario Hydro. It could end up being the Harris government's most important - and most disastrous - legacy for future generations.

In advance of Donald S. Macdonald's report on the future of Hydro - expected in a couple of weeks - the pro-privatization lobby, both at home and abroad, is campaigning to make sure Harris doesn't get cold feet.

In a recent opinion article in the Wall Street Journal, investment banker Robert Blohm urged Macdonald - "Mr. Free Trade" Blohm calls him - to hang tough and recommend full- scale privatization. "The challenge unique to Ontario," Blohm writes, "will be securing public acceptance of significant foreign (i.e. U.S.) corporate ownership, particularly of Hydro's nuclear facilities, which are 40 per cent of the company's capacity." Blohm thinks "Mr. Free Trade is up to" the task of convincing Ontarians of the benefits of U.S. ownership of our electric power system.

The great irony in this advice to Macdonald is that one of the major reasons the Tory government of premier James Whitney nationalized Hydro 90 years ago was to keep the province's electric power out of the hands of U.S. energy moguls. In those days, Tories believed the province's drive to industrialize would be more successful if we kept power ownership at home.

Americans aren't the only foreigners casting lustful glances at Hydro. A couple of weeks ago, Yves Galland, France's trade minister, met with Harris and told him France's electric power utility, EDF, "would be very happy to be involved" in the privatization of Hydro.

The irony here is that EDF is owned by the government of France exactly as Hydro is owned by the government of Ontario. France hasn't the slightest interest in privatizing EDF. How bizarre that we would consider ending ownership of Hydro by the Ontario government in favor of ownership of a piece of it by the French government.

Meanwhile, problems on another foreign front have clouded the sky for Ontario's privatizers. The problem is that privatization of Britain's electric power utility by Margaret Thatcher in 1989 amounted to a giant rip-off of the British public. And the British privatization has always been the model the Harris government has had in mind.

In a recent speech to the Canadian Club, Hydro Chairman William Farlinger, a big booster of privatization, tried to make the British case look good. Farlinger conceded that some "mistakes were made" in the U.K., the worst one being to undervalue "the assets of the utilities."

That's a polite way to describe what amounted to highway robbery. The assets of the British electricity system were sold off at about half their true value. Huge private fortunes were made, while British taxpayers had billions of pounds filched from them.

In his speech, Farlinger claimed that since 1989, electrical power rates for residential users in the U.K. have declined 13 per cent in real prices. What this means is that while British electricity prices have been going up, the increases have been less than the rate of inflation.

Using this reasoning, the present freeze on Hydro rates in Ontario means that the price of electricity is falling here as well. Indeed, Ontario's electricity rates are only about half of those in Britain.

Today, Hydro is profitable, it is paying down its debt and its rates are competitive with those of U.S. utilities in neighboring states.

Let's tell our foreign friends we're doing all right, thank you. We don't want the Americans or the French owning our electrical system, and we certainly don't want to emulate British privatization or British electricity prices.

If enough of us tell Harris we're on to the privatization scam, the sale of Hydro is one legacy Ontario doesn't have to be stuck with.

In last week's column, I erred in saying that in 1994 Imperial Oil Resources paid no income tax while earning $167 million. In fact, in its 1994 financial statement, Imperial Oil Resources provided for $199 million in income tax.

James Laxer is a professor of political science at Atkinson College, York University. His column normally appears on Sunday.

Document TOR0000020080120ds4e00282

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

The Americas: Don't Water Down Ontario Hydro Privatization

By Robert Blohm
1,135 words
15 March 1996
The Wall Street Journal
J
A11
English
(Copyright (c) 1996, Dow Jones & Company, Inc.)

A popular backlash is rising against the Western Hemisphere's lengthening string of market reforms and privatizations done the wrong way and for the wrong reasons. Now Ontario may have an historic chance to revive the open-market agenda, as it embarks on one of the world's largest privatizations ever: the breakup and sale of Ontario Hydro, the hemisphere's biggest electric utility.

Last November Ontario's supply-side Tory government astutely appointed Donald S. Macdonald to head an advisory committee on electricity competition. The committee is due to submit a final report on April 30. Mr. Macdonald, a Canadian ex-minister of finance, of energy and of defense, is an icon of free trade and of the opposition Liberal Party.

Mr. Macdonald has become man of the kilowatt hour. This second Macdonald Commission will hopefully prove as momentous for an open, competitive continental electricity market as the first one was for continental free trade. By recommending Canada-U.S. free trade, Mr. Macdonald's 1985 Royal Commission on Canada's economic future set off the process culminating in Nafta. Mr. Macdonald's current mandate comes amid a burgeoning continental market revolution in electricity that favors competition, consumer choice and therefore lower prices. Since the government can't be counted on to improve on his recommendation, the commission's report is critical.

By privatizing Ontario's electricity system -- and opening it sooner than in the U.S. -- Ontario gets the jump on continental electricity trade. The province becomes a fully eligible commercial exporter and a competitive player by lowering rates and thus keeping them lower than across the border. That will in turn only accelerate U.S. deregulation and lower U.S. electricity rates. Ontario spans the strategic middle of the Canadian border, from New York to Minnesota, and over the Great Lakes. It straddles half the U.S. states actively embarking on electricity deregulation.

Ontario's economy would lose a unique growth opportunity if Mr. Macdonald's commission yields to pressure to water down the privatization-cum-restructuring. It's coming mainly from Hydro labor and management who would privatize or break up only parts of the company and keep out needed foreign control capital. It's also coming from most of the multitude of municipality-owned distribution companies whose debt-free assets need to be reappropriated, consolidated and sold to pay off the rest of Hydro's debt. Other special interests include some private producers wanting to protect or procure a franchise, and politicians and investment bankers out to inflate the sale price, forcing the consumer to pay higher rates. We've seen this before in the bad deals now littering the hemisphere.

Not that Ontario has much choice but to seize the opportunity to do it right. With one of the most electricity-intensive economies of any high-population state or province, Ontario has seen electricity rates in real terms rise faster in the past decade than in most of the industrialized world's jurisdictions, while rates in the U.S. have dropped more than in most of them. The northerly jurisdiction, whose industrial might grew with the aid of artificially low electricity prices, has disproportionately more to lose, or gain, from how it sets up an electricity market.

Nor is doing the right thing as daunting for Mr. Macdonald as it might seem. Indeed, Ontario's state ownership of electricity has suddenly gone from a scourge to a blessing. Faced with power-industry restructuring, Ontario is mercifully not constrained like U.S. jurisdictions. They are all stuck with a pre-existing private oligopoly with strandable shareholders clamoring to be kept whole, and/or with some persistent government ownership of electric utilities. Ontario can create an optimally competitive private electricity industry instantly and go directly to electricity heaven as the U.S. stews in purgatory by "phasing in" deregulation.

The challenge unique to Ontario will be securing public acceptance of significant foreign (i.e., U.S.) corporate ownership, particularly of Hydro's nuclear facilities, which are 60% of the company's capacity. But Mr. Free Trade is up to that task since free, cross-border capital movement goes hand-in-hand with truly unconstrained trade, and serves only to make Ontario more prosperous. Ontario easily attracts foreign equity capital needed to replace Canada's onerous foreign debt. The province should be a comfortably close proving ground for any U.S. electricity company eager to get its competitive feet wet.

The most groundbreaking issue Mr. Macdonald faces is whether to have a compulsory, single public exchange for trading electricity or a completely free mix of public and private markets. Were there too few companies under a free mix of markets, they initially could take advantage of myriad less savvy customers. But if Mr. Macdonald starts with enough competing companies, he can comfortably leave the trading issue for the starting players to decide among themselves, like any industry's common standards.

Mr. Macdonald need not worry about implementation should his recommendation be bold. Ontario is unlike California or New York, both at the deregulatory frontier, but whose Public Utilities/Service Commissions' modest recommendations face split or opposition legislatures. The parliamentary system blesses Ontario's premier with a clear legislative majority. Lower electricity rates dovetail nicely with the government's budgeted 30% tax rate cut to propel Ontario's economy. Eliminating Hydro's debt leaves a nice safety margin for the tax rate cut and no increase ever in the government's budgeted direct and guaranteed debt.

Mr. Macdonald may even wind up saving Canada in its winter of Quebec separatist discontent and prove to be the best Macdonald since Sir John A., -- Canada's first prime minister and father of confederation. Private, competitive Ontario electricity would take capital and electricity market opportunities away from Hydro-Quebec, the key policy tool in Quebec's economic nationalism. Hydro-Quebec needs to be broken up and privatized to give the government desperately needed cash and to enable Quebec's still relatively cheap electricity commercial access to an open, free Ontario, New York or New England market. Quebec's is among the most electricity-intensive economies in the industrialized world; its electricity prices have risen almost as fast as Ontario's and are about to rise again. With its own big foreign debt, Quebec needs much more outside participation than Ontario in its electricity industry.

By properly privatizing Ontario's electricity system, Mr. Macdonald may well salvage the hemispheric market reform process that his first commission helped to launch a decade ago.

Mr. Blohm is an American-Canadian investment banker and a Columbia University doctoral candidate in economics.

(See related letter: "Letters to the Editor: Ontario Hydro Critic Argues With Success" -- WSJ April 15, 1996)

Document j000000020011014ds3f009xv

 © 2023 Factiva, Inc. All rights reserved.

THE GLOBE AND MAIL

Letter to the Editor

Hydro's role

Robert Blohm
264 words
4 March 1996
The Globe and Mail
GLOB
A16
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

Your editorial Principles For A Private Hydro (Jan. 31), contains one howler in an otherwise sound presentation. You amazingly support Ontario Hydro management's non-profit Price Averaging Pool (PAP) option that would buy power on the exchange for its customers. Its obligation to act as sole provider of last resort, of power as close to cost as possible, to any unserved customer would be a basis to sell to any customer averse to buying from power marketers.

The PAP's market power could make it an effective vehicle to scare consumers and speculative marketers away from each other, partly by predatory pricing against the marketers, whose performance threshold would thereby be raised.

In other words, Ontario Hydro would jump from being a monopoly to being a single huge buyer in a relentless effort toward monopsony (a buyer monopoly).

The obligation to serve would be better vested at the level of the separate distribution companies. A competitive equilibrium must neither a seller's nor a buyer's market be.

The editorial's concern about secret bilateral deals with select companies, while appropriate under the current Hydro monopoly that seeks to earn just a bare minimum from otherwise unutilized surplus capacity whose debt needs servicing, is misplaced in the optimally competitive market the Macdonald Commission is mandated to envisage. Competitive asset buyers, who won't pay for surplus assets, don't have to earn a return on them by offering special deals, nor would they have the cross-subsidizing power to offer any. Robert Blohm

Toronto

Document glob000020011014ds3400a8k

THE WALL STREET JOURNAL.

Letters to the Editor -- Calling Quebec's Bluff: Some Like It Not

449 words
29 January 1996
The Wall Street Journal
J
A15
English
(Copyright (c) 1996, Dow Jones & Company, Inc.)

David R. Henderson's Jan. 19 Americas column "If Quebec Separates, Almost Everybody Wins" could not have come at a better time than on the heels of that week's "we're all in the same [sinking] boat if Quebec separates" speech by Bank of Montreal's chairman Matthew Barrett. The Canadian banks, with privileged market share in Quebec, certainly are in the same boat. They can't exactly single out Quebec's government for driving everybody to the brink of the short-term costs that will fall disproportionately on Quebec. U.S. bond investors are uniquely positioned to do so, however. They are the main source of outside capital to finance Quebec's huge trade deficit.

The unwillingness of Canadians in opinion polls outside Quebec to make a constitutional deal with Quebec betrays their alertness to Mr. Henderson's long-term win-win from separation, at disproportionately low short-term cost to the rest of Canada. But by Mr. Henderson's own reckoning, Quebec's separatist politicians don't aspire at all to the open-economy/open-society gains wrought of global free-market pressure on an independent Quebec.

Quebec's separatist leaders betray their fear of those very pressures by already responding to them. They have declared "mum's the word" on separation in their dealings for now with bond investors. In other words, they ultimately just want to rig the Canadian federal system to maximize their local political/institutional power. In so doing they are the very princes of the political class Mr. Henderson singles out, whose base resides in Canadian politics-as-usual, at great opportunity loss to the people, especially Quebeckers. Mr. Henderson, like most Canadians outside Quebec, is just calling Quebec's bluff.

Robert Blohm

New York

I was disheartened, but not surprised, to read Mr. Henderson's commentary. Unfortunately, it has become fashionable in Canadian circles to debate the Quebec independence issue in dispassionate economic terms.

The time has come, however, for Canadians to stop being passive spectators to their own dissection. The issues in Canada transcend simple economic theories; they are ingrained in the attitudes and hearts of the people. The sooner we resolve these issues with that in mind, the sooner Canada can move forward. To suggest that, due to the economics of the relationship between the provinces, the only losers in the Quebec separation would be assorted members of the political class is as facile as suggesting that a married couple with disproportionate earnings would do better to separate on economic grounds. What about commitments, what about history, what about the children?

Gary J. Garter

New York

Document j000000020011014ds1t003o8

LETTER
Retiring Hydro's debt in one swoop

190 words
11 January 1996
The Toronto Star
TOR
MET
A18
English
Copyright (c) 1996 The Toronto Star

Re the Dec. 27 Opinion page article, Privatization of Ontario Hydro just doesn't add up, by Power Workers' Union adviser Myron Gordon. New taxes paid by a privatized Ontario Hydro are as good cash as Ontario Hydro's present payments to the provincial government, which finance professor Gordon casts as so impressive.

Moreover, selling off Hydro (combined with the municipal distributors) at the right price can, without raising electricity prices, effectively retire Hydro's debt in one fell swoop.

Conveniently, wiping out Hydro's debt by privatization leaves exactly enough room for the entire budgeted increase in the government's own future indebtedness. That would mean an effective end now to any increase in the province's direct and guaranteed (i.e. Hydro) debt.

That bodes well for the province's credit rating and thus a lower cost of refinancing the province's existing debt.

It also leaves a good safety margin for the government's promised 30 per cent rate cut to taxpayers before the cut has the time to boost economic growth and, therefore, tax revenue.

Robert Blohm

Toronto

Document TOR0000020080119ds1b001fa

THE WALL STREET JOURNAL.

Letters to the Editor: Quebec Protects Its Soul With a Gallic Cocoon

424 words
6 December 1995
The Wall Street Journal
J
A21
English
(Copyright (c) 1995, Dow Jones & Company, Inc.)

Ex-British Columbia Liberal leader Gordon Gibson's Oct. 27 Americas Column ("Quebec Should Wait for Canadian Federalism to Unfold"), like his book "Plan B" (Fraser Institute), wishfully ignores the statist nationalist specificity of Quebec in order to strike a pact with the Quebec devil to downsize Canada's federal government. Western Canadians wind up with less abusive government, while Quebec's non-native-French, second-class citizens wind up with more. Indeed it is the Quebec government's subtle version of ethnic cleaning that produced a near victory for Quebec separatism in the Oct. 30 referendum.

Three years ago Quebec's current vice premier and chief ideologue, Bernard Landry, lamented to me, "Too bad English Canada has lost its Anglo-Saxon purity or soul [to American-style ethnic blending]; but Quebec is determined to keep its Gallic soul." The Quebec government has traditionally sought, through regional development subsidies, to move population out of the cosmopolitan Montreal and border areas well within the range of English-language media. Media and immigration caused a natural migration to English schools and arts until 25 years ago. Nationalists have since rung the alarm bells about "the imperialism of English," or what Mr. Landry specifically told me are "American imperialism" and "American homogenization" (vs. ethnic enclavization).

After decisively losing the first independence referendum 15 years ago, the separatists blamed the non-French one-sixth of the vote, as Quebec's premier and vice premier did this time around in statements denounced world-wide. The Canadian constitution empowered Quebec's government to create conditions prompting the exodus of half Quebec's Anglos, forbidden to prominently display their chosen language in public. The English-language public schools became discriminatorily off limits to immigrants and native French-speakers.

Meanwhile the official school curriculum and arch-nationalist teachers unions have cocooned an entire generation, exposed to no Canadian civics, no Canadian flag, no national anthem and no history of World War II, which Quebec voted not to fight in. Primary-school English-immersion is outlawed. Mention in media of the word "Canada" or "Canadian" is taboo to Quebec's advertising and public-relations elite whose biggest customer is the Quebec government. Flying the Canadian flag is politically incorrect. The nationalist leaderships reflexively threaten reprisals against negative publicity and what they label "economic terrorism."

Quebec's government is socially engineering a democratic outcome. Canada's regional leadership benignly neglect that distinctiveness of Quebec at their own peril.

Robert Blohm

New York

Document j000000020011025drc600ued

THE WALL STREET JOURNAL.

Letters to the Editor: A Rude Awakening in Quebec?

647 words
24 October 1995
The Wall Street Journal
J
A23
English
(Copyright (c) 1995, Dow Jones & Company, Inc.)

Martin Philibert's Sept. 29 America's column ("Separating Les Quebecois From Canadian Dollars") was satisfying for citing a 1993 Bank of Canada estimate that corroborates the one I made in a March 20, 1992, Americas column ("Will Quebec Bail Out With No Parachute?") upon the visit by Canada's prime minister to the editorial board of this newspaper. I stated that a separate Quebec would walk away with half of Canada's current account deficit. (The central bank estimate is that an independent Quebec's current account deficit would be 8% of Quebec's one-fourth share of Canada's economy vs. Canada's current account deficit at 4% of the economy as a whole. That is, double a quarter is half!)

For saying so I was denounced in Quebec media and on this page by a minister of the Quebec government, then run by today's opposition Liberal Party: He denied that any figures exist to make my claim. I was briefly jailed in May 1994 while increasingly being denied access rights to my children there, although a court recently ruled the government in violation of the constitution of Canada for that arbitrary arrest. I said so again in my Aug 5, 1994, Americas column "The Bond Market Holds Quebec's Fate." The same government's leadership extended its denunciation campaign against me to the highest levels of U.S. and Canadian media until leaving office at the end of last year (with the current government's strong endorsement of that campaign). The old government's leaders are now heading the federalist forces opposing Quebec's separation from Canada in the campaign for the independence referendum on Oct. 30. Ironically, they are pushing Mr. Philibert's point that an independent Quebec can't keep the Canadian dollar, but without informing the population why it can't.

In 1992 it was their turn to strong-arm constitutional prerogatives for themselves by threatening separation from Canada. The Quebec Liberal Party's "Allaire Report" proposed an arrangement (masterminded by then Premier Robert Bourassa) strikingly similar to one the separatists are now promising voters, including keeping the Canadian dollar! Today the Liberal leaderships leave it to brave Mr. Philibert to state, safely away from Quebec's tight-knit, managed and subsidized French-language media, the fundamental reasons why a Republic of Quebec couldn't keep the Canadian dollar. The separatists made little headway in the first two weeks of this month's campaign beyond their traditional 40% (now mainly middle-aged) popular support. But the fiery ethnocentric anger of the separatists' new standard-bearer, the Canadian Parliament's one-legged Quebec Party boss Lucien Bouchard, has since inflated support for separation and would ultimately make him North America's first genuine macho caudillo. So don't expect realism by either victor toward dismantling the state, the measure Mr. Philibert correctly says is needed to keep a strong currency, Canadian or Quebecois.

The leadership of Quebec's entire political spectrum shares the ideology of nationalist statism -- has-beens leading a has-been regional economy. They see the Canadian dollar as a protective umbrella; but the rest of Canada, and increasingly financial markets, know better. Naturally, if ever faced with Mr. Philibert's dilemma of reducing the state apparatus (viewed as defender of last resort of "threatened" local ways) or suddenly introducing a devalued currency, the political leadership would fleece its own people by doing the latter and blame it on "les autres" (those outsiders) in a manner reminiscent of deepest Appalachia. Only a rude popular awakening would bring about Mr. Philibert's "long term . . . only real remedy" -- the first horn of the dilemma. With the defeat of separatism, and no fleeing capital to create pressure, that awakening would, unfortunately for all Canadians, be a longer time coming!

Robert Blohm

New York

Document j000000020011025drao00q5r

THE WALL STREET JOURNAL.

Letters to the Editor: Huge Restructuring Of Ontario Hydro

186 words
10 October 1995
The Wall Street Journal
J
A21
English
(Copyright (c) 1995, Dow Jones & Company, Inc.)

Robert Blohm's Sept. 15 Americas column, "Tories Must Deregulate and Privatize Ontario Hydro," makes some important points about the need for change in Ontario's electricity supply system. But a little more homework would have informed him that the process of change is already well under way.

Ontario Hydro has in the past three years carried out one of the most extensive restructurings of any North American electric power utility, private or public. As a result, we have reduced our own work force by more than one-third to the level of more than 40 years ago, frozen overall rates and reduced average industrial rates. The corporation has been refitted to prepare for a new era of open, competitive markets and customer choice, and to meet its debt obligations without help from the province. It has also taken the lead in calling for the fundamental legislative changes required to facilitate this -- changes that move in the same direction Mr. Blohm proposes, but in many respects go beyond his proposals.

Maurice F. Strong

Chairman

Ontario Hydro

Toronto

Document j000000020011025draa00omy

THE WALL STREET JOURNAL.

The Americas: Tories Must Deregulate and Privatize Ontario Hydro

By Robert Blohm
1,116 words
15 September 1995
The Wall Street Journal
J
A15
English
(Copyright (c) 1995, Dow Jones & Company, Inc.)

There is a "power" rebellion brewing in Ontario. And for good reason. Ontario Hydro electricity rates spiraled out of control, and users are fed up with the state-owned combine created in 1906 by Tory Socialists to provide "people's power" from Niagara Falls.

As a showcase for the Ontario and Canadian governments' nuclear reactor development programs of a decade ago, Ontario Hydro took on stratospheric debt levels and subsequently imposed rapid rate increases during the early-90s recession. Electricity users responded by switching to newly deregulated natural gas for heating and to some lower-cost private electricity producers. By 1993 Ontario Hydro faced virtual bankruptcy, with an astounding net loss of $3.6 billion (Canadian). That, plus the need for lower overall electricity rates to retain business, prompted nearly unanimous calls for varying degrees of privatization. But the apparent complexity of the task, and the futility of partial measures, has caused needless doubt and hesitation about actually carrying it out.

Such reticence reigns ironically with Ontario's new free market, tax-cutting, blue-Tory premier, Mike Harris. In his election campaign he tepidly promised "some moves toward privatization of non-nuclear assets." Now in power, he must take an aggressive stance to fully deregulate and privatize this business that is so critical to Ontario's economic growth. This sweeping privatization should include the nuclear assets as well.

Achieving low-cost, efficiently produced electricity in Ontario requires a complete breakup and privatization of all Ontario Hydro assets, the privatization of some 300 municipally owned distributors and full deregulation. Multiple, competing generation companies would thus be created and fed into a single transmission "pool" owned by them. This pool would in turn feed out to "common carrier" local distributors giving consumers full choice among suppliers located anywhere on the grid. Ontario consumers would have more choice than consumers in Alberta, Michigan, Wisconsin or California -- all trendsetters in consumer choice in electricity.

But so far, there is little movement. Unlike the U.S. -- where deregulation is running apace, rates are dropping, and a declining 20% of electricity production is government-owned -- Canada still gets 80% of its electricity from government-owned facilities, and the price trend is up.

The central issue until now has been the extent of privatization and deregulation needed in Ontario, but an equally important issue is what the fiscal objectives should be. Whether the sale should result in a high payoff to the government and therefore maximally reduce debt. Or if the price should have a lower payoff resulting in lower electricity prices and ultimately increased business activity and tax receipts.

The Ontario government should avoid pricing the assets with the prime objective of receiving immediate deficit relief. Instead, the objective should be to provide maximum rate relief and, eventually, added deficit relief through higher tax receipts. Private utilities need to earn a return higher than the government because their cost of funds is higher. It doesn't make sense for Ontario to sacrifice rate relief in exchange for government savings that are less than the savings to rate payers. Nor should the government seek to boost the price by holding back on deregulation, which lowers electricity rates. At the extremes, a sale price that actually increases electricity rates would be too high. And while selling the assets at an undervalued price would give away windfall profits to investors, the government should lean toward an attractive price that will lower rates and stimulate business growth.

The government can't expect to sell all the assets at a price high enough to pay off all Hydro debt without raising electricity rates, especially because private utilities have the burden of corporate taxes. However, the possibility of keeping some of the debt isn't an obstacle to complete privatization. The provincial portion of the utilities' newly paid taxes could be earmarked to pay down debt.

Contrary to a widely held view, the government need no longer keep Hydro's nuclear facilities. The prospect of a government-owned nuclear utility supplying over half Ontario's electricity, and ever tempted to predatory pricing against competitors, would have one of two unfavorable consequences: It needlessly depresses the price the government receives for Hydro's remaining facilities, or it constrains the government's ability to deregulate.

While the nuclear plants account for 75% of the book value of Hydro's generation, their tremendous write-down on sale wouldn't on its own constitute a loss adding to the government's deficit. Moreover, it would be offset by a big write-up of the nonnuclear assets, which are hydroelectricity and coal. To enhance the sale value of Hydro's nuclear plants, federal tax revenues from the privatized utilities could be used by Atomic Energy Canada to take on decommissioning and spent-fuel liabilities.

There are now many credible private operators of nuclear plants -- especially in the U.S. They could buy into and operate Hydro's nuclear facilities without public fear, given a regulatory environment that assures adequate public safety and private assessment of liability risk.

Mr. Harris needs to set the privatization's scope and momentum up front to take over the process from Hydro management, subject it to market-pricing considerations alone and carry it through via an independent commission representing the free-market advocates in the debate. He cannot expect to time the sale, since it should take most of his term to complete successfully. A year would be needed just to pass the required legislation.

And Mr. Harris would do well to get the deal done before it finally becomes Quebec's turn to privatize Hydro-Quebec, which is virtually nuclear-free. While privatizing Hydro-Quebec seems light-years away politically, dire government finances in Quebec could trigger it sooner than expected. Privatization of electricity in one province will force the other to proceed. And the province that moves first will benefit more.

A bold step to immediately begin privatizing and deregulating all of Ontario Hydro and the municipal distributors will mark the start of Canada's single biggest economic transformation, and it may well be the hemisphere's biggest privatization. It will mark an unprecedented conversion of up to tens of billions of dollars of government indebtedness, from one of the hemisphere's biggest industrial debtors, into private-company equity and debt. It could command the lead in the electricity deregulation and rate reduction process across the continent and around the world.

Mr. Blohm is an American-Canadian investment banker and a doctoral candidate in economics at Columbia University.

(See related letter: "Letters to the Editor: Huge Restructuring Of Ontario Hydro" -- WSJ Oct. 10, 1995)

Document j000000020011025dr9f00m44

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

Letters to the Editor: Three-Way Partnership Key to Quebec's Success

371 words
31 May 1995
The Wall Street Journal
J
A17
English
(Copyright (c) 1995, Dow Jones & Co., Inc.)

In his May 5 Americas column, Robert Blohm is mistaken to call Quebec's economy "moribund." In 1994, it posted healthy growth of 3.6% and is expected to continue this expansion in 1995 by 3.3%, a rate similar to that of the U.S.

Far from suffering from a "chronic trade deficit of at least $5 billion annually," Quebec recorded trade surpluses of $3.4 billion and $5.6 billion in 1993 and 1994 respectively. In 1994, international exports totaled $40 billion, one-quarter of Quebec's GDP. If such openness to trade is not sufficient to ensure "cross-national fertilization," which Mr. Blohm claims is "seriously retarded in Quebec," it should be added that 60% of Quebec's largest manufacturing firms operate under non-Quebec ownership.

Quebec's budget deficit is not growing. In fact, Finance Minister Jean Campeau has just announced that the deficit will be reduced by 33% to $3.9 billion. In comparison, the much-praised federal budget tabled last February announced a deficit reduction of 15%.

At the beginning of the 1960s, a consensus emerged in Quebec that to achieve much-needed modernization of the economy, government action was absolutely necessary. Thus came the formation of capital pools through the creation of organizations like Hydro-Quebec or the Caisse de depot et placement. Many of our current entrepreneurs owe some of their success to initial investments by such agencies and now profit entirely on their own.

Participation of the labor movement is also an important engine of economic development. This is why governments of all political parties have traditionally supported initiatives such as the Fonds de Solidarite -- an investment fund managed by Quebec's largest union with assets exceeding $800 million -- that invest in projects designed to protect and increase employment in Quebec, even through the government has no say in how the capital is invested.

Quebec has always been and remains a capitalist and largely free-market society. It emphasizes partnership between business, labor and government. This may not be Mr. Blohm's way, but it is ours, and on balance it works.

Kevin Drummond

Delegate General of Quebec

New York

Document j000000020011025dr5v00btc

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

The Americas: Quebec's Moribund Economy; It's the System, Stupid!

By Robert Blohm
1,108 words
5 May 1995
The Wall Street Journal
J
A13
English
(Copyright (c) 1995, Dow Jones & Co., Inc.)

It appears that life's annoying political and economic realities are finally catching up with Quebec's political leaders. Attempts by Premier Jacques Parizeau and others to lobby for the independence referendum by sheer bombast failed to raise support much above the 40% mark. Now the vote, originally expected this spring, won't take place until next fall, and it's only going to be on a watered-down version of the referendum question. Likewise, the fiscal moment of reckoning is upon these leaders, as Quebec steps up to become Canada's last province to present its annual budget. Originally scheduled for release yesterday, final scrambling to make the figures look passable to a skeptical investment community likely helped delay release of the report until Tuesday.

Residents of Quebec should be happy that their political leaders have shown signs of accepting political and economic reality checks. But there is still a large gap between the enormous, unleashed potential of the Quebec population and the vision and willingness of Quebec's leaders to give free reign to that potential.

In two studies, by Educational Testing Service (1991), and by Canada's Council of Ministers of Education (1993), students in Quebec scored higher in math than students in any other province in a high-scoring Canada. Indeed, French Quebeckers are among the best math students in the world, according to ETS. This ability may be expressed in entrepreneurial talent, as well. Quebec has Canada's highest rate of manufacturing startups, and a higher rate of overall business startups than the rest of Canada. These strengths are epitomized in Softimage -- the Quebec maker of the software-generated images of "Jurassic Park" fame -- bought out last year by Microsoft.

Despite this rich talent pool, Quebec's bureaucrats and politicians, locked in an ideological time-warp, are depressing the economy. The state has served to protect a local elite from continental market forces, cultural and material. And it has kept a "distinct" population relatively captive and poorer, witness an unemployment rate chronically higher than Quebec's main trading partners'. It is also saddled with the continent's highest unionization rate (44% of workers), which slows mobility within the labor force and reflects an antiquated regulatory environment supportive of that immobility. Finally, on April 5th, Statistics Canada awarded Quebec the distinction of having the highest poverty rate of any Canadian province, at over one-fifth the population and nearly half the single people.

With the strong, quantifiable potential of the Quebec labor force, there is absolutely no reason for the province's pathetic economic standings. The problem is not with the people, it's with the system. The Quebec government's stubborn and lonely adherence to the statist economic model is reflected in its growing budget deficit and the expected increase in tax rates as the tax base erodes further. Canada's other provinces have reduced their budget deficits over the past two years and haven't dared increase income or sales tax-rates. By Statistics Canada's latest (1993) Provincial National Accounts, government amounts to 53% of the provincial GDP in Quebec, versus 48% in Canada as a whole.

The provincial government's impact on Quebec's economy extends further than these figures indicate, however, through companies controlled or directly backed by the state or its huge pension fund. This is especially true in the "national security" sectors of energy and food, where the Quebec government has, with the fervor of a cult preparing for Armageddon, long pursued an autarkic policy of maximizing local production and control regardless of economic cost. The government owns virtually all gas distribution and electricity production and it prevented outsiders from taking control of the top two food distribution chains, Steinberg in 1989 and Provigo in 1992. In 1993, the government took on GATT by defending Canada's "supply management" that allocates production to Quebec for a disproportionately high share of Canada's poultry and dairy consumption at an artificially high price.

As a result of this counter-productive, protectionist mindset, cross-national fertilization, a vital component of modern entrepreneurial development, has been seriously retarded in Quebec. This is true even when Quebec is

compared with the rest of Canada. According to Statistics Canada's 1991 "Science Statistics" and "Research and Development in Canada" service bulletins, foreign companies are becoming Canada's most important backers of R & D, compared with government and with Canadian-owned companies. But Statistics Canada's latest Corporations and Labour Union Returns Act tally by province (1988) shows that foreign-controlled companies account for just 17% of Quebec's corporate revenues, versus 28% of the rest of Canada's. Investment Canada's annual tallies show Quebec's share of new foreign direct investment in Canada to be disproportionately low.

The Quebec government and its agencies make up for the relative shortage of productive foreign equity investment and technology by borrowing abroad. This pays for Quebec's chronic trade deficit -- at least $5 billion annually, according to recent projections. But the government just squanders the money in industrial subsidies and make-work construction projects.

With the Quebec government's resources ever depleting from an underemployed population, foreign (mainly U.S.) bondholders aren't happy. Quebec bonds now trade at the price of a BBB credit, already the bottom of investor grade. In December, the Canadian Bond Rating Service lowered Quebec's rating to A and the other rating agencies will likely follow, putting it next to China's upwardly mobile A-/BBB.

Still, the politicians don't get it. In a December 12 speech in New York, Premier Parizeau crowed about "strong home ownership of your economy." And in their last political manifesto, the opposition provincial Liberals insist that "through its actions the State must be a powerful lever in our collective development." Indeed, it was the Liberal Party that took the measures impeding ownership of key assets by outsiders.

There's a golden opportunity waiting for a Quebec statesman to break rank and snap Quebec out of the self-defeating statist tide that has too long enthralled the intellectual and social elite. Both ordinary and talented Quebeckers deserve better. Their entrepreneurial energy, mathematical abilities and pure tenacity are human capital enough to carry Quebec, in unrestricted partnership with outside investors, into a prosperous future without state protection, direction or support.

Mr. Blohm is an investment banker in Canada and a Columbia University doctoral candidate in economics.

(See related letter: "Letters to the Editor: Three-Way Partnership Key to Quebec's Success" -- WSJ May 31, 1995)

950505-0119

YY95 MM05

Document j000000020011025dr55008ew

 © 2023 Factiva, Inc. All rights reserved.

NATIONAL POST

LISTENING POST
1, News
I'll be home for Christmas

Rod McQueen
647 words
7 January 1995
The Financial Post
FINP
Weekly
7
English
(Copyright The Financial Post)

Frank Stronach, the $40-million man and chairman of Magna International, pulled up stakes last year in the most-publicized move since Max Aitken betook himself to Britain and became Lord Beaverbrook. Stronach's aim was not a peerage, but the 20% personal tax rates in Switzerland. To maintain his Swiss residency, he has to watch how many days a year he spends in Canada. As 1994 wound down to its inexorable close, Stronach found himself with no time left for his adopted land. How to exchange Christmas greetings with wife, Elfreide, and kids Andy and Belinda, who is married to Magna president Don Walker? Why, by videoconferencing, of course. The Family Stronach was reunited for the balance of the holidays in that more common destination of choice for escaping Canadians - Florida.

OUT IN LEFT FIELD: Poor Lloyd Axworthy, minister of human resources and a bleeding heart trying to get by in a right-wing world. Boardroom wags call his endless search for social policy consensus "the taxworthy askforce."

LEAP OF FAITH: Whatever is David MacNaughton, president and CEO of Hill Knowlton Canada, doing running for provincial politics? The head of the country's largest PR firm (clients include American Barrick, Canada Post, Warner Lambert, Pepsi-Cola) is seeking the Liberal nomination in a Toronto riding. If the polls are correct, MacNaughton and Ontario leader Lyn McLeod will sweep to power later this year and he'll be finance minister. As a former executive assistant to Newfoundland's Don Jamieson through four federal departments, MacNaughton has certainly had the ear of policy-makers. MacNaughton says the leap is all about the courage of his convictions. But, hey, it is true that his contract at H&K has expired. Or are those others correct who assert the lobbyist is positioning himself to take over if McLeod stumbles in office? Just asking.

INK-STAINED WRETCH: Reed Scowen, Quebec's delegate general in New York, still has his shirt in a knot five months after a Wall Street Journal op-ed piece declared, among other things, that Quebec's growth in 1992 and 1993 was the worst in Canada. Scowen and his separatist bosses back home, worried about what Wall Street thinks, don't like the fact that when the commentary ran in August author Robert Blohm was identified as an "investment banker." Writes Scowen in a letter dated Dec. 20 that was sent far and wide: "We do not know his current whereabouts but we believe he was, at the time, a student." Indeed, Blohm was then and is now a student: a doctoral candidate in economics at Columbia. He is also a Canadian resident, has an MBA from McGill, and was from 1988-94 agent in Canada for Peers & Co., a Manhattan merchant bank. Some whereabouts.

THE END IS NIGH: This week's announcement by the Canadian Imperial Bank of Commerce that it will sell auto insurance may have grabbed the attention of drivers looking for lower rates, but the bank's quiet entry into life insurance last year was more seismic for the industry. CIBC Life, as it's known, applied for membership in the 102-member Canadian Life and Health Insurance Association, a step that required the approval of the group's board. Some industry executives in the association that represents 98% of the business in Canada were not amused that the bank camel was about to come into their cosy tent. Fearing that the banks will eventually eat them for lunch, the insurance crowd didn't quite get around to putting the request on the agenda at the spring meeting. When the next opportunity came along six months later, CIBC Life was approved, but not without some tears for the old times when dinosaurs, not camels, roamed the earth.

*** Infomart-Online ***

Document finp000020011025dr17000fq

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
EUROPE EDITION

Letters to the Editor: Quebec's Separatism: It's All in the Timing

408 words
11 October 1994
The Wall Street Journal Europe
WSJE
11
English
(Copyright (c) 1994, Dow Jones & Co., Inc.)

Pierre Lemieux's Sept. 19 article, "Quebec Election Sidesteps Issue of Individual Liberty," strikes at the heart of Quebec's lack of a political spectrum or democracy of ideas. But it puts the cynic's damper on focusing pressure on Quebec's leadership to change course. In true Canadian fashion, Mr. Lemieux muddles the election's significance.

While an alternative to statist nationalism was not offered to Quebec voters, there was indeed a clear political question asked: whether to give ethnic nationalist forces a mandate to advance to the final stage of separation from Canada and in the process further consolidate statist economic policies.

The vote was not evenly split as Mr. Lemieux starts out saying: Add up his breakdown and the separatists garnered 51% of the vote vs. 44% for the incumbent Liberals. Admittedly, the 51% includes a populist protest against the Liberals' elitist brand of statism. Granted, the victorious Parti Quebecois needs to deploy the machinery of state to win next year's planned independence referendum.

While Mr. Lemieux correctly cites polls showing 40% to 45% of Quebeckers in favor of separation, this is immediate separation. Another big percentage said they want to remain in Canada only if Canada's federal government this year grants more power prerogatives to Quebec's government. Those same polls showed some 60% of Quebeckers believe separation from Canada to be inevitable.

So it's all in the timing. Unless financial market pressure on Quebec is sustained, breakup will come ever sooner, maybe next year by Mr. Lemieux's own reckoning.

There's some local color in Mr. Lemieux's otherwise straight-from-the-heart appeal. He is wrong to suggest a symmetry between Quebec and "English" Canada as examples of "totalitarian democracy." When it comes to public-policy debate, a balanced press, ethnic pluralism and linguistic rights, Quebec is worse, the rest of Canada better. While Canada's Parliament has the opposition Reform Party to promote libertarian ideas, Quebec's National Assembly is stone silent.

Anglo Canada, dominated by what Mr. Lemieux calls a "territorial tribe," exists no more than Anglo America does. If statism is destroying Canada it seems appropriate to strike at where it's happening: in Quebec. But I would concede to Mr. Lemieux that that's no excuse to relent in removing the vestiges of statism elsewhere in Canada.
Robert Blohm New York

Document wsje000020011030dqab00cyp

THE WALL STREET JOURNAL.

Letters to the Editor -- Quebec's Separatism: It's All in the Timing

427 words
4 October 1994
The Wall Street Journal
J
A19
English
(Copyright (c) 1994, Dow Jones & Co., Inc.)

Pierre Lemieux's Sept. 16 Americas column "Quebec Election Sidesteps Issue of Individual Liberty" strikes at the heart of Quebec's lack of a political spectrum or democracy of ideas. But it puts the cynic's damper on focusing pressure on Quebec's leadership to change course. In true Canadian fashion, Mr. Lemieux muddles the election's significance.

While an alternative to statist nationalism was not offered to Quebec voters, there was indeed a clear political question asked: to give ethnic nationalist forces a mandate to advance to the final stage of separation from Canada and in the process further consolidate statist economic policies.

The vote was not evenly split as Mr. Lemieux starts out saying: add up his breakdown and the separatists garnered 51% of the vote vs. 44% for the incumbent Liberals. Admittedly, the 51% includes a populist protest against the Liberals' elitist brand of statism. Granted, the victorious Parti Quebecois needs to deploy the machinery of state to win next year's planned independence referendum.

While Mr. Lemieux correctly cites polls showing 40% to 45% of Quebeckers in favor of separation, this is immediate separation. Another big percentage said they want to remain in Canada only if Canada's federal government this year grants more power prerogatives to Quebec's government. Those same polls showed some 60% of Quebeckers believe separation from Canada to be inevitable.

So it's all in the timing. Unless financial market pressure on Quebec is sustained, breakup will come ever sooner, maybe next year by Mr. Lemieux's own reckoning. That's what I warned of in my Aug. 5 Americas column "The Bond Market Holds Quebec's Fate."

There's some local color in Mr. Lemieux's otherwise straight-from-the-heart appeal. He is wrong to suggest a symmetry between Quebec and "English" Canada as examples of "totalitarian democracy." When it comes to public-policy debate, a balanced press, ethnic pluralism and linguistic rights, Quebec is worse, the rest of Canada better. While Canada's parliament has the opposition Reform Party to promote libertarian ideas, Quebec's National Assembly is stone silent.

Anglo Canada, dominated by what Mr. Lemieux calls a "territorial tribe," exists no more than Anglo America does. If statism is destroying Canada it seems appropriate to strike at where it's happening, in Quebec. But I would concede to Mr. Lemieux that that's no excuse to relent in removing the vestiges of statism elsewhere in Canada.

Robert Blohm

New York

Document j000000020011029dqa400l6m

THE GLOBE AND MAIL

Letter to the Editor
Quebec's fate

Robert Blohm
277 words
30 August 1994
The Globe and Mail
GLOB
A18
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

Rick Salutin (What Can You Say About Those Wacky Quebeckers? - Aug. 12) likens to Conrad Black my statement from the Globe's Aug. 9 reprint of my Wall Street Journal op-ed article (The Bond Market Holds Quebec's Fate). That statement, that Quebec has "the industrial world's most economically interventionist subnational government," was made repeatedly in no less than The Brookings Institution's March, 1992, book of essays by Canadians entitled The Collapse of Canada.

Mr. Salutin next misapplies to present-day Quebeckers my concluding comment about facing "the stark choice of eliminating statism or imposing statist authoritarianism." I applied it to the Parti Quebecois, only if it "actually goes through with and wins the independence referendum," and were faced with the loss of bond market support. So I'm not an American in search, as Mr. Salutin puts it, of "Manichean strife" in Quebec's political economy. But I do see in him an old-line Canadian in search of the perpetual muddle that has allowed situations like this to go on damaging Canada's economy. Caricaturing the spontaneous reaction of outsiders as so un-Canadian only takes the pressure off.

An orderly retreat by investors, particularly the key U.S. ones, well enough before a move to separation would probably forestall it, prompting instead an orderly winding down of statism in Quebec. Investors are powerful agents, not coy observers. Acting like there's no tomorrow will make tomorrow come. Canada need not be a Salutin-maintained muddle coming to its inevitable conclusion. Just maybe, uncharacteristically aware Americans can help save Canada]

Robert Blohm Toronto

Document glob000020011029dq8u00x3v

THE WALL STREET JOURNAL.
ASIA EDITION

The Americas
'Til Debt Do Us Part

By Robert Blohm
1,064 words
17 August 1994
The Asian Wall Street Journal
AWSJ
6
English
(Copyright (c) 1994, Dow Jones & Co., Inc.)

On Sept. 12, Quebec will hold what separatists hope will be its last election as a province of Canada. The Parti Quebecois is expected to win handily. It has vowed to use the vote as a mandate to make final preparations for declaring or negotiating Quebec's independence, subject to ratification by Quebec's citizens within a year.

Since the 1980 failure to get a mandate to negotiate a softer separation from Canada, nationalism has swept Quebec. But overborrowing by the Quebec government has made the continuance, let alone independence, of Quebec's state-coordinated economy increasingly difficult. Quebec politicians, separatist or not, have too long pursued this negative-sum game. But bond investors may soon force their hand.

Ensuring the central role of government in Quebec's economy has been the prime tenet of Quebec nationalism. Indeed, as reported in March by the Toronto Globe and Mail, Jacques Parizeau, PQ leader and former government economic czar, declared that to use "the tools and levers" of the state to direct the economy was "why I am a separatist."

His economic blueprint calls for creating an overreaching National Employment Commissi on that will set macroeconomic policy and coordinate so-called regional development commissions. Unlike Western Canadian politicians who dislike Canada for having too much government, Quebec's pols rail at the status quo for providing Quebec with too little governmental control. And yet, they have already made Quebec the industrial world's most economically interventionist subnational government.

Borrowing and taxing used to be easy for Quebec's government when it had an AA bond rating. Quebec's abundant supply of hydro-energy and ready U.S. customers helped secure its position with U.S. investors. Indeed, Quebec has been the world's only developing economy financed largely on the international, public bond market, rather than being a ward of commercial banks.

But bond investors back only those governments whose economies give them the ability to service and repay debt. And despite the blessings of nature, Quebec's statist economy has been caught in the net of market realities. The cost of having the continent's highest relative government borrowing -- at 1.4 times the gross domestic product -- has pushed Quebec to an economic precipice.

Quebec had the worst GDP growth of Canada's regions in 1992 and in 1993: under 1% GDP growth over that two-year period, vs. 3% for all of Canada. Including Quebec's share of the national government's $300 billion in financial-market debt, Quebec is now the industrialized world's biggest state debtor relative to savings, and the biggest combined net importer of goods, services and investment relative to the size of the economy. Indeed, Quebec accounts for half of Canada's current-account deficit, although it has only a quarter of Canada's population. And with only a single-A bond rating now, the government of an increasingly "independent" Quebec could be shut out of the public bond market entirely should its rating fall much below the A-range.

The government of an independent Quebec would certainly be hard-pressed to find investors just to refinance its quarter-share of the national government's AAA-rated debt, which matures twice as fast as the Quebec government's existing debt and trades much more often. Japanese investors, for instance, although accounting for about half the foreign holdings of the national government's debt, account for less than 10% of the Quebec government's current foreign debt. U.S. pensioners and insurance policy-holders are left holding a disproportionate three-quarters of the Quebec government's foreign debt. Those holdings -- nearly $15 billion (U.S.) -- are principally in the bonds of the Hydro-Quebec state electric utility, the industrial world's biggest corporate debtor both to U.S. investors and in U.S. dollars.

In June, Quebec had to face the embarrassing situation of acquiescing to investor pressure to shorten the effective maturity of a $700 million U.S. public bond offering for Hydro-Quebec. Then Williams College became the latest U.S. endowment to announce divestment of Hydro-Quebec bonds, citing its investment managers' concern over Quebec's separation from Canada. The entire Canadian bond market dropped further when the election was finally announced a few weeks ago. U.S.-dollar denominated export commitments by Hydro-Quebec to northeastern U.S. electrical utilities -- needed to service Hydro's U.S.-dollar debt -- are no longer in demand because they're too costly.

With Canada's federal-provincial debt now joining Italy's in exceeding annual economic output, the approaching events in Quebec have made the entire Canadian bond market the world's worst-performing this year. And with financiers placing much of the onus for bond market uncertainty and high interest rates on Quebec, the federal government may try to immunize the rest of Canada from paying the increase in interest costs on its bonds caused by the devaluing influence of Quebec's economy. It could do this by earmarking which of the Canada bonds currently held by each investor would be the ones eventually converted to Quebec-government bonds, establishing a separate market for them and charging Quebec taxpayers the higher cost of refinancing them.

Faced with creditor refusal to finance enough of the Quebec government's deficit and maturing debt at acceptable cost, Quebec may be forced to reduce government spending. Sustained creditor pressure may also reduce separatist motivation for independence, which is perceived as a blank check for a statist regime that is becoming increasingly difficult to finance.

But even if Mr. Parizeau's PQ actually goes through with and wins an independence referendum, a separatist government would still face the stark choice of eliminating statism or imposing statist authoritarianism. Should an independent, cash-poor Quebec finally be forced by market realities to abandon statism, it could get cash by privatizing Hydro-Quebec, the world's biggest hydro-electricity producer, and by tapping unparalleled opportunities for reducing tax rates and deregulation. The economy would then be ripe for equity investment as a strong emerging market. Quebec's citizens would then be free to get on with their lives in an open economy unfettered by a political agenda. ---

Mr. Blohm is an investment banker and fellow at the American Institute for Economic Research in Great Barrington, Massachusetts.

Document awsj000020011028dq8h00c0j

 © 2023 Factiva, Inc. All rights reserved.

THE GLOBE AND MAIL

The
What can you say about those wacky Quebeckers?

RICK SALUTIN
1,015 words
12 August 1994
The Globe and Mail
GLOB
C1
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

UNTIL now, my favourite election stories have been from India. All those wacky Indian election reports, as presented by Western journalists. You know: "World's Biggest Democracy Goes to the Polls." People trampled in lineups, buses plunging with politicians aboard, ballots spoiled by illiterate voters or the counting delayed by monsoons. Ah, those zany Indians, the stories imply - yet what do you expect when you try to have democracy in such a big, exotic country? But I'm starting to enjoy the Anglo media's coverage of the Quebec election almost as much.

Ah, those wacky Quebeckers. What can you say, eh? They don't want independence, but they're ready to vote for a separatist government. More than half say there should be a referendum on independence no matter who wins, then 61 per cent go and say constitutional issues should be shelved. On a single day, we read that financial experts in Montreal are telling "clients" to think about moving money out of Quebec for fear of a Parti Quebecois win, yet mortgage rates drop since "calm" is expected to return after the election. But what do you expect when you hold an election in such a goofy place?

"Quebeckers have more fun," wrote Benoit Aubin in Maclean's. Whether they're "shopping, eating, driving, loafing or rioting," Quebeckers "do it with more dedication, more flair than other Canadians." Aubin must know. He's also managing editor at Le Devoir, under that irrepressible merry- maker, Lise Bissonette. Globe and La Presse columnist Lysiane Gagnon has explained that the only reason many Canadians outside Quebec hated Brian Mulroney was because his wife didn't shop in Eaton's basement - an insight so complex and hard to grasp that she repeated it more than once.

Of course we dour Anglos are getting off on the Quebec election. For us it's a wild and crazy ride we'd never take on our own. (Never mind the free trade election, the Charlottetown referendum, the 1993 election that vaporized two major parties, Richard Hatfield, Bill Vander Zalm or the election of the NDP in Ontario; nothing politically goofy ever happens here.) That must be what accounts for all the coverage. At least a full page every day in the papers, often more.

When Lucien Bouchard took a modest campaign trip in a minivan, there were no francophone media. Zero. But reporters came from The Globe, The Toronto Star, CBC radio and TV, the Montreal Gazette and Southam. Bouchard tried bravely to explain it in parliamentary terms but he missed the India factor. I'd give the Star special points for hyperactive Liberal cheerleading in their coverage. If premier Daniel Johnson makes it out of bed in the morning they tend to treat it as a heroic feat. ("Premier rises from torpor, kicks PQ butt.") When he visited some strongly PQ ridings they made him sound like Clint Eastwood heading into town in Unforgiven.

Sadly, a focus on those wacky Quebeckers may shortchange some other elements in this election. Like what a friend who's been active in Quebec since the 1930s calls "the real fight," which won't start until after the PQ (it's assumed) takes power. She means conflict over what kind of society an independent (or PQ-governed) Quebec would be. This is a matter of social vision and economic policy. The PQ program has what Anthony Wilson-Smith of Maclean's calls a "leftist tilt," despite Jacques Parizeau's "pro-business rhetoric."

For instance, it finds deficit reduction "desirable" but not something to be "achieved blindly at the price of all our past achievements." That's about as close to bolshevism as you'll find on the political spectrum these days. The PQ program also includes free drugs for seniors, free eye exams, free dental care for kids, lots of daycare, and a "national" purchasing policy - which probably contradicts both the free trade agreement and NAFTA. Left nationalists used to sometimes argue you had to win national independence first, then you could fight for a social

revolution. Today for the left in the PQ (and the BQ as well) it seems more a matter of getting that damned independence thing off your plate so you can go on to talk about what really concerns you.

This story hasn't been ignored. Wilson-Smith has written it, as has Robert Mackenzie in the Toronto Star. Aubin in Maclean's did a very imaginative take. He said Quebec today is divided between descendants of the original populace: settlers and voyageurs. Then, in a stunning apercu, he claimed the Liberals are the voyageurs (Bourassa and Johnson as Radisson and Groseillers) because they're into the free market, free trade, etc. That leaves the PQ, who merely want to dissolve a 225-year connection to Canada, as the stodgy old settlers. The most dramatic treatment of the story came from Robert Blohm, a U.S. investment banker writing in The Wall Street Journal and reprinted in the Globe. He labelled Quebec, in a phrase worthy of Conrad Black, "the industrial world's most economically interventionist subnational government." He said people there face "the stark choice of eliminating statism or imposing statist authoritarianism." Count on an American to find Manichean strife in a pretty mundane set of choices. But overall the issue hasn't seized editors; they're into those wacky Quebeckers and their flipflops over independence.

My own experience is, it can be fun to try to beat Quebec to the punch on separation. I learned this a few years ago when I wrote that it was time for Canada to get out of Quebec, regardless of what they decide, if they ever do. (The question for us is no longer, what does Quebec want? It's when will they make up their minds?) The reaction from people I knew in Quebec was unexpected and a bit fraught. They said, more or less, " Minute la] Hold on a second. Could we, um, talk about this first?"

Document glob000020011029dq8c00ums

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
EUROPE EDITION

The Americas
The Bond Market Holds Quebec's Fate

By Robert Blohm
1,068 words
9 August 1994
The Wall Street Journal Europe
WSJE
8
English
(Copyright (c) 1994, Dow Jones & Co., Inc.)

On Sept. 12, Quebec will hold what could be its last election as a province of Canada. The separatist Parti Quebecois is expected to win handily. It has vowed to use the vote as a mandate to make final preparations for declaring or negotiating Quebec's independence, subject to ratification by Quebec's citizens within a year.

Since the 1980 failure to get a mandate to negotiate a softer separation from Canada, nationalism has swept Quebec, making political independence ever more likely. But overborrowing by the Quebec government has made the continuance, let alone independence, of Quebec's state-coordinated economy increasingly difficult. Quebec politicians, separatist or not, have too long pursued this negative-sum game. But bond investors may soon force their hand.

Ensuring the central role of government in Quebec's economy has been the prime tenet of Quebec nationalism. Indeed, as reported in March by the Toronto Globe & Mail, Jacques Parizeau, PQ leader and former government economic czar, declared that to use "the tools and levers" of the state to direct the economy was "why I am a separatist."

His economic blueprint calls for creating an overreaching National Employment Commission that will set macroeconomic policy and coordinate so-called regional development commissions. Unlike Western Canadian politicians who dislike Canada for having too much government, Quebec's pols rail at the status quo for providing Quebec with too little governmental control. And yet, they have already made Quebec the industrial world's most economically interventionist subnational government.

Borrowing and taxing used to be easy for Quebec's government when it had a AA bond rating. Quebec's abundant supply of hydro-energy and ready U.S. customers helped secure its position with U.S. investors. Indeed, Quebec has been the world's only developing economy financed largely on the international, public bond market, rather than being a ward of commercial banks.

But bond investors back only those governments whose economies give them the ability to service and repay debt. And despite the blessings of nature, Quebec's statist economy has been caught in the net of market realities. The cost of having the continent's highest relative government borrowing -- at 1.4 times the gross domestic product -- has pushed Quebec to an economic precipice.

Quebec had the worst GDP growth of Canada's regions in 1992 and in 1993: under 1% GDP growth over that two-year period, vs. 3% for all of Canada. Including Quebec's share of the national government's $300 billion in financial-market debt, Quebec is now the industrialized world's biggest state debtor relative to savings, and the biggest combined net importer of goods, services and investment relative to the size of the economy. Indeed, Quebec accounts for half of Canada's current-account deficit, although it has only a quarter of Canada's population. And with only a single-A bond rating now, the government of an increasingly "independent" Quebec could be shut out of the public bond market entirely should its rating fall much below the A-range.

The government of an independent Quebec would certainly be hard-pressed to find investors just to refinance its quarter-share of the national government's AAA-rated debt, which matures twice as fast as the Quebec government's existing debt and trades much more often. Japanese investors, for instance, although accounting for about half the foreign holdings of the national government's debt, account for less than 10% of the Quebec government's current foreign debt. U.S. pensioners and insurance policy-holders are left holding a disproportionate three-quarters of the Quebec government's foreign debt. Those holdings -- nearly $15 billion

 © 2023 Factiva, Inc. All rights reserved.

(U.S.) -- are principally in the bonds of the Hydro-Quebec state electric utility, the industrial world's biggest corporate debtor both to U.S. investors and in U.S. dollars.

In June, Quebec had to face the embarrassing situation of acquiescing to investor pressure to shorten the effective maturity of a $700 million U.S. public bond offering for Hydro-Quebec. Then Williams College became the latest U.S. endowment to announce divestment of Hydro-Quebec bonds, citing its investment managers' concern over Quebec's separation from Canada. The entire Canadian bond market dropped further when the election was finally announced last week. U.S.-dollar denominated export commitments by Hydro-Quebec to northeastern U.S. electrical utilities -- needed to service Hydro's U.S.dollar debt -- are no longer in demand because they're too costly.

With Canada's federal-provincial debt now joining Italy's in exceeding annual economic output, the approaching events in Quebec have made the entire Canadian bond market the world's worst-performing this year. And with financiers placing much of the onus for bond market uncertainty and high interest rates on Quebec, the federal government may try to immunize the rest of Canada from paying the increase in interest costs on its bonds caused by the devaluing influence of Quebec's economy. It could do this by earmarking which of the Canada bonds currently held by each investor would be the ones eventually converted to Quebec-government bonds, establishing a separate market for them and charging Quebec taxpayers the higher cost of refinancing them.

Faced with creditor refusal to finance enough of the Quebec government's deficit and maturing debt at acceptable cost, Quebec may be forced to reduce government spending. Sustained creditor pressure may also reduce separatist motivation for independence, which is perceived as a blank check for a statist regime that is becoming increasingly difficult to finance.

But even if Mr. Parizeau's PQ actually goes through with and wins the independence referendum, a separatist government would still face the stark choice of eliminating statism or imposing statist authoritarianism. Should an independent, cash-poor Quebec finally be forced by market realities to abandon statism, it could get cash by privatizing Hydro-Quebec, the world's biggest hydro-electricity producer, and by tapping unparalleled opportunities for reducing tax rates and deregulation. The economy would then be ripe for equity investment as a strong emerging market. Quebec's citizens would then be free to get on with their lives in an open economy, unfettered by a political agenda. ---

Mr. Blohm is an investment banker and fellow at the American Institute for Economic Research in Great Barrington, Massachusetts.

Document wsje000020011030dq8900b9a

 © 2023 Factiva, Inc. All rights reserved.

THE GLOBE AND MAIL

Features

The bond market holds Quebec's fate VIEW FROM ABROAD / A U.S. investment banker throws cold water on the prospects for a state-directed economy in a separate Quebec. Of course, Parti Quebecois could always sell off Hydro-Quebec

ROBERT BLOHM
1,116 words
9 August 1994
The Globe and Mail
GLOB
A17; (ILLUS)
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

ON Sept. 12, Quebec will hold what could be its last election as a province of Canada. The separatist Parti Quebecois is expected to win handily. It has vowed to use the vote as a mandate to make final preparations for declaring or negotiating Quebec's independence, subject to ratification by Quebec's citizens within a year.

Since the 1980 failure to get a mandate to negotiate a softer separation from Canada, nationalism has swept Quebec, making political independence even more likely. But overborrowing by the Quebec government has made the continuance, let alone independence, of Quebec's state-co- ordinated economy increasingly difficult. Quebec politicians, separatist or not, have too long pursued this negative-sum game. But bond investors may soon force their hand.

Ensuring the central role of government in Quebec's economy has been the prime tenet of Quebec nationalism. Indeed, as reported in March by (The) Globe and Mail, Jacques Parizeau, PQ leader and former government economic czar, declared that to use "the tools and levers" of the state to direct the economy was "why I am a separatist."

His economic blueprint calls for creating an overreaching National Employment Commission that will set macroeconomic policy and co-ordinate so-called regional development commissions. Unlike Western Canadian politicians who dislike Canada for having too much government, Quebec's pols rail at the status quo for providing Quebec with too little governmental control. And yet, they have already made Quebec the industrial world's most economically interventionist subnational government.

Borrowing and taxing used to be easy for Quebec's government when it had an AA bond rating. Quebec's abundant supply of hydro energy and ready U.S. customers helped secure its position with U.S. investors. Indeed, Quebec has been the world's only developing economy financed largely on the international, public bond market rather than being a ward of commercial banks.

But bond investors back only those governments whose economies give them the ability to service and repay debt. And despite the blessings of nature, Quebec's statist economy has been caught in the net of market realities. The cost of having the continent's highest relative government borrowing - at 1.4 times the gross domestic product - has pushed Quebec to an economic precipice.

Quebec had the worst GDP growth of Canada's regions in 1992 and in 1993: under 1-per-cent GDP growth over that two-year period, versus 3 per cent for all of Canada. Including Quebec's share of the national government's $300-billion in financial-market debt, Quebec is now the industrialized world's biggest state debtor relative to savings, and the biggest combined net importer of goods, services and investment relative to the size of the economy.

Indeed, Quebec accounts for half of Canada's current-account deficit, although it has only a quarter of Canada's population. And with only a single-A bond rating now, the government of an increasingly "independent" Quebec could be shut out of the public bond market entirely should its rating fall much below the A-range.

The government of an independent Quebec would certainly be hard-pressed to find investors just to refinance its quarter-share of the national government's AAA-rated debt, which matures twice as fast as the Quebec government's existing debt and trades much more often. Japanese investors, for instance, although accounting

for about half the foreign holdings of the national government's debt, account for less than 10 per cent of the Quebec government's current foreign debt. U.S. pensioners and insurance- policy-holders are left holding a disproportionate three-quarters of the Quebec government's foreign debt. Those holdings - nearly $15-billion (U.S.) - are principally in the bonds of the Hydro-Quebec state electric utility, the industrial world's biggest corporate debtor both to U.S. investors and in U.S. dollars.

In June, Quebec had to face the embarrassing situation of acquiescing to investor pressure to shorten the effective maturity of a $700-million U.S. public bond offering for Hydro-Quebec. Then Williams College became the latest U.S. endowment to announce divestment of Hydro-Quebec bonds, citing its investment managers' concern over Quebec's separation from Canada. The entire Canadian bond market dropped further when the election was finally announced on July 24. U.S.-dollar-denominated export commitments by Hydro-Quebec to northeastern U.S. electrical utilities - needed to service Hydro's U.S.-dollar debt - are no longer in demand because they're too costly.

With Canada's federal-provincial debt now joining Italy's in exceeding annual economic output, the approaching events in Quebec have made the entire Canadian bond market the world's worst-performing this year. And with financiers placing much of the onus for bond-market uncertainly and high interest rates on Quebec, the federal government may try to immunize the rest of Canada from paying the increase in interest costs on its bonds caused by the devaluing influence of Quebec's economy. It could do this by earmarking which of the Canada bonds currently held by each investor would be the ones eventually converted to Quebec-government bonds, establishing a separate market for them and charging Quebec taxpayers the higher cost of refinancing them.

Faced with creditor refusal to finance enough of the Quebec government's deficit and maturing debt at acceptable cost, Quebec may be forced to reduce government spending. Sustained creditor pressure may also reduce separatist motivation for independence, which is perceived as a blank cheque for a statist regime that is becoming increasingly difficult to finance.

But even if Mr. Parizeau's PQ actually goes through with and wins the independence referendum, a separatist government would still face the stark choice of eliminating statism or imposing statist authoritarianism.

Should an independent, cash-poor Quebec finally be forced by market realities to abandon statism, it could get cash by privatizing Hydro- Quebec, the world's biggest hydro-electricity producer, and by tapping unparalleled opportunities for reducing tax rates and deregulation. The economy would then be ripe for equity investment as a strong emerging market. Quebec's citizens would then be free to get on with their lives in an open economy, unfettered by a political agenda.

Robert Blohm is an investment banker and fellow at the American Institute for Economic Research in Great Barrington, Mass. This piece is reprinted from The Wall Street Journal.

Document glob000020011029dq8900u3h

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

The Americas: The Bond Market Holds Quebec's Fate

By Robert Blohm
1,084 words
5 August 1994
The Wall Street Journal
J
A9
English
(Copyright (c) 1994, Dow Jones & Co., Inc.)

On Sept. 12, Quebec will hold what could be its last election as a province of Canada. The separatist Parti Quebecois is expected to win handily. It has vowed to use the vote as a mandate to make final preparations for declaring or negotiating Quebec's independence, subject to ratification by Quebec's citizens within a year.

Since the 1980 failure to get a mandate to negotiate a softer separation from Canada, nationalism has swept Quebec, making political independence ever more likely. But overborrowing by the Quebec government has made the continuance, let alone independence, of Quebec's state-coordinated economy increasingly difficult. Quebec politicians, separatist or not, have too long pursued this negative-sum game. But bond investors may soon force their hand.

Ensuring the central role of government in Quebec's economy has been the prime tenet of Quebec nationalism. Indeed, as reported in March by the Toronto Globe & Mail, Jacques Parizeau, PQ leader and former government economic czar, declared that to use "the tools and levers" of the state to direct the economy was "why I am a separatist."

His economic blueprint calls for creating an overreaching National Employment Commission that will set macroeconomic policy and coordinate so-called regional development commissions. Unlike Western Canadian politicians who dislike Canada for having too much government, Quebec's pols rail at the status quo for providing Quebec with too little governmental control. And yet, they have already made Quebec the industrial world's most economically interventionist subnational government.

Borrowing and taxing used to be easy for Quebec's government when it had a AA bond rating. Quebec's abundant supply of hydro-energy and ready U.S. customers helped secure its position with U.S. investors. Indeed, Quebec has been the world's only developing economy financed largely on the international, public bond market, rather than being a ward of commercial banks.

But bond investors back only those governments whose economies give them the ability to service and repay debt. And despite the blessings of nature, Quebec's statist economy has been caught in the net of market realities. The cost of having the continent's highest relative government borrowing -- at 1.4 times the gross domestic product -- has pushed Quebec to an economic precipice.

Quebec had the worst GDP growth of Canada's regions in 1992 and in 1993: under 1% GDP growth over that two-year period, vs. 3% for all of Canada. Including Quebec's share of the national government's $300 billion in financial-market debt, Quebec is now the industrialized world's biggest state debtor relative to savings, and the biggest combined net importer of goods, services and investment relative to the size of the economy. Indeed, Quebec accounts for half of Canada's current-account deficit, although it has only a quarter of Canada's population. And with only a single-A bond rating now, the government of an increasingly "independent" Quebec could be shut out of the public bond market entirely should its rating fall much below the A-range.

The government of an independent Quebec would certainly be hard-pressed to find investors just to refinance its quarter-share of the national government's AAA-rated debt, which matures twice as fast as the Quebec government's existing debt and trades much more often. Japanese investors, for instance, although accounting for about half the foreign holdings of the national government's debt, account for less than 10% of the Quebec government's current foreign debt. U.S. pensioners and insurance policy-holders are left holding a disproportionate three-quarters of the Quebec government's foreign debt. Those holdings -- nearly $15 billion (U.S.) -- are principally in the bonds of the Hydro-Quebec state electric utility, the industrial world's biggest corporate debtor both to U.S. investors and in U.S. dollars.

 © 2023 Factiva, Inc. All rights reserved.

In June, Quebec had to face the embarrassing situation of acquiescing to investor pressure to shorten the effective maturity of a $700 million U.S. public bond offering for Hydro-Quebec. Then Williams College became the latest U.S. endowment to announce divestment of Hydro-Quebec bonds, citing its investment managers' concern over Quebec's separation from Canada. The entire Canadian bond market dropped further when the election was finally announced last week. U.S.-dollar denominated export commitments by Hydro-Quebec to northeastern U.S. electrical utilities -- needed to service Hydro's U.S.-dollar debt -- are no longer in demand because they're too costly.

With Canada's federal-provincial debt now joining Italy's in exceeding annual economic output, the approaching events in Quebec have made the entire Canadian bond market the world's worst-performing this year. And with financiers placing much of the onus for bond market uncertainty and high interest rates on Quebec, the federal government may try to immunize the rest of Canada from paying the increase in interest costs on its bonds caused by the devaluing influence of Quebec's economy. It could do this by earmarking which of the Canada bonds currently held by each investor would be the ones eventually converted to Quebec-government bonds, establishing a separate market for them and charging Quebec taxpayers the higher cost of refinancing them.

Faced with creditor refusal to finance enough of the Quebec government's deficit and maturing debt at acceptable cost, Quebec may be forced to reduce government spending. Sustained creditor pressure may also reduce separatist motivation for independence, which is perceived as a blank check for a statist regime that is becoming increasingly difficult to finance.

But even if Mr. Parizeau's PQ actually goes through with and wins the independence referendum, a separatist government would still face the stark choice of eliminating statism or imposing statist authoritarianism. Should an independent, cash-poor Quebec finally be forced by market realities to abandon statism, it could get cash by privatizing Hydro-Quebec, the world's biggest hydro-electricity producer, and by tapping unparalleled opportunities for reducing tax rates and deregulation. The economy would then be ripe for equity investment as a strong emerging market. Quebec's citizens would then be free to get on with their lives in an open economy, unfettered by a political agenda.

Mr. Blohm is an investment banker and fellow at the American Institute for Economic Research in Great Barrington, Mass.

(See related letter: "Letters to the Editor: A Rude Awakening in Quebec?" -- WSJ Oct. 24, 1995)

Document j000000020011030dq850022f

 © 2023 Factiva, Inc. All rights reserved.

NATIONAL POST

THE INSIDERS
4, SPECTRUM: Comment and Opinion

A Quebec divorce doesn't rate bedroom privileges

Diane Francis
800 words
30 April 1994
The Financial Post
FINP
Weekly
S3
English
(Copyright The Financial Post)

Lucien Bouchard and his separatists want a divorce with bedroom privileges from English Canada. Well, they simply won't get it.

If a divorce is inevitable, Bouchard-the-turncoat and his pal, Jacques Parizeau, won't believe how unified, how angry and how tough English Canada will be in terms of bargaining. They also won't believe how much leverage English Canada has over their little "country" or the fact that English Canadians - not a Quebec-born prime minister - will dictate the terms of divorce.

Bouchard said in an interview with The Financial Post's Alan Toulin last week that English Canada will be "rational" and let Quebec use the C$, have seats on the Bank of Canada board and avoid assuming less than Quebec's 24.5% of the national debt. But if Quebec opts to leave, English Canada holds all the cards. Here's why:

1. Debt. The national debt is $511 billion. Quebec accounts for 24.5% of the population of Canada and therefore owns 24.5% of the country's assets. It also owes 24.5% of its debts. That is not negotiable.

If Quebec balks, the Bank of Canada needs only issue a press release to bondholders of record stating that 75.5% of the par value of the debt will be paid by the people of Canada at the agreed-upon terms and the rest will be owed to them by Quebec.

Bouchard countered that strategy - which is the brainchild of New York investment banker Robert Blohm and about which I have written before. Bouchard said in the interview with Toulin that such a move would constitute a default in the eyes of bondholders. That's rubbish, especially since most federal debts are rolled over short-term and lenders will be told to expect this should Quebec leave.

Bouchard wants to push debts on to others because Quebec's debts, both federal and provincial, would be equivalent to 122% of its entire economic output. This is second only to near-bankrupt Newfoundland whose federal/provincial debts add up to 160% of its GDP.

Even worse, interest payments on Quebec's debts in 1993 were equivalent to 353.6% of all its exports, compared to Alberta's 106.9% or Ontario's 184.6%.

2. Quebec's dependency. Quebec may borrow most of its money from the Americans, but some 26.5% of its manufacturing shipments went to the rest of Canada by the late 1980s. By comparison, only 6.8% of the rest of Canada's shipments went to Quebec. They need us more than the other way around.

3. Canada has a veto over any new NAFTA membership. This means that if Quebec becomes difficult it can be economically isolated.

4. Quebec coddling will stop. Canada does not have free trade internally and one of the biggest culprits is Quebec with discriminatory labor laws, procurement policies and corporate subsidies. Cheating should have stopped years ago but pandering by Ottawa left Quebec alone.

Quebec's protected economy will be negatively affected as a sovereign nation. This is because NAFTA and GATT prohibit the types of subsidies and cheating that Quebec routinely gets away with, only because it is a

lower level of government. (Similarly, U.S. states have "buy America" procurement policies, but Washington is forbidden to do so.)

An independent Quebec could not subsidize its industry with cheap power, or prop up its dairy and agricultural sectors, or give special treatment to exporters if it wanted to be part of NAFTA.

5. Quebec has a huge energy shortfall. The province has no gas or oil and must earn foreign currency to buy them. This is a $6-billion-a-year problem.

It's interesting that the cheapest, closest oil supplies will be available from Newfoundland's Hibernia oilfield. If I were Newfoundland, I wouldn't sell Quebec any oil until it agreed to renegotiate the horrid long-term agreement (until 2041) under which Hydro-Quebec purchases substantially all the power generated by Newfoundland's Churchill Falls generating station - one of the main reasons Hydro-Quebec makes any money.

The bottom line is English Canada doesn't have to give bedroom privileges to Quebec which is why it won't. Never mind arguments by separatists that harming Quebec would only be shooting ourselves in the foot. That may be so, but irrationality will likely rule. Just as it makes no sense for Quebec to separate economically as you can see above, it will make no sense economically for English Canada to drive a hard bargain. But if one happens, count on the other happening too.

*** Infomart-Online ***

(Ed. note) Diane Francis is editor of The Financial Post.

Document finp000020011029dq4u006v4

 © 2023 Factiva, Inc. All rights reserved.

The Washington Post

A SECTION

Quebec Power Company Finds Its High-Voltage Plans Short-Circuited

Charles Trueheart
Washington Post Foreign Service
913 words
7 April 1994
The Washington Post
WP
FINAL
a22
English
(Copyright 1994)

As national symbols go, hydroelectric dams and spillways don't provide the patriotic uplift of the Grand Canyon or the bald eagle. But French-speaking Quebec's brawny state-owned utility, Hydro-Quebec, has always stood for more than cheap and plentiful current. It has held out the literal promise of Quebec's economic independence, and thus the mastery of its political destiny. Hydro-Quebec did not simply electrify Quebec, it empowered it.

Symbols never die, but they do run out of steam. The separatist fervor Hydro-Quebec helped to inspire is today a credible and organized movement. But for the 50-year-old utility, the future has seldom been so uncertain.

Retrenchment and review and "new realities" are in the air. Building plans are on hold. There's even talk, considered heretical in some quarters, of partial privatization.

One certainty is that Hydro-Quebec, a fully "nationalized" utility since 1963, is being forced to relinquish its cherished ambition to become North America's most important source of cheap and abundant energy - the "blue-eyed sheiks," in one phrase from the oil-shortage years. For the foreseeable future, Quebecers may have to settle for making the most of the power-generating capacity they've built.

"Hydro-Quebec was a way to tell ourselves as Quebecers, and the world, that we could build something important, to be proud of," said Jean Francois Lisee, an author and journalist in Montreal. "We needed that. But now that we've done it, we don't need to do more. Can we be mature enough not to do more?"

The locus of Hydro-Quebec's woes for some years has been its onetime source of pride: the massive James Bay hydroelectric project in the remote wilds of northern Quebec, which was viewed by engineers as another potential wonder of the world.

The first phase of the James Bay project is complete, but plans for Phase II - the flooding of the 1,000-square-mile Great Whale River Basin - are on hold. This undertaking, now priced at nearly U.S.$10 billion, has been delayed repeatedly and has now been effectively scotched for the foreseeable future.

One by one, unexpected hostile forces have undermined the project: contentious native groups, time-consuming environmental impact studies, proliferating energy alternatives, reduced demand for electricity.

Just in the last few weeks, in the midst of a few low-key 50th-anniversary events, Hydro-Quebec got its latest piece of bad news, adding to the uncertainty about the future of Great Whale. One of the utility's biggest U.S. energy customers, the New York Power Authority, said it would not be going through with its contract to buy 800 megawatts of power - U.S.$5 billion worth - from Hydro-Quebec. Two years ago, the New York agency cancelled a U.S.$13 billion purchase from Hydro-Quebec.

More significant than the cancellation was the blunt message that the authority's new president, S. David Freeman, delivered with it. "We don't need the power, the price is too high, and there are unresolved environmental questions in Quebec," Freeman said.

The power authority would not be signing any contracts for Hydro-Quebec energy that would justify proceeding with Great Whale, he said.

 © 2023 Factiva, Inc. All rights reserved.

Hydro-Quebec and provincial officials dismissed the importance of the New York authority's actions, as well as Consolidated Edison's subsequent decision to put off any guaranteed-purchase deals with Hydro-Quebec for at least 18 months. U.S. exports amount to less than 4 percent of the utility's sales, and energy exchanges across the border would continue, officials noted.

"To put it mildly, selling power to the U.S. is not a matter of life or death for us, either for the Quebec economy or for the health of our public utility," said Reed Scowen, Quebec's official representative to the United States, in a speech March 22 in New York.

Times have changed. A few years ago, exports of cheap energy to the United States were a key element in Hydro-Quebec's long-term strategy, and in its ability to sell bonds to American investors.

Environmentalist Robert F. Kennedy Jr., a principal American foe of the Great Whale project, said: "Now it's in their interest to suggest with bravado that {energy exports} are insignificant. Their investors don't think it's insignificant."

Hydro-Quebec's indebtedness makes the New York agency's cancellation more significant, according to Robert Blohm, an investment banker and Hydro-Quebec critic.

"Hydro-Quebec does not currently earn enough U.S. dollars to service its massive current U.S. dollar debt of $10 billion, the largest U.S. dollar debt of any company in the industrialized world," and U.S. contracts for Great Whale power were supposed to repay that debt, Blohm said.

Ihor Kots, managing director of Canadian Bond Rating Service Inc., took a more measured view, noting that Hydro-Quebec's predicament reflects the reality for utilities across North America, with lowered demand for power, alternative sources of supply and improving conservation technologies. No one, he said, is building any Great Whales.

"The reality has set in. We're just living in a much cheaper energy environment. And these projects have to be evaluated with a much sharper pencil," Kots said. "There's no money left in the kitty for ego projects."

Document wp00000020011030dq4700d14

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

Letters to the Editor: Hydro-Quebec Finances Rock Solid, Study Says

252 words
12 October 1993
The Wall Street Journal
J
PAGE A21
English
(Copyright (c) 1993, Dow Jones & Co., Inc.)

Your Sept. 28 letters column carries a grossly inaccurate and unfair missive from Robert Blohm regarding Hydro-Quebec. A new, independent financial study of Hydro-Quebec commissioned by Dominion Securities -- which is owned by Canada's largest bank, the Royal Bank of Canada -- reaches very different conclusions from those in Mr. Blohm's letter.

"We believe Hydro-Quebec is a strong asset for its guarantor and sole shareholder, the Province of Quebec," the study says. "The company provides a dependable source of renewable energy that is insulated from rising fuel costs and major supply interruptions. Management has set appropriate financial targets for the future, supported by a strong financial position and a consistent earnings record.

"If Hydro-Quebec," the study adds, "became investor-owned with an independent credit rating, estimated required rate increases would still result in extremely attractive power rates relative to other North American utilities."

Directly contrary to Mr. Blohm's assertions, Dominion Securities believes Hydro-Quebec's approach to interest rate coverage is more conservative than that of most utilities, since it establishes targets in relation to total cash interest expenditures (including capitalized interest), "thereby ensuring the company's rates are sufficient to service its existing debt at all times."

Hydro-Quebec is in solid financial shape, offers low rates to its customers while generating profits and tax revenues, and its production infrastructure is in excellent condition.

Jacques Guevremont

Hydro-Quebec Representative to the United States

New York

Document j000000020011031dpac00qpf

THE WALL STREET JOURNAL.

Letters to the Editor: Hydro-Quebec Looms As a Possible Whoops

403 words
28 September 1993
The Wall Street Journal
J
PAGE A19
English
(Copyright (c) 1993, Dow Jones & Co., Inc.)

Your Aug. 19 article "Does the Future Hold Another `Whoops'?" (10 years after collapse of the world's biggest investment in nuclear power by the Washington Public Power System), the answer is: maybe Hydro-Quebec.

For the past five years this Quebec-government owned utility has resumed one of the single most expensive investment programs in world history, a big part of it financed by U.S. pensioners, and still plans to spend $38 billion more in grandiose hydro-electric facilities this decade. Estimates beyond that point, a closely guarded state secret, range as high as $200 billion. This already leaves the would-be Republic of Quebec with the highest relative debt in the industrialized world with a Third World burden of servicing, and Hydro-Quebec the industrialized world's most indebted corporation in U.S. dollars, a foreign currency. If that weren't enough, Hydro's investment program is nagged for being reckless with the environment and native people.

Your five admonitions to investors are right on:

-- "Avoid political footballs" applies to the long-standing dispute with Indians over the land, and with a quilt of conservationists, environmentalists, rate protesters and free-market energy promoters.

-- "Avoid huge projects without established revenue streams" applies to Hydro's use of an escalating-cost technology in the declining-cost business of generating electricity in North America, while the government has been forced to stop Hydro from raising rates to levels required.

-- "Avoid any project requiring a new tax to pay off the debt" applies to Hydro's goal of now keeping only 1.0 interest coverage, meaning investors will have to look to Hydro's guarantor, the provincial government.

-- "Don't go by bond ratings alone" applies to recent downgradings of Hydro's bonds.

-- "At the first sign of trouble, sell" applies to Quebec's deep recession aggravated by economic nationalism, New York's cancellation of Hydro-Quebec's major export contract, dimming prospects of enough exports to provide the U.S. currency to service existing U.S. dollar debt, and the U.S. mandated end of cut-rate power deals to offshore metals producers selling into the U.S. market.

Is this serious trouble? Maybe another WPPSS.

Robert Blohm

New York

(See related letter: "Letters to the Editor: Hydro-Quebec Finances Rock Solid, Study Says" -- WSJ Oct. 12, 1993)

930928-0078

YY93 MM10

Document j000000020011031dp9s00p3z

THE WALL STREET JOURNAL.
EUROPE EDITION

The Americas
Canadian Bond Market Teeters While Provinces Fiddle

By Robert Blohm
1,003 words
28 April 1993
The Wall Street Journal Europe
WSJE
PAGE 6
English
(Copyright (c) 1993, Dow Jones & Co., Inc.)

Prime Minister Brian Mulroney's Feb. 24 announcement not to run for re-election this fall has opened the way for a new national leader to take charge of Canada's No. 1 problem: how to avert a coming foreign debt crisis.

At a widely discussed Jan. 27 workshop at Toronto's venerable C.D. Howe Research Institute, the chief economists of Canada's financial institutions warned of a foreign debt crisis in two to three years if there is no dramatic improvement in Canadian fiscal policy -- provincial more than federal. Increased spending and tax-rate hikes by provincial governments, combined with compounding interest on the borrowing done by the federal government of Pierre Trudeau between 1974 and 1984, have led to a rapid increase in Canada's foreign debt.

At more than 40% of gross domestic product, Canadians' foreign debt of $240 billion -- more than half issued by federal and provincial governments -- is the world's fastest growing and second highest in absolute numbers. It is five times higher than that of the U.S. relative to GDP. Fiscal balances are equally skewed. Canada's total combined federal and provincial government budget deficits are nearly double the U.S.'s relative to GDP, and well beyond what Italy and Sweden are targeting since their currency crises.

Of course, high debt doesn't matter if creditors are confident of the debtor's productive ability. But this is less and less the case under Canada's shaky confederation. Canada's total annual government spending of $264 billion is half of GDP. Almost two decades of borrowing abroad, effectively to finance much of the excess Canadian government spending, weakened the Canadian dollar initially. This sheltered Canada's export industry by making Canadian products cheaper to foreigners and keyed Canada's growth in the 1980s to the strength of the U.S. economy.

As Canada's governments became increasingly dependent on bond and treasury bill holders from abroad to fund its spending programs, those creditors became the driving force in directing the value of the currency. Normally, long-term investors are interested in a strong currency driven by a healthy economy with low interest rates. However, when investors reject a currency because it has nothing to offer but debt, the government has to offer high interest rates to attract investors.

Consequently, Canada has become but a financial vehicle in the form of easily sellable Government of Canada marketable debt securities. In more than a decade, foreign investors have increased their holdings of these securities to 24% from 10%, and now buy 38% of the new issues. This has left the Canadian government little flexibility to lower interest rates that, short term, are nearly double those in the U.S. It also now keeps Canada's currency high, but for speculative reasons rather than as a reflection of a strong Canadian economy. This is a speculative balloon just waiting to burst.

To release some of the pressure, the Mulroney administration has reduced noninterest expenditure as a percentage of GDP. It also has privatized government-owned corporations and applied supply-side tax reform. But provincial governments increased their own tax rates, and have virtually doubled spending, more than undoing the federal government's own deficit reduction and tax reform.

Household taxes have risen by far more than in any other Group of Seven country, putting Canada's total tax receipts at more than 40% of GDP, way beyond the U.S.'s and Japan's at 32% and 33% respectively. Relative to GDP, the federal debt has risen by half over the past decade, to more than $360 billion, while total provincial debt has doubled to more than $180 billion. Total combined annual provincial government budget deficits now nearly equal the annual federal deficit.

 © 2023 Factiva, Inc. All rights reserved.

Reflecting investor concern over provincial spending, the provincial share of foreign holdings of Canadian debt has dropped dramatically. Following a March 8 warning by Moody's, some analysts expect across-the-board reductions in the credit ratings of Canada's government borrowers (particularly provincial borrowers) by next year. A debt crisis would begin when provinces could no longer roll over their maturing foreign debt at acceptable cost. The federal government would then take over their finances through an agency it is rumored to be setting up.

Once the federal government did this for enough provinces, its own credit quality could deteriorate to the point where too many foreigners might reject its securities. It might then resort to a massive, inflationary devaluation of the Canadian dollar, making foreigners suddenly want to hold on to its securities to avoid realizing losses from the currency drop or even to buy more securities to profit from a rising currency.

In their forthcoming annual budgets, the governments of Quebec and Ontario will likely announce that deficit reduction will come exclusively from tax rate increases, as is the case in most of the other provinces' just-released budgets. This, of course, is no solution to their fiscal or monetary problems.

Ironically, the separation of Quebec from Canada need not exacerbate Canada's debt crisis. The federal government would no longer stand ready to bail out Quebec's government from a run on the province's debt. As investors wouldn't eagerly hold the quarter of the Government of Canada securities converted to sovereign Quebec government bonds, interest rates would go up in Quebec and down on the reduced supply of bona fide Government of Canada securities.

An economic stabilization summit should be called by Canada's new leader immediately after the fall elections. If the federal government of Canada becomes the lender of last resort to the provinces as a result of a debt crisis, then it has the right to insist that those provinces under its protective wing adhere to more responsible and enlightened fiscal and monetary policies.

Mr. Blohm is a U.S. investment banker in Canada and a doctoral candidate in economics at Columbia University.

Document wsje000020011102dp4s0044y

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
ASIA EDITION

The Americas
Canadian Bond Market Teeters as Provinces Fiddle

By Robert Blohm
1,068 words
28 April 1993
The Asian Wall Street Journal
AWSJ
PAGE 6
English
(Copyright (c) 1993, Dow Jones & Co., Inc.)

Prime Minister Brian Mulroney's Feb. 24 announcement not to run for re-election has opened the way for a new national leader to take charge of Canada's No. 1 problem: how to avert a coming foreign debt crisis.

At a widely discussed Jan. 27 workshop at Toronto's venerable C.D. Howe Research Institute, the chief economists of Canada's financial institutions warned of a foreign debt crisis in two to three years if there is no dramatic improvement in Canadian fiscal policy -- provincial more than federal. Increased spending and tax-rate hikes by provincial governments, combined with compounding interest on the borrowing done by the federal government of Pierre Trudeau between 1974 and 1984, have led to a rapid increase in Canada's foreign debt.

At more than 40% of gross domestic product, Canadians' foreign debt of $240 billion -- more than half issued by federal and provincial governments -- is the world's fastest growing and second highest in absolute numbers. It is five times higher than that of the U.S. relative to GDP. Fiscal balances are equally skewed. Canada's total combined federal and provincial government budget deficits are nearly double the U.S.'s relative to GDP, and well beyond what Italy and Sweden are targeting since their currency crises.

Of course, high debt doesn't matter if creditors are confident of the debtor's productive ability. But this is less and less the case under Canada's shaky confederation. Canada's total annual government spending of $264 billion is half of GDP (U.S. government spending is one-third of GDP). Almost two decades of borrowing abroad, effectively to finance much of the excess Canadian government spending, weakened the Canadian dollar initially. This sheltered Canada's export industry by making Canadian products cheaper to foreigners and keyed Canada's growth in the 1980s to the strength of the U.S. economy.

As Canada's governments became increasingly dependent on bond and treasury bill holders from abroad to fund its spending programs, those creditors became the driving force in directing the value of the currency. Normally, long-term investors are interested in a strong currency driven by a healthy economy with low interest rates. However, when investors reject a currency because it has nothing to offer but debt, the government has to offer high interest rates to attract investors.

Consequently, Canada has become but a financial vehicle in the form of easily sellable Government of Canada marketable debt securities. In more than a decade, foreign investors have increased their holdings of these securities to 24% from 10%, and now buy 38% of the new issues. This has left the Canadian government little flexibility to lower interest rates that, short-term, are nearly double those in the U.S. It also now keeps Canada's currency high, but for speculative reasons rather than as a reflection of a strong Canadian economy. This is a speculative balloon just waiting to burst.

To release some of the pressure, the Mulroney administration has reduced noninterest expenditure as a percentage of GDP. It also has privatized government-owned corporations and applied supplyside tax reform. But provincial governments increased their own tax rates, and have virtually doubled spending (more than a third of it on health care), more than undoing the federal government's own deficit reduction and tax reform.

Household taxes have risen by far more than in any other Group of Seven country, putting Canada's total tax receipts at more than 40% of GDP, way beyond the U.S.'s and Japan's at 32% and 33% respectively. Relative to GDP, the federal debt has risen by half over the past decade, to more than $360 billion, while total provincial debt has doubled to more than $180 billion. Total combined annual provincial government budget deficits now nearly equal the annual federal deficit.

Reflecting investor concern over provincial spending, the provincial share of foreign holdings of Canadian debt has dropped dramatically. Following a March 8 warning by Moody's, some analysts expect across-the-board reductions in the credit ratings of Canada's government borrowers (particularly provincial borrowers) by next year. A debt crisis would begin when provinces could no longer roll over their maturing foreign debt at acceptable cost. The federal government would then take over their finances through an agency it is rumored to be setting up.

Once the federal government did this for enough provinces, its own credit quality could deteriorate to the point where too many foreigners might reject its securities. It might then resort to a massive, inflationary devaluation of the Canadian dollar, making foreigners suddenly want to hold on to its securities to avoid realizing losses from the currency drop or even to buy more securities to profit from a rising currency.

In their forthcoming annual budgets, the governments of Quebec and Ontario will likely announce that deficit reduction will come exclusively from tax rate increases, as is the case in most of the other provinces' just-released budgets. This, of course, is no solution to their fiscal or monetary problems.

Canada is ripe for further private-sector growth initiatives -- especially by provincial governments -- through tax-rate reductions and further deregulation and privatization. For starters, privatizing the generation arms of the Hydro-Quebec and Ontario Hydro mega-utilities would bring cost competition and potential reductions in the provinces' net foreign debt.

Ironically, the separation of Quebec from Canada need not exacerbate Canada's debt crisis. The federal government would no longer stand ready to bail out Quebec's government from a run on the province's debt. As investors wouldn't eagerly hold the quarter of the Government of Canada securities converted to sovereign Quebec government bonds, interest rates would go up in Quebec and down on the reduced supply of bona fide Government of Canada securities.

An economic stabilization summit should be called by Canada's new leader immediately after the fall elections. If the federal government of Canada becomes the lender of last resort to the provinces as a result of a debt crisis, than it has the right to insist that those provinces under its protective wing adhere to more responsible and enlightened fiscal and monetary policies.

Mr. Blohm is a U.S. investment banker in Canada and a doctoral candidate in economics at Columbia University.

Document awsj000020011031dp4s0057o

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

The Americas: Canadian Bond Market Teeters While Provinces Fiddle

By Robert Blohm
1,069 words
23 April 1993
The Wall Street Journal
J
PAGE A15
English
(Copyright (c) 1993, Dow Jones & Co., Inc.)

Prime Minister Brian Mulroney's Feb. 24 announcement not to run for re-election this fall has opened the way for a new national leader to take charge of Canada's No. 1 problem: how to avert a coming foreign debt crisis.

At a widely discussed Jan. 27 workshop at Toronto's venerable C.D. Howe Research Institute, the chief economists of Canada's financial institutions warned of a foreign debt crisis in two to three years if there is no dramatic improvement in Canadian fiscal policy -- provincial more than federal. Increased spending and tax-rate hikes by provincial governments, combined with compounding interest on the borrowing done by the federal government of Pierre Trudeau between 1974 and 1984, have led to a rapid increase in Canada's foreign debt.

At more than 40% of gross domestic product, Canadians' foreign debt of $240 billion -- more than half issued by federal and provincial governments -- is the world's fastest growing and second highest in absolute numbers. It is five times higher than that of the U.S. relative to GDP. Fiscal balances are equally skewed. Canada's total combined federal and provincial government budget deficits are nearly double the U.S.'s relative to GDP, and well beyond what Italy and Sweden are targeting since their currency crises.

Of course, high debt doesn't matter if creditors are confident of the debtor's productive ability. But this is less and less the case under Canada's shaky confederation. Canada's total annual government spending of $264 billion is half of GDP (U.S. government spending is one-third of GDP). Almost two decades of borrowing abroad, effectively to finance much of the excess Canadian government spending, weakened the Canadian dollar initially. This sheltered Canada's export industry by making Canadian products cheaper to foreigners and keyed Canada's growth in the 1980s to the strength of the U.S. economy.

As Canada's governments became increasingly dependent on bond and treasury bill holders from abroad to fund its spending programs, those creditors became the driving force in directing the value of the currency. Normally, long-term investors are interested in a strong currency driven by a healthy economy with low interest rates. However, when investors reject a currency because it has nothing to offer but debt, the government has to offer high interest rates to attract investors.

Consequently, Canada has become but a financial vehicle in the form of easily sellable Government of Canada marketable debt securities. In more than a decade, foreign investors have increased their holdings of these securities to 24% from 10%, and now buy 38% of the new issues. This has left the Canadian government little flexibility to lower interest rates that, short term, are nearly double those in the U.S. It also now keeps Canada's currency high, but for speculative reasons rather than as a reflection of a strong Canadian economy. This is a speculative balloon just waiting to burst.

To release some of the pressure, the Mulroney administration has reduced noninterest expenditure as a percentage of GDP. It also has privatized government-owned corporations and applied supplyside tax reform. But provincial governments increased their own tax rates, and have virtually doubled spending (more than a third of it on health care), more than undoing the federal government's own deficit reduction and tax reform.

Household taxes have risen by far more than in any other Group of Seven country, putting Canada's total tax receipts at more than 40% of GDP, way beyond the U.S.'s and Japan's at 32% and 33% respectively. Relative to GDP, the federal debt has risen by half over the past decade, to more than $360 billion, while total provincial debt has doubled to more than $180 billion. Total combined annual provincial government budget deficits now nearly equal the annual federal deficit.

Reflecting investor concern over provincial spending, the provincial share of foreign holdings of Canadian debt has dropped dramatically. Following a March 8 warning by Moody's, some analysts expect across-the-board

 © 2023 Factiva, Inc. All rights reserved.

reductions in the credit ratings of Canada's government borrowers (particularly provincial borrowers) by next year. A debt crisis would begin when provinces could no longer roll over their maturing foreign debt at acceptable cost. The federal government would then take over their finances through an agency it is rumored to be setting up.

Once the federal government did this for enough provinces, its own credit quality could deteriorate to the point where too many foreigners might reject its securities. It might then resort to a massive, inflationary devaluation of the Canadian dollar, making foreigners suddenly want to hold on to its securities to avoid realizing losses from the currency drop or even to buy more securities to profit from a rising currency.

In their forthcoming annual budgets, the governments of Quebec and Ontario will likely announce that deficit reduction will come exclusively from tax rate increases, as is the case in most of the other provinces' just-released budgets. This, of course, is no solution to their fiscal or monetary problems.

Canada is ripe for further private-sector growth initiatives -- especially by provincial governments -- through tax rate reductions and further deregulation and privatization. For starters, privatizing the generation arms of the Hydro-Quebec and Ontario Hydro megautilities would bring cost competition, and potential reductions in the provinces' net foreign debt.

Ironically, the separation of Quebec from Canada need not exacerbate Canada's debt crisis. The federal government would no longer stand ready to bail out Quebec's government from a run on the province's debt. As investors wouldn't eagerly hold the quarter of the Government of Canada securities converted to sovereign Quebec government bonds, interest rates would go up in Quebec and down on the reduced supply of bona fide Government of Canada securities.

An economic stabilization summit should be called by Canada's new leader immediately after the fall elections. If the federal government of Canada becomes the lender of last resort to the provinces as a result of a debt crisis, then it has the right to insist that those provinces under its protective wing adhere to more responsible and enlightened fiscal and monetary policies. ---

Mr. Blohm is a U.S. investment banker in Canada and a doctoral candidate in economics at Columbia University.

Document j000000020011031dp4n00b1e

 © 2023 Factiva, Inc. All rights reserved.

NATIONAL POST

WHAT'S RIGHT
5, SPECTRUM: Comment and Opinion

POLITICAL CORRECTNESS LEAVES THE IDLER ON EDGE OF ABYSS: Bureaucrats snub award-winning conservative magazine

David Frum
877 words
6 March 1993
The Financial Post
FINP
Weekly
S2
English
(Copyright The Financial Post)

Now that Canada has restored the Victoria Cross as its top award for valor, I have a nominee for the first recipient of the new series: David Warren, editor of the Idler magazine. Editing in Canada a magazine that is high-brow, conservative and funny may not be quite as dangerous as flying a Sopwith Camel, but it takes very nearly as much nerve. Warren has persisted, however, and - after nine years of hard labor - is producing the most consistently interesting conservative journal in the English language. And now the Idler is in grave trouble, the gravest it's ever faced.

The quality of the Idler is not just my opinion; it's shared by the editors of both the Reader's Digest and the Wall Street Journal, who excerpted articles from the Idler's recent issue on sex. Robert Blohm's article on the terrifying fragility of Quebec's statist economy, printed in that same issue, ignited stormy debate in the National Assembly - and inspired Brian Mulroney to send a personal subscription cheque.

Virtually every other intellectual magazine in the country espouses some ghastly mixture of socialism, feminism and Third Worldism. Unsurprisingly, they find few readers, but it does not matter - a massive federal and provincial bureaucracy exists to sustain them, which has distributed an average of $200,000 a year to NDP house organs like This Magazine and Canadian Forum.

Unsubsidized, the Idler's mixture of traditional cultural values, free-market economics and - most amazingly of all for a Canadian cultural venture - humor won last year's National Magazine Award as best magazine. It has collected 8,000 paying readers, at least triple the readership of any other intellectual magazine in the country.

The Idler has printed Vaclav Havel and Josef Skvorecky - Havel dropped by the Idler offices on his state visit to Canada. It has published articles shattering the myth that Canadian environmental standards are superior to those in the U.S., and articles about bird-watching in Kenya; dum-dum bullets and the Catholic Church; memoirs of Malcolm Muggeridge and Isaac Bashevis Singer; an attack on Margaret Atwood by Scott Symons and an interview with Jerzy Kozinski.

Here is the Idler's Wib Everett on "how to talk like a politician" in a restaurant:

"Let me put this plainly. People are eating. They are in this restaurant, and are, in some instances, us. This much is clear, but what remains to be seen is whether the resources can be brought to bear that are required to meet the fiscal challenge that our waiter over there is bringing onto the agenda."

And here is that notorious Robert Blohm: "Quebec, with one-quarter of Canada's population . . . accounts for one-half of Canada's total foreign payments deficit every year . . . Quebec also runs the world's biggest per-person trade deficit with Japan, mostly in cars but also in electronics. Behind these financial figures is a cultural truth: Quebec, once a hyper-religious society, is now a hyper-consumerist one. Montreal boasts more clothing stores per person than any other city on earth . . . "

Perhaps the Idler's greatest value to our country's cultural life, however, is that David Warren is a one-man journalism school. Most Canadian magazines are actively hostile to new writers. The Idler spots them young, teaches them, publishes them - and incidentally pulls them away from the media left.

Despite its wit, tough reporting and social importance, the Idler constantly quivers with financial worry. Unlike left-wing publications, it is forbidden to sip from the government's gravy boat: after years of being shut out entirely, the Idler got $9,000 from the Canada Council in 1991, but the iron curtain of political correctness fell again in 1992 and the Idler was refused a dime. And unlike conservative publications in the U.S. and Britain, the Idler has not found backers, with a few noble exceptions - Toronto furniture manufacturer Manny Drukier, who supported the magazine for three years, and Peter Munk of American Barrick who gave $25,000 last year and has pledged the same for this year. Which means that, this week, after 38 issues, the Idler is broke. Which in turn means that, for the lack of $20,000 to pay the printer, there is a very real possibility that Canada's one conservative voice may finally be hushed.

The hushing of that voice would be a crushing loss, especially now. The Conservative party is about to select a new leader. None of the candidates in the running, on the evidence of their records, has any claim to call himself or herself a "conservative" with a small "c." With the Tories turning sharply to the left, with the Reformers stuck in the polls, who will be left to articulate a conservative philosophy for Canada if the Idler dies?

You can help the Idler by subscribing now. Better yet, send money - any amount will make a huge difference.

*** Infomart-Online ***

(Ed. note) David Frum is law editor of Forbes magazine in New York.

PHOTO; Photo: High-brow, funny journal is a victim of bureaucrats' biases.

Document finp000020011031dp36004c7

 © 2023 Factiva, Inc. All rights reserved.

THE GLOBE AND MAIL

The Arts

FINALE 92 ARTS EAST In the face of nihilism, there's still a sense of belonging QUEBEC"Just as Quebec itself has backed away from the clear, bright slogans of the seventies, so its artists have backed away from enforced collectivity. You can still occasionally feel that warm glow of complicite between artist and audience but not as often as before

RAY CONLOGUE
1,511 words
26 December 1992
The Globe and Mail
GLOB
C14; (ILLUS)
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

Montreal

WHEN Michel Tremblay's new play Marcel poursuivi par les chiens opened this summer, there was a palpable longing in the Quebec media for the kind of excitement that his plays had created 20 years ago.

But it was not to be. Just as Quebec itself has backed away from the clear, bright slogans of that era, so its artists have backed away from enforced collectivity. You can still occasionally feel that warm glow of complicite between artist and audience but not as often as before.

Chansonnier Richard Desjardins, for example, is the closest thing to an inheritor of the great mantle of Felix Leclerc and Gilles Vigneault that Quebec can boast today. But instead of singing the glories of his land, people and language, he published an 80-verse lyric sheet in Le Devoir last spring that described the settlers of Quebec as genocidal lunatics whose legacy to the native people was blood and horror.

Likewise the gentle folkloric quality of Quebec's early films has transmuted into the nihilistic family violence of Jean Claude Lauzon's Leolo and the highly eroticized homosexual murder of Jean Beaudin's Being at Home With Claude. Philosopher Jean Larose speaks of these kinds of Quebec films as "the mannerism of a world without manners" - an implicit elegy for an integrated society that has now shattered.

The accession of Quebec's artists to the world community, and its various neuroses, is underlined by the current projects of two of its most important creators.

Filmmaker Denys Arcand is shooting his first film in English: a portrait of serial murder and urban anomie in Edmonton based on a play by a Western writer, Brad Fraser. Unidentified Human Remains and the True Nature of Love could not be farther from Quebec.

Meanwhile Robert Lepage, the most inventive theatre artist that Quebec (or Canada) has ever produced, quit his job at the National Arts Centre to pursue offers from the besotted aristocrats of world theatre in Paris and London. They love shows like Tectonic Plates and this year's Needles and Opium, which are parables about the shattering and mixing of identities in the modern world.

Most of this has gone unnoticed by a number of commentators, who spent a good part of this referendum year lambasting Quebec for its insular culture.

Some of them bullied the province for trying to build what Robert Blohm in the fall issue of The Idler called an "ethnocentric economy" in a globalizing marketplace. Laurier Lapierre, who should know better, wrote in this newspaper that public discourse in Quebec is held captive by separatists. As these writers were railing on, Gilbert Rozon received a multi-million-dollar grant from Quebec to build a museum of humour in Montreal. Rozon's Just for Laughs empire, the spearhead of a $100-million Quebec comedy industry which barely existed 10 years ago, taped Lily Tomlin and Jerry Lewis in Montreal this summer and sold the shows to the Showtime pay-TV channel in the United States and TV5 in France. Some "ethnocentric economy"!

It remains true, however, that neither Lauzon's tormented films nor Rozon's lucrative laughter would exist without the emotional safety net provided by Quebec's sense of cultural solidity.

This hard-to-define sense of belonging came into focus most dramatically (for me, at any rate) during the "Great Nighttime Parade" on May 15 which inaugurated the celebration of Montreal's 350th anniversary. The process was simple: a lot of money ($2-million) was given to a pair of avant-garde performance artists, together with a straightforward proposition: invent a new kind of parade.

The result was uncanny. Volunteers were costumed as angels and given large organ pipes to carry, so that seen together they resembled the great organ in the basilica of Notre-Dame. Others, clad in winter costumes but wearing roller skates, sashayed down St. Laurent boulevard shovelling imaginary snow from the street. Others carried gigantic lawn chairs in silent mockery of the summer indolence of Montrealers. Yet others made up the Jacques Cartier Bridge, lovingly reproduced as it is: decayed and rusted.

The mood was one of exuberant self-acceptance and joy.

As a Torontonian I am fond of my native city, but I also know that the Great Nighttime Parade could not have happened there. To begin with, no Toronto official would trust an artist with so much money, or manifest such a touching faith in the power of imagination. And the artists - because artists tend to tell the truth - would not try to evoke a sense of chez nous that English Canadian cities do not possess.

The difference of attitude is summed up in a phrase that is often heard but difficult to translate: "Ici, on privilege la creation." It means that people make room for creativity in the sense of supporting it but also in the sense of expecting it. It is not an option.

This helps explain, for example, the startling denouement of the financial crisis at Theatre du Nouveau Monde last spring. Faced with a sudden huge deficit, the businessman who chaired the theatre's board arranged with its manager to cancel a show (King Lear) and schedule a pop singer to bring in some cash.

In spite of the deficit, the artistic director fought back and won. The play was reinstated, the businessman was driven off the board, and the manager quietly resigned. Ici, on privilege la creation.

The love affair with artists of course has its down side. A great deal of money is spent in dubious ways. The $95-million addition to the Montreal Museum of Fine Arts, lambasted by the critics, is a case in point. So is the costly blandness of the new Museum of Contemporary Art, also opened this year.

And the $330-million provincial budget for culture (British Columbia, with 70 per cent of Quebec's population, spends one-seventh that amount), in light of Quebec's ghastly economic problems, is dismaying even to a cultural pundit.

It is also true that the panache of art in Quebec can sometimes conceal a hollow core. The Cirque du Soleil, with its youthful insouciance and style, could only have come from Quebec. But its new show this summer, Saltimbanco, was a hollow rattling gourd compared to its work in the late eighties. The culprit is money: having found a formula that Americans like, the Cirque has lost the ability to innovate. The same could be said of the vacuous side of the pop music industry, which has given us Mitsou and Julie Masse and the stupefyingly plastic Kathleen.

But for every artist who slides into irrelevance, another resists. Michel Barrette and a few breakaway artists from the Cirque du Soleil are still doing wonderful work in Montreal. The 63-year-old clown called Sol, whose whimsical wordplay sometimes achieves the intensity of lyrical poetry, presented a new show this fall. Contemporary composers, tired of nobody coming to their concerts, hired a sculptor named Paskal Dufaux to make musical bicycles which were then sent honking and twittering through the city late last summer.

And behind that, the emotional volatility of a Latin culture: Playwright Leo Levesque shouting and crying at his critics on a television show. Dominique Michel tearfully bidding her fans farewell on the Bye Bye 91 television show. Gilbert Rozon, admitting hours before a hugely expensive and experimental blend of music and comedy on TV, that he didn't have a clue whether it would work or not (it didn't). The rash protest of the tiny Quebec Theatre Council against the Tory government's cuts in arts funding doomed because its sobersided anglophone colleagues wouldn't back it up (they were afraid of losing). (The protest involved a boycott of Canada Council juries which was lifted a few days before the Governor-General's Awards.) Dominique Michel tearfully bidding her fans farewell as she hosts her last Juste Pour Rire special. An a capella group doing a godawful tribute to the year's best pop songs at the ADISQ gala by reducing them to Swingle Singers-style mush, and the woman beside me smiling ruefully: "Mais . . . c'est speciale, eh?" All the failed attempts to translate "politically correct" into

 © 2023 Factiva, Inc. All rights reserved.

French (they just don't get it, God bless them). Popular black TV host Normand Braithwaite doing a sendup of the hit song L'aiglon noir (The Black Eagle) during the ADISQ gala. The sendup was called Le negre noir (They just don't get it, God bless them). And - it will surely be announced any day now - Dominique Michel's inevitable just-once-more comeback.

Ici, on privilege l'emotion.

Document glob000020011107docq01g49

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
ASIA EDITION

Letters to the Editor: Provincialism Triumphant in Canada

125 words
10 November 1992
The Asian Wall Street Journal
AWSJ
PAGE 10
English
(Copyright (c) 1992, Dow Jones & Co., Inc.)

Pierre Lemieux, in "The Roots of Canada's Constitutional Problems" {Sept. 16} attempts to blame the federal government. He correctly attacks Pierre Trudeau's expansion of the federal government, which borrowed massive amounts to buy off Quebec's then-separatist government.

However, it is provincial and local governments, led by Quebec's, that have expanded (with per-gross domestic product expenditure nearly double the fed's own, and for consumption, not investment). The federal government in Brian Mulroney's hands has diminished its relative role, through Canada-U.S. free trade, a sweeping privatization program and, most important, deficit reduction (supported by anti-inflation monetary policy), which I maintain sparked Canada's national crisis.

Robert Blohm

Montreal

Document awsj000020011107doba00gmg

 © 2023 Factiva, Inc. All rights reserved.

TORONTO STAR

WEEKEND
Idler a good friend, but not too dependable

By Bruce Blackadar Toronto Star
903 words
31 October 1992
The Toronto Star
TOR
SA2
G8
English
Copyright (c) 1992 The Toronto Star

The peekaboo Idler is back again, making one of its shaky Perils-of-Pauline appearances.

I like this magazine and have wished only good things to happen to it since it came barrelling out of the chute several years ago. I have praised it for being so really different, for its surprises, and also for its High Tory, High Church qualities, even when sometimes these have seemed silly and arch. It is not afraid of humor, either, and you'd be shocked at how many Canadian magazines are.

Still, The Idler continues to frustrate a fan who'd like to be a long-term friend. Sure, the recession is hacking away at too many of the vital parts of the industry, and idiotic taxes on reading materials keep damaging the immune system of literacy in this country. But, please, Idler editors, please find an angel or 25, or make a pact with the Devil, if you must, but do something, anything, to ensure a consistency in showing up on time for the dance. And readers, if you haven't glanced at the magazine lately, do so. It deserves it. Let it at least, if it has to go back up that chute, have an honorable death.

This issue has several stories to recommend it, including Anne Muggeridge's tough-love cover story called "A Man's Gotta Do What A Man's Gotta Do", which looks at why so many men have abdicated their traditional responsibilities toward women and have become self-indulgent boyish wimps as a result.

"Men have lost their nerve and have drawn upon themselves women's contempt and anger because they have deliberately abandoned, or been driven from, their proper self-understanding. Men decided to do what they want to instead of what they have to do. Abdication wasn't forced upon them by the women in their lives; they chose it."

Robert Blohm, an American investment banker who lives in Quebec, has a sharp analysis of how the province's economy is going to go down the tubes if it becomes an independent country.

Anyone who reads restaurant reviews will enjoy Fraser Sutherland's hysterically witty satire on the formula, and you'll never be able again to read such reviews without laughing loudly and long.

You'll also laugh at McKenzie Porter's "Breeding The Rich And Famous", and Hifumi Arai's sexual plaint about men that Yes means Yes.

*

Lighten Up: You're down on Toronto. You have felt the blues creeping across the streets of the city, sensed the depression in yourself and your friends, you're tired of all the hassles and high prices and the traffic gridlock and the sad-eyed insistent panhandlers and the eerie feeling that the so-called local political leaders have up and left town altogether.

Well, brighten up! Start cheering, boobie! Let the good times roll!

Toronto Life has decided all this gloom is toxic, there's been too much whining around here lately, the time has come for a mass lighten-up day, and so almost its entire issue is aimed at boosting this grand urban patch.

"What's great about Toronto is the magnificent choir of humanity that sings here," crows the introductory essay, and in the pages that follow you'll meet many of these human treasures and read some fine ideas by architect

Jack Diamond on how to make the city even better. You'll be amused by Toronto's great moments in sex, sports and all kinds of things. A much-needed tonic, this package.

*

Rock On! In its third issue celebrating Rolling Stone's 25th anniversary, the editors have, in a way, saved the best for the last with a dazzling, thick portfolio of great photographs of rock stars down the decades. Prefaced with an illuminating article by Gerri Hirshey on the evolution of this photographic genre, the package is a keeper for anyone whose allegiance - no matter how old and crotchety and conservative they may be now, as they near the first turn on the road to dotage - is to rock music. There are many standout portraits here - almost no concert shots are shown, and this was a shrewd choice - but the most poignant one is of Brian Wilson, the genius of the Beach Boys, looking so lost, so lonely, so sad, so lovable it will shatter your heart. Really, it will.

*

Does Mia Know?: Spy has a wonderful cover photo of Woody Allen and Brit twit Fergie in bed with just the sheets covering them up - "Naked Together For The First Time!" shrieks the headline - but the article inside is a dud that cribs from Woody's prose writings to prove . . . . something, or other. I'm not certain what the point of it is but then I'm unsophisticated.

There isn't much else in the rest of the magazine that's very amusing, either. God knows we all have slow, dull months, too.

But one small item made me laugh and think of large future amusements to come. Camille Paglia, the notorious post-feminist, anti-feminist, pro-rock/sex/blood amazon who is the most controversial academic in North America at the moment, has been hired, for real, by Spy to be its advice-to-the-lovelorn columnist. This ongoing feature should be a dandy.

Document TOR0000020080309doav00dgt

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
EUROPE EDITION

Letters to the Editor: Provincialism Triumphant in Canada

320 words
6 October 1992
The Wall Street Journal Europe
WSJE
PAGE 11
English
(Copyright (c) 1992, Dow Jones & Co., Inc.)

Pierre Lemieux, in his Americas column, "The Roots of Canada's Constitutional Problems" (Sept. 15), attempts to put the blame on the federal government. He correctly attacks Pierre Trudeau's expansion of the federal government, which borrowed massive amounts to buy off Quebec's then-separatist government.

However, it is provincial and local governments, led by Quebec's, that have expanded (with per-gross domestic product expenditure nearly double the fed's own, and for consumption, not investment). The federal government in Brian Mulroney's hands has diminished its relative role, through Canada-U.S. free trade, a sweeping privatization program and, most important, deficit reduction (supported by anti-inflation monetary policy), which I maintain sparked Canada's national crisis.

Indeed, were it not for the money- and power-grabbing Quebec nationalist politicians' threat to leave Canada, there would be no new constitution. The proposed constitution is primarily an attempt to placate Quebec's leaders: All the other now-entrenched interest groups are "me-too-ers" satisfied enough with the status quo not to threaten to break up the country. The constitution isn't the handiwork of the federal government, but of provincial premiers (three of them socialists), despite the federal government's effort to remove the interprovincial trade protectionism Mr. Lemieux appropriately criticizes.

Submitting interprovincial trade disputes to federal courts doesn't smack of aggrandizement plotted by the federal bureaucracy, contrary to the theme jointly played by Mr. Lemieux and Quebec's protectionists. The latter are seeking to preserve what a Brookings Institution publication last March repeatedly called "the OECD countries' most powerful subnational government in its scope of intervention" by such institutions as the government-run pension fund, which Mr. Lemieux does criticize, but offhandedly. Mr. Lemieux takes the limelight and the heat off Quebec's trigger-happy, ethno-collectivist, superstatist leaders, who are no free marketers.

Robert Blohm

Montreal

Document wsje000020011108doa600fds

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

Letters to the Editor: Provincialism Triumphant in Canada

595 words
2 October 1992
The Wall Street Journal
J
PAGE A15
English
(Copyright (c) 1992, Dow Jones & Co., Inc.)

Pierre Lemieux, in his Americas column, "The Roots of Canada's Constitutional Problems" (op-ed page, Sept 11), attempts to put the blame on the federal government. He correctly attacks Pierre Trudeau's expansion of the federal government, which I have emphasized (in a March 20 Americas column) borrowed massive amounts to buy off Quebec's then-separatist government.

However, it is provincial and local governments, led by Quebec's, that have expanded (with per-gross domestic product expenditure nearly double the fed's own, and for consumption, not investment). The federal government in Brian Mulroney's hands has diminished its relative role, through Canada-U.S. free trade, a sweeping privatization program and, most important, deficit reduction (supported by anti-inflation monetary policy), which I maintain sparked Canada's national crisis.

Indeed, were it not for the money- and power-grabbing Quebec nationalist politicians' threat to leave Canada, there would be no new constitution. The proposed constitution is primarily an attempt to placate Quebec's leaders: All the other now-entrenched interest groups are "me-tooers" satisfied enough with the status quo not to threaten to break up the country. The constitution isn't the handiwork of the federal government, but of provincial premiers (three of them socialists), despite the federal government's effort to remove the interprovincial trade protectionism Mr. Lemieux appropriately criticizes.

Submitting interprovincial trade disputes to federal courts doesn't smack of aggrandizement plotted by the federal bureaucracy, contrary to the theme jointly played by Mr. Lemieux and Quebec's protectionists. The latter are seeking to preserve what a Brookings Institution publication last March repeatedly called "the OECD countries' most powerful subnational government in its scope of intervention" by such institutions as the government-run pension fund, which Mr. Lemieux does criticize, but offhandedly. Mr. Lemieux takes the limelight and the heat off Quebec's trigger-happy, ethno-collectivist, superstatist leaders, who are no free marketers.

Robert Blohm

Montreal

Mr. Lemieux's musings suggest at best a slender acquaintance with the key issues, let alone with comparative federalism or postmodern Euro-politics.

He struggles first to locate the source of Canada's problems in a "political system that has become more and more centralized and bureaucratized" by the federal government and then immediately destructs his own argument by lamenting provincial "monopolies or regulations in liquor trade, professional licensure, agriculture, telecommunications, transports, public procurements, etc." Similar mental acrobatics are required to see a parallel between the Maastricht Treaty, which is to harmonize the legislation of diverse and independent European Community nations comprising more than 300 million people, and the Charlottetown accord, which is to find a modus vivendi among provinces of a single -- according to Mr. Lemieux, overcentralized -- country of 27 million people. His confused characterization of "a true federal system" is almost comical when compared with, say, Swiss federalism, where both multilingualism and decentralization have been advanced further than in any other federal state.

Canada's constitutional debate attempts to reconcile competing views in three areas: visions of the country as consisting of "two founding nations" -- English and French -- or of 10 equal provinces; the protection of collective rights of distinctive groups -- both majorities and minorities; and the reallocation of jurisdictions and the maintenance of certain minimal national standards.

One point has to be conceded: The adoption of this constitutional agreement will not resolve Canada's political problems. The agreement lacks sufficient intellectual coherence and represents little more than extensive trade-offs among the country's most powerful interest groups.

Matthias Schlaepfer

Toronto

Document j000000020011107doa200oiz

 © 2023 Factiva, Inc. All rights reserved.

The New York Times

Financial Desk; 3
World Markets; Toronto-Dominion's Special Instinct

By Clyde H. Farnsworth
859 words
7 June 1992
The New York Times
NYTF
Late Edition - Final
15
English
Copyright 1992 The New York Times Company. All Rights Reserved.

TORONTO -- It's not one of the lemmings. While other Canadian Banks were scrambling to buy investment dealers, the Toronto-Dominion Bank decided it could add more value by building that capability from within.

When it was fashionable to expand in the London Eurodollar market, Canada's fifth-largest bank decided its future was superregional, not multinational.

While other Canadian banks could not do enough business with Olympia & York Developments Ltd., Toronto-Dominion, which in the mid-1980's had been the third-largest lender to the now-insolvent real estate giant owned by the Reichmann family, dramatically cut its links in 1987.

"It was a controversial decision within the bank and within the banking community," said Alain Tuchmaier, financial services analyst at McLean McCarthy Inc. "It took some degree of courage to go against the instincts of the herd."

The bank's reason for pulling away: its analysis that Olympia & York's prize Canary Wharf commercial development in London was "incredibly risky," according to Mr. Tuchmaier.

Now, with much of the Olympia empire of the Reichmann brothers insolvent, Toronto-Dominion's judgment is looking pretty good. Five of Canada's Big Six national banks have just reported loans of more than $3 billion (Canadian) to Olympia. About two-thirds of the loans have been classified as bad debts that the banks don't expect to recover. The one institution to come through unscathed is Toronto-Dominion.

Indeed, securities analysts are starting to recommend the stock, pointing also to some of the bank's other attributes, including the strongest capital position of any of the Canadian banks.

"It's true that if you look at a lot of the things we do, we seem to march to a different drummer," said Richard M. Thomson, the bank's chairman and chief executive. "I don't think we try to be a maverick. But we do analyze each situation, and we have the courage of our convictions, to act on our analysis."

But Toronto-Dominion is not without its own problems. The bank's fortunes depend in good part on the economy of Ontario, which, while it is the most populous and prosperous of Canada's provinces, is still showing bruises from the latest recession. Many factories have folded or moved south of the border, sending joblessness into double digits. Commercial and residential real estate values have plummeted.

Toronto-Dominion stayed out of Canary Wharf, but it is so heavily enmeshed in the Ontario economy that its nonperforming loans, at 3 percent of total loans and acceptances, are the highest in the industry.

"As goes the Ontario economy, so goes T-D" said Robert Blohm, an investment banker who worked for the bank in the early 1980's. "They're a prime regional bank and never aspired to being a true multinational."

Toronto-Dominion recently reported a plunge in profits in the three months ended April 30, to $79 million (Canadian), or 24 cents a share, from $130.5 million, or 39 cents a share, in the year-earlier quarter.

The $51 million decline was equal to the bank's writedown to nil of its investment in another declining empire, the Central Capital Corporation. This financial holding company just recorded a staggering $1.5 billion loss for 1991.

Toronto-Dominion owns $51 million of preferred stock of both Central Capital and its most important subsidiary, the Central Guaranty Trust Company, Canada's fourth-largest trust company. The Central Capital loss reflected Central Guaranty's own troubles in commercial real estate loans.

Yet as part of expansion moves, provided the price is right, Toronto-Dominion is thought to be interested in picking up some of the assets of Central Guaranty Trust that were recently put on the auction block as Ottawa tries to negotiate a bailout. For his part, Mr. Thomson declined to discuss the situation. But most analysts say the bank would benefit from such a diversification move.

Until two months ago, Levesque Beaubien Geoffrion Inc., an investment house operating in both Toronto and Montreal, had been telling customers to sell Toronto-Dominion shares, arguing that the bank's competitive advantages were waning.

Now the brokerage firm has signaled a strong buy on the shares. "We criticized them for losing market share," said Donna Toth, the firm's Toronto-based financial services analyst. "But looking back we see they were tightening up lending criteria early and not interested in putting loans on the books.

"For the last two years," according to Ms. Toth, "they have been improving asset quality and getting noninterest expenses down. They are now more comfortable in putting select assets on the books. We therefore expect the market share erosion to be arrested."

The shares have been trading at the low end of their 52-week range of $19.75 to $15.75 a share on the Toronto Stock Exchange and closed on Friday at $16.875. But in a report on the bank, Levesque Beaubien said: "The market is ready to reward conservatism and a strong responsive management with a vision."

Document NYTF000020050412do67003kk

 © 2023 Factiva, Inc. All rights reserved.

BUSINESS TODAY
Bronfman empire under scrutiny

By William Claiborne Special to The Star (The Washington Post)
845 words
1 June 1992
The Toronto Star
TOR
AM
B2
English
Copyright (c) 1992 The Toronto Star

After the unraveling of the family-owned real estate empires of Canadians Robert Campeau and the Reichmann brothers, investors are looking with growing concern at another large Canadian empire - that of Peter and Edward Bronfman of Toronto.

Attention is being focused not only on the Bronfmans' troubled real estate development firm, Bramalea Ltd., but on the broader question of the vulnerability of tightly held, family-controlled Canadian real estate enterprises that depend on webs of cross-financing among companies.

The Bronfman group of companies, like many of Canada's self-financing, family-owned business empires, is based on a complex system of "synergism," in which members of the parent group routinely shuttle preferred shares to provide tax-beneficial financing without diluting common equity values for all shareholders.

Because Canada's corporate and securities laws do not include U.S.-style disclosure requirements, creditors and investors often have little knowledge of a holding company's actual worth or which of its assets are pledged against individual debts.

This lack of access to information, coupled with newly shaken confidence in a real estate industry that had been viewed as almost invincible, has fueled rumors that some of the Bronfmans' properties may be in serious trouble.

Officials of the Bronfman group are reported to have been making the rounds of institutional investors and money managers in recent weeks in an attempt to convince them that the Reichmann brothers' bankruptcy crisis is having no adverse effects on their group's financial stability.

But with a $4 billion debt burden and a shrinking cash flow because of the downturn in real estate markets, Bramalea has agreed to sell half of its interest in two of its downtown Toronto office buildings, including its headquarters, in an effort to fend off a financial crisis.

The planned sale to a teachers' union pension fund has intensified speculation about the financial condition of Bramalea, which has been regarded for over a year as the weakest of the Edper- Bronfman group of companies run by the Toronto branch of the Bronfman family.

Peter and Edward Bronfman's Montreal-based cousins, Charles and Edgar, control the giant Seagram empire, owner of the world's largest distillery.

Bramalea, which took a $115 million write-down in 1990 to make up for losses related to the real estate market's downturn, has denied that it is contemplating filing for court protection from its creditors.

It said in a statement that its sale of half of its interest in the two Toronto buildings is part of the company's "continuing strategy of forming joint ventures with major financial institutions."

Bramalea, a major developer of office towers, shopping malls and upscale residential real estate in the Toronto area, has said it plans to sell about $1 billion of its assets over two years, although real estate analysts here said virtually all of the firm's property portfolio is on the block.

Analysts said Bramalea must sell at least $525 million this year to keep up with its debt.

Bramalea is controlled by Trizec Corp. of Calgary, which in turn is controlled by Edper, whose holdings include Canada's three largest publicly traded real estate companies; the country's second-largest trust company, Royal Trustco Ltd.; the second- largest food and beverage company, John Labatt Ltd.; and the giant resource conglomerate, Noranda Inc.

While the recession has cut severely into Edper's resource-based and real estate holdings, loan losses in Royal Trustco's California savings and loan subsidiary and in Britain also are reported to have weakened the group's financial services holding company, Trilon Financial Corp.

Financial analysts said the severe debt problems that have put the Reichmann brothers' Olympia & York Developments Ltd. into the equivalent of bankruptcy protection in Canada and Britain also have undermined confidence in Bramalea.

The company's stock, which a year ago traded at $8 a share, has dropped to $1.90, and the Canadian Bond Rating Service recently downgraded the credit rating of most of Bramalea's debt.

"Bramalea's a problem. Everybody's talking about Bramalea, and they may have to sell off some more properties," said Thomas Hutchinson, chief Canadian economist for MMS International, a Toronto financial information service.

But, Hutchinson added, because Bramalea has a more mature property portfolio than Olympia & York and has less vacant commercial real estate space to fill than the Reichmann firm, it may stand a better chance of weathering its cash flow problems.

He said Edper repeatedly has demonstrated an ability to shuttle funds between its interlocking companies and is "probably less likely to go under than Olympia & York."

Robert Blohm, an American investment banker operating in Toronto and Montreal, said that while "nobody's happy and everybody wants to know what their cash flow is . . . it's not as leveraged a situation as the Reichmanns'. It's not a situation that's likely to come to a head like Olympia & York."

THE WASHINGTON POST

Document TOR0000020080308do6100k4t

© 2023 Factiva, Inc. All rights reserved.

The Washington Post

FINANCIAL
Investors Suspect Bronfman Empire May Be Hurting; Canadian Securities Laws Shield Finances of Firm

William Claiborne
Washington Post Foreign Service
1,012 words
29 May 1992
The Washington Post
WP
FINAL
f01
English
(Copyright 1992)

After the unraveling of the family-owned real estate empires of Canadians Robert Campeau and the Reichmann brothers, investors are looking with growing concern at another large Canadian empire - that of Peter and Edward Bronfman of Toronto.

Attention is being focused not only on the Bronfmans' troubled real estate development firm, Bramalea Ltd., but on the broader question of the vulnerability of tightly held, family-controlled Canadian real estate enterprises that depend on webs of cross-financing among companies.

The Bronfman group of companies, like many of Canada's self-financing, family-owned business empires, is based on a complex system of "synergism," in which members of the parent group routinely shuttle preferred shares to provide tax-beneficial financing without diluting common equity values for all shareholders.

Because Canada's corporate and securities laws do not include U.S.-style disclosure requirements, creditors and investors often have little knowledge of a holding company's actual worth or which of its assets are pledged against individual debts.

This lack of access to information, coupled with newly shaken confidence in a real estate industry that had been viewed as almost invincible, has fueled rumors that some of the Bronfmans' properties may be in serious trouble.

Officials of the Bronfman group are reported to have been making the rounds of institutional investors and money managers in recent weeks in an attempt to convince them that the Reichmann brothers' bankruptcy crisis is having no adverse effects on their group's financial stability.

But with a $4 billion debt burden and a shrinking cash flow because of the downturn in real estate markets, Bramalea has agreed to sell half of its interest in two of its downtown Toronto office buildings, including its headquarters, in an effort to fend off a financial crisis.

The planned sale to a teachers' union pension fund has intensified speculation about the financial condition of Bramalea, which has been regarded for over a year as the weakest of the Edper-Bronfman group of companies run by the Toronto branch of the Bronfman family.

Peter and Edward Bronfman's Montreal-based cousins, Charles and Edgar, control the giant Seagram empire, owner of the world's largest distillery.

Bramalea, which took a $115 million write-down in 1990 to make up for losses related to the real estate market's downturn, has denied that it is contemplating filing for court protection from its creditors. It said in a statement that its sale of half of its interest in the two Toronto buildings is part of the company's "continuing strategy of forming joint ventures with major financial institutions."

Bramalea, a major developer of office towers, shopping malls and upscale residential real estate in the Toronto area, has said it plans to sell about $1 billion of its assets over two years, although real estate analysts here said virtually all of the firm's property portfolio is on the block. Analysts said Bramalea must sell at least $525 million this year to keep up with its debt.

 © 2023 Factiva, Inc. All rights reserved.

Bramalea is controlled by Trizec Corp. of Calgary, which in turn is controlled by Edper, whose holdings include Canada's three largest publicly traded real estate companies; the country's second-largest trust company, Royal Trustco Ltd.; the second-largest food and beverage company, John Labatt Ltd.; and the giant resource conglomerate, Noranda Inc.

While the recession has cut severely into Edper's resource-based and real estate holdings, loan losses in Royal Trustco's California savings and loan subsidiary and in Britain also are reported to have weakened the group's financial services holding company, Trilon Financial Corp.

Financial analysts said the severe debt problems that have put the Reichmann brothers' Olympia & York Developments Ltd. into the equivalent of bankruptcy protection in Canada and Britain also have undermined confidence in Bramalea.

The company's stock, which a year ago traded at $8 a share, has dropped to $1.90, and the Canadian Bond Rating Service recently downgraded the credit rating of most of Bramalea's debt.

"Bramalea's a problem. Everybody's talking about Bramalea, and they may have to sell off some more properties," said Thomas Hutchinson, chief Canadian economist for MMS International, a Toronto financial information service.

But, Hutchinson added, because Bramalea has a more mature property portfolio than Olympia & York and has less vacant commercial real estate space to fill than the Reichmann firm, it may stand a better chance of weathering its cash flow problems.

He said Edper repeatedly has demonstrated an ability to shuttle funds between its interlocking companies and is "probably less likely to go under than Olympia & York."

Robert Blohm, an American investment banker operating in Toronto and Montreal, said that while "nobody's happy and everybody wants to know what their cash flow is ... it's not as leveraged a situation as the Reichmanns'. It's not a situation that's likely to come to a head like Olympia & York."

He added, "If that group {Edper} overall needs cash, they can get cash. It's not a situation where Bramalea could pull the whole group down. There are other ways to get cash. But it's something to watch."

Hutchinson, Blohm and other analysts said they would be watching closely to see how Canada's increasingly tight-fisted commercial banks, which already are writing off large Olympia & York loans, will deal with Bramalea.

The Canadian Imperial Bank of Commerce, Olympia & York's largest lender, said Wednesday that it has set aside $1 billion in the second quarter to cover bad loans to O&Y.

A day earlier, the Bank of Nova Scotia said it had put $390 million of its $630 million in loans to the Reichmanns in "nonperforming" status and had set aside an "appropriate" amount of funds to cover anticipated losses.

PHOTO,,Ap Caption: Olympia & York was granted bankruptcy protection for its Canary Wharf development in London, shown here.

Document wp00000020011108do5t00jz5

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

Letters to the Editor: Quebec Seen Through Glum-Colored Glasses

344 words
30 April 1992
The Wall Street Journal
J
PAGE A13
English
(Copyright (c) 1992, Dow Jones & Co., Inc.)

Robert Blohm's repeated "analyses" of Quebec's economic policies ("Will Quebec Bail Out With No Parachute?" Americas, March 20) would be unworthy of comment were it not for the fact that a prestigious paper such as The Wall Street Journal has given him so much space on its pages.

Where Mr. Blohm sees "Quebec's imminent economic crash," others see Quebec as a thriving province with the world's 15th-ranked economy, and the ninth-largest trading partner of the U.S. In its Sept. 2 Credit Week International Bulletin, Standard & Poor's reported, "The ratings (AA and A-1+) are based on Quebec's diversified economic base, strong economic expansion (the current downturn notwithstanding), and the government's commitment to improving budgetary performance, despite the deterioration in fiscal 1991 and 1992 because of the weaker economic environment."

When Mr. Blohm affirms that "Quebec has the industrial world's worst combination of trade and current-account deficits per capita," he again fabulizes on a grand scale because there are no such data available for a province.

However, in Moody's Dec. 18 Canadian Credit Report, we find that "High Grade credit quality (Aa-3) continues to be provided for debt of the Province of Quebec, primarily from the way that economic growth and diversification have added to the province's taxable resources over the last decade, but also because of increased managerial controls in recent years over spending and taxable debt growth."

When Mr. Blohm says that by removing interprovincial protectionism Ottawa would "subject Quebec's state-directed economy to the competitive forces of the marketplace," he demonstrates blatant ignorance of the workings of the Quebec economy and the Canadian confederation. Quebec wants interprovincial trade barriers to come down and has always shown the ability to compete in Canada and internationally. It also has been, without reservation, an ardent supporter of the objectives of the Canada-U.S. free-trade agreement.

John Ciaccia

Minister of International Affairs

Government of Quebec

Montreal

Document j000000020011107do4u00a5i

 © 2023 Factiva, Inc. All rights reserved.

The Washington Post

FINANCIAL

A Dynasty of Control; The Reichmanns' Sterling Reputation Helped Spin a Web of Real Estate Riches

William Claiborne;Kathleen Day
Washington Post Staff Writers
2,399 words
26 April 1992
The Washington Post
WP
FINAL
h01
English
(Copyright 1992)

Four years ago, Canada's Reichmann brothers sent an envoy to a major bank to ask for a loan of tens of millions of dollars, according to a story published in a Toronto paper.

The loan was for the Reichmanns personally, not for Olympia & York Developments Ltd., the family-owned Toronto holding company through which the three brothers - Paul, Albert and Ralph - have built the biggest real estate empire in North America.

When the loan officer asked why the money was needed and requested a peek at the brothers' personal financial records, the envoy reportedly snapped that a Reichmann simply didn't answer such questions. The loan request was put in writing and, bearing only a Reichmann signature, bumped upstairs to more senior bankers. It came back approved.

The story, one of many similar unconfirmed tales about which the company will not comment, is part of the Reichmann mystique, now suddenly shaken by surprise disclosures of financial disarray.

Bankers in Toronto say the family's reputation for a Midas-like business touch and unquestioned reliability has allowed them - or their lawyers - to walk into some of the biggest and most powerful banks in North America and obtain secured loans of $50 million or more virtually on the spot, largely on their word and with minimal, if any, disclosure about the financial condition of the family or its business.

The reputation was based partly on Olympia & York's phenomenal successes in real estate and partly on the brothers' conservative, low-profile lifestyle, their almost courtly Old World bearing and secrecy, and their Jewish orthodoxy.

So when Olympia & York last month disclosed that it had a cash crunch so severe it faced possible bankruptcy if lenders didn't cooperate in a massive restructuring of at least $5 billion in debt, the announcement shattered an aura that has surrounded the Reichmann brothers for almost three decades.

Whatever the outcome, it is clear that a new chapter is being written in a family saga that has taken many turns since their father, Samuel Reichmann, a Viennese egg exporter, fled central Europe ahead of the Nazis and began a meandering journey to Canada by way of England, Spain and Morocco.

Olympia & York's stumble and possible fall casts a long shadow over the already depressed international real estate markets, bank analysts say. The problems won't cripple the U.S. banking system or any particular bank here, government and banking officials say. But it is another blow for New York giants Citibank and Chemical Bank, which reportedly are owed $500 million and $200 million, respectively. And it provides the biggest example yet of how recklessly some of the country's biggest bankers, bedazzled by the easy profit of upfront loan fees, lent money during the 1980s.

Robert Blohm, an American investment banker who operates in Toronto and Montreal, said the Reichmanns had taken advantage of "a herd instinct among commercial bankers who just went along with them. ... The banks would say, `Okay, as long as we're secured, we don't need to know too much. These are the Reichmanns, after all.' "

 © 2023 Factiva, Inc. All rights reserved.

With an international web of real estate and other investments built on $20 billion in debt, Olympia & York and its affiliate companies have dwarfed rivals and made newly arrived property developers like Donald Trump seem puny and crass.

Shunned the Limelight

Bankers appreciated the Reichmanns' preference for shunning the limelight and were willing to indulge them their secrecy and break traditional lending rules in an effort to land an account with the fabled trio.

Now the impact of the lending shortcuts is being felt even more sharply than the missteps of others. Trump, for example, owed less than $3 billion when he tottered near bankruptcy two years ago. By contrast, of the $20 billion in debt Olympia & York and affiliates hold, Olympia & York owes $12 billion directly. Of that total, it's asking that more than $5 billion in bank loans be rewritten to give it more time to pay interest and principal, a spokesman for the Reichmanns said.

Most of the $5 billion has gone into the Canary Wharf project - a 71-acre commercial development in London's once-derelict Docklands district, which the Reichmanns believed would become the premier financial center of a unified Europe but which, in England's depressed real estate market, has become the next thing to a white elephant.

The $5 billion is secured directly by the wharf property or by Olympia & York shares in newsprint, energy and other companies, a spokesman for Olympia & York and the Reichmanns said. The value of those shares has fallen dramatically in recent months, leading to speculation that bankers are demanding more collateral to back up the borrowing.

In addition, the Reichmanns are seeking a $100 million short-term loan to shore up its Canadian operations, a $175 million short-term loan and as much as $612.5 million in long-term loans for the Canary Wharf project, the spokesman said. Commercial lenders to Olympia & York pledged million of dollars in new cash Friday, but stopped short of the amount sought by the company, news services reported.

In typical hard-bargain style, the Reichmanns are asking for these concessions while still refusing to open their books to bankers. After a meeting two weeks ago when the firm sat down with nearly 100 lenders to discuss its problems, bankers came away grumbling that, while the Reichmanns had supplied more information than ever, it was still not enough to make informed decisions.

As in the past, the Reichmanns insisted, even while begging for help, that a bank should know everything about a property or other asset that secures the bank's loan, but that information about how much else Olympia & York owes, to whom and under what terms would not be divulged.

One Canadian investment counselor, who asked that he not be identified, said, "That's what got them into trouble. Nobody could find out what kind of shape their other assets were in."

Banks Can't Say `No'

But the Reichmanns' strategy may succeed. The banks can't afford to push such a large creditor into bankruptcy, banking experts point out, and the banks could not find anyone better than the Reichmanns to lead their empire out of trouble.

"For a long while, people thought the Reichmanns walked on water when it came to real estate," said Paul A. Mackey, first vice president and bank analyst at the investment banking firm of Dean Witter Reynolds Inc.

"There was a herd instinct. Now the lenders will do everything to keep Olympia & York intact."

(Olympia & York has a local connection: The Rouse Co., the mall developer based in Columbia, Md. A company that Olympia & York controls in turn owns 22 percent of Rouse, but it is unlikely to be affected by any restructuring of the Reichmann holdings, according to officials at Rouse and the real estate firm that owns a stake in Rouse.)

The Reichmanns' troubles began several years ago, according to Paul Isaac, chief economist at Mabon Securities Corp. Like everyone else, they were borrowing and building on the philosophy of the 1980s: short-term income from a project need not cover the cost of building it; in the long term, inflation and skyrocketing real estate values would more than make up the difference. But then inflation slowed, rents dropped and the Reichmanns watched the prospects for the Canary Wharf fade.

 © 2023 Factiva, Inc. All rights reserved.

The rest of the Reichmanns' portfolio of real estate and other holdings also has suffered, but a spokesman for the brothers said that it can, with a little help, withstand the downturn. It's the unfinished, cash-consuming London project that is the source of real trouble, the spokesman said.

That may be, but the Reichmann empire is an interwoven mesh of projects with cash flows and budgets intertwined. That was clear in late February and early March, when the financial community became aware that Olympia & York was having trouble repaying its short-term loans in the commercial paper market. That scared off additional loans, amplifying the company's cash crunch, and forcing it, for example, to divert rent from a profitable Wall Street property to pay short-term bills rather than to pay the mortgage on the building.

The banks most hurt by the fiasco are Canadian. The Montreal-based National Bank of Canada already has felt the effects of investor anxiety over the Reichmann brothers' troubles, with its shares dropping by over 20 percent on the Toronto Stock Exchange since the debt restructuring efforts began.

The part of the Reichmanns' mystique that was built on their demonstrable financial genius over the years is relatively easy to track.

Since immigrating to Canada from Morocco in the 1950s and starting a successful tile and marble importing business, the Reichmanns have had one spectacular real estate success after another. They turned 500 acres of cheap farmland in the northeastern suburbs into a sprawling Toronto office park in 1965. Ten years later in the city's financial district, they transformed the Toronto skyline by constructing the 72-story First Canadian Place, which at the time was the tallest bank building in the world.

Following their trademark pattern of buying property at depressed prices and developing it into quality commercial space more quickly than anyone else, the Reichmanns soon extended their reach to Manhattan at a time when New York was approaching bankruptcy and real estate prices were at rock bottom. Paying $320 million for eight aging skyscrapers, the brothers soon found their investment worth more than $1 billion in a rebounded economy, and their rent revenue quadrupled.

The Reichmanns then mortgaged those buildings and started work on the $1.5 billion, 7.5 million-square-foot World Financial Center project in Manhattan's Battery Park.

The Reichmanns parlayed those successes to undertake their most ambitious leveraged project of all, the $7 billion Canary Wharf. Said a Toronto investment consultant, "It was their unbroken string of successes that contributed most to the Reichmann mystique. They had great vision. For that you've got to give them credit. Everything they did was absolutely first class."

But on another level, the aura of invincibility and reliability grew because of the brothers' personalities, which in the public eye became synonymous with discretion and austerity in a business often characterized by flamboyance, ostentatious displays of wealth and facile public relations.

Dour, devout and mysterious, the brothers not only shunned the limelight, but also wrapped themselves in their reclusiveness and used the Byzantine complexity of their empire of interlocking partnerships to foster their reputation for unshakeability.

It is widely known in the financial world that the Reichmanns run Olympia & York according to strict Orthodox Jewish practices, never working on the Sabbath or allowing their employees or outside advisers to work on their behalf from sundown on Friday to sundown Saturday.

Each weekday afternoon, an orthodox rabbi presides over a prayer meeting at the company headquarters at First Canadian Place in Toronto, a religious observance that is rarely missed by Paul Reichmann, 61, the brilliant, soft-spoken chief strategist of the firm that is wholly owned by him and his brothers, Albert, 63, and Ralph, 58.

Lifestyles Belie Wealth

Standing over six feet tall, with broad, sloping shoulders and gangling limbs, Paul Reichmann carries a vaguely rabbinical demeanor and is seldom seen not wearing his black yarmulke, or skullcap.

The Reichmann brothers and most of their children live in a predominantly Jewish neighborhood in Toronto in spacious but unpretentious middle-class homes that belie their wealth. This modest, retiring lifestyle, too, has added to their aura as conservative businessmen.

The family history is the stuff of legend, sketchy as the publicly known details are.

 © 2023 Factiva, Inc. All rights reserved.

The patriarch of the family, Samuel Reichmann, immigrated to Vienna from Hungary in 1920 and operated a thriving egg exporting business that quickly spread throughout Europe and to Britain.

In 1938, with Nazi Germany threatening to annex Austria, Samuel, his wife, Renee, and their sons fled to Paris. Two years later, the Reichmanns fled again, first to Spain and then to the relative safety of Tangier, Morocco, where many Jews and wartime refugees were gathering.

With connections to British merchant bankers, including the Rothschilds, Samuel was said to have obtained enough capital that, when combined with savings from his egg business safeguarded in British banks, allowed him to develop a prospering currency trading business. He eventually founded the Tangier Exchange and became one of the North African city's most influential businessmen.

Helped Nazi Survivors

In Tangier, Renee Reichmann cared for survivors of Nazi death camps and is said to have raised funds for food parcels for Jews in Europe and to ransom thousands of camp inmates from certain death.

Samuel Reichmann died in 1975. Another son, Louis, lives in New York, and another, Edward, lives in Israel.

After the war, the younger Reichmann brothers traveled to London and then to North America, settling in Canada, the first truly secure home of their tumultuous lives.

ILLUSTRATION,,Randy Jones For TWP; INFO-GRAPHIC,,Ttobey; PHOTO Caption: First Canadian Place, Toronto. Caption: THE REICHMANN EMPIRE Olympia & York Properties PROPERTY................VACANCY RATE CANADA TORONTO First Canadian Place............19% Scotia Plaza....................15 Exchange Tower..................16 Aetna Canada Building...........16 Queen's Quay Terminal...........21 5140 Yonge St. ....2 CALGARY Esso Plaza ....12 Shell Centre................... 0 Gulf Canada Building...........NA Amoco Building.................10 OTTAWA C.D. Howe Building............. 0 Esplanade Laurier.............. 0 EDMONTON. City Centre Building..........26 NEW YORK World Financial Center....... 3 237 Park Avenue.............. 0 245 Park Avenue............ 2.5 320 Park Avenue.............100 425 Lexington Ave. .... 0 1290 Avenue of the Americas.. 3 60 Broad St..................60 125 Broad St.................36 55 Water St...................9 59 Maiden Lane............... 4 1 Liberty Plaza.............. 5 2 Broadway...................40 ORLANDO, FLA. 28 Olympia Place............26% DALLAS 1999 Bryan ST................14 LOS ANGELES 400 South Hope St............ 3 11601 Wilshire Blvd. ....19 CHICAGO 15 Olympia Centre............11 PORTLAND, ORE. 16 Koin Center...............19 HARTFORD 1 Commercial Plaza..........17 1 Corporate Center..........31 SRPINGFIELD, MASS. 1 Financial Plaza........... 9 BOSTON Exchange Place............. 3 LONDON Canary Wharf...............40 SOURCE: Olympia & York

Document wp00000020011108do4q00fw3

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
EUROPE EDITION

Letters to the Editor: Meddling Government For a Stronger Quebec

274 words
21 April 1992
The Wall Street Journal Europe
WSJE
PAGE 9
English
(Copyright (c) 1992, Dow Jones & Co., Inc.)

As an anglophone Quebecois, I am deeply concerned about your publishing an article entitled "Will Quebec Bail Out With No Parachute?" by Mr. Robert Blohm on March 25.

The article is simply wildly invective against Quebec society. Our "government meddling" has brought us from an agricultural society dominated by by the Anglo-Saxon upper crust of Montreal (and therefore dependent on English Canada) to an independent, self-confident, technologically advanced society. Mr. Blohm fails to note that Quebec has the lowest unemployment rate in Canada. No doubt a function of that "government meddling."

I still find it odd that Mr. Blohm indicates that a Quebec currency would enter the market at $0.50 against a Canadian dollar at par. You should refer Mr. Blohm to your currency pages, where he will learn that the Canadian dollar is trading at $0.83. The fact is that none of the details of the new Quebec currency have been worked out, and it could come out at any value from a pesata to a pound of sterling. And the thought that the Quebec currency, coming out at par, would devalue 45 percent overnight is flat out asinine.

Also, I would like to point out that the "French colonial administrators" of which Mr. Blohm claims we are the descendants have not been around for well over 200 years. My family was not in Quebec 200 years ago, and neither were the families of 90 percent of Quebecois. I think we have gotten over it.

Dr. Raymond Konopka Valentino

Professor of Management Control Systems

Instituto de Empresa

Madrid,

Spain

Document wsje000020011108do4l005da

 © 2023 Factiva, Inc. All rights reserved.

NATIONAL POST

THE INSIDERS
1, News
Quebecers won't fall for separatist suicide

Diane Francis
775 words
13 April 1992
The Financial Post
FINP
Weekly
S3
English
(Copyright The Financial Post)

It's time to call Robert Bourassa's constitutional bluff now that several little-noticed, but significant, recent developments make Quebec separation totally unviable in economic terms. This means Bourassa, who keeps his cards close to his vest, has only five deuces because independence is a non-starter, which will be roundly rejected by Quebecers once its implications are grasped.

English Canadian leaders should concentrate on getting the economic facts across and ignore the pressure of an impending referendum.

The country should come to an agreement but compromises will be necessary all around and there's no need to do this under pressure.

In the meantime, until the referendum is over, Ottawa must stop spending discretionary money, or turning over any assets, to Quebec or its municipal governments. It was upsetting that last week Ottawa signed over title to the two airports in Montreal to a local authority in return for a 60-year lease. Such assets belong to all Canadians and title should not be transferred if there is even the remotest possibility of a secession attempt.

That aside, here are reasons why independence is a non-starter:

1. Jacques Parizeau's key to independence was massive power exports, notably the $13.1-billion Great Whale project that is unofficially dead after New York canceled its $17-billion power contract. Lobbying efforts by Cree Indians, former Alberta premier Peter Lougheed, American environmentalists and others removed this cornerstone of separation once and for all.

2. Another strategic move - or reason to proceed with Great Whale despite few export contracts - is the use of cheap power to subsidize Quebec exporters. Such subsidies would be, and are being, paid for through higher-than-otherwise hydro rates charged to Quebec homeowners and small power users.

But that dog don't hunt any more. At the end of April, the U.S. Commerce Department is expected to slap countervail duties for dumping magnesium at artificially low prices due to sweetheart hydro subsidies. The first court round suggested a 33% countervail - which would make smelters unprofitable.

Worse yet, aluminum and forestry companies benefiting from cheap power won't be far behind and will be dragged through U.S. courts. Some may claim it's unfair Yankee protectionism, but many trade experts say it's a case of Quebec Inc. getting caught at cheating.

3. Separatists also had to come up with strategies to entice Japanese investment and bond purchases to offset Quebec's $2.5-billion annual trade deficit with Japan.

"The Japanese buy Canadian not Quebec paper," says Robert Blohm, a U.S. investment banker who advises Japanese investors on Canada. "The only time they did, the Quebec paper was denominated in yen, and the province lost a fortune. They certainly will never buy paper in any Quebec currency because they know separation is absolutely stupid."

4. Also necessary to economic independence is U.S. investment and loans.

 © 2023 Factiva, Inc. All rights reserved.

But a bond boycott is building south of the border - based on American disdain toward the Great Whale project. Already, bills in several states would prohibit investment of state employees' pension funds in Hydro-Quebec bonds.

''If the California teachers' fund decides to avoid Hydro-Quebec bonds,'' says Tom Caldwell of Toronto's Caldwell Securities Ltd., ''then it's game over and there will be a 400 basis points spread between Quebec bonds and the others instead of 100 points.''

5. Separatists also must win the minds and hearts of Quebecers to pull off independence, but I wouldn't bet on it.

Quebecers aren't stupid and the economic facts are compelling, except to zealots. An independent Quebec could have anywhere from a $6-billion to $12-billion annual trade deficit (depending on how much capital flees the province). A Quebec currency would sink like a stone.

Also roughly one-third of Quebec is anglophone or allophone (non-French immigrants) who reject separation. That means to get even a simple majority, Parizeau must get 75% of all francophone votes. To overwhelmingly carry the day, he must woo 90%. I don't think it's possible to get that many people to agree on anything - in Quebec or outside that province.

The bottom line is, Bourassa and Parizeau have no cards and the rest of us shouldn't be stampeded into foolish deals. There's no rush. Canada's held together for 125 years despite disagreements and two solitudes. Quebecers are pragmatic and won't fall for the separatist suicide. And Canada will remain cranky but intact.

*** Infomart-Online ***

(Ed. note) Diane Francis is editor of The Financial Post

Document finp000020011107do4d0069q

 © 2023 Factiva, Inc. All rights reserved.

The Washington Post

A SECTION
New York's Withdrawal Casts Doubt on Hydroelectric Project in Quebec

William Claiborne
Washington Post Foreign Service
1,021 words
7 April 1992
The Washington Post
WP
FINAL
a20
English
(Copyright 1992)

New York State's cancellation of a $17 billion power contract with Quebec has cast doubt not only on the future of one of the world's largest hydroelectric power projects, but also on the French-speaking province's economic viability as an independent country if Canadian unity negotiations fail this summer, according to economic analysts here.

The provincially owned Hydro-Quebec power company insists it will go ahead with the controversial $12.6 billion Great Whale River hydroelectric project in northern Quebec despite New York Gov. Mario Cuomo's announcement March 27 that the New York Power Authority will abrogate its agreement to buy power from Quebec over a 20-year period starting in 1995.

Hydro-Quebec had banked on the lucrative New York contract to make the Great Whale project profitable and had incurred much of its $30 billion debt held by bond buyers in the United States and elsewhere on the basis of "assured earnings" from energy exports, bond analysts said.

In turn, Hydro-Quebec has long been a key element in the province's long-range economic strategy, and the prospect of turning the utility into a major energy exporter and a source of U.S. currency has been the basis of Quebec Premier Robert Bourassa's ambition of making Quebec financially independent of English Canada.

The Quebec legislature has scheduled a referendum on secession to be held by Oct. 26 if the other provinces fail to agree on constitutional reforms aimed at granting Quebec more autonomy and recognizing it as a "distinct society" because of its French language, culture and tradition of civil law.

Quebec Energy Minister Lise Bacon said construction on the Great Whale project, which has been opposed by environmentalists and northern Quebec Cree Indians, will begin next year despite the New York setback. But she said the project will now be broken into three stages, with completion anticipated in 2008 instead of at the turn of the century.

Quebec and New York officials said New York canceled its contract not on environmental grounds but because it found it no longer needed to import the energy, due to increased production by local suppliers, improved energy conservation and declining demand from industries hit by the recession. Cuomo also said he had concluded that "the price is uneconomic."

Bacon said she is convinced that New York will offer to negotiate a new contract with Hydro-Quebec when the economy improves. The New York Power Authority had sought a 30 percent reduction on the Great Whale electricity contract to reflect declining local energy prices.

Bond analysts said, however, that the New York cancellation - carried out without penalty through an escape clause - could push up the utility's borrowing costs enough so that it would not be profitable to continue construction on the revised schedule. They said a drop in the utility's credit rating because of the project's uncertainty could make it difficult for Hydro-Quebec to sell the bonds it needs to finance construction of the dams and power generating plants at Great Whale.

 © 2023 Factiva, Inc. All rights reserved.

Robert Blohm, an American investment banker who operates in Toronto and Montreal and who long has been critical of Hydro-Quebec's financing, said that even a bond rating downgrade from AA- to A would rule out any new construction for the time being.

Moreover, Blohm said, "Quebec's whole industrial policy could become impossible to carry off" because much of its industrial development has been based on exporting enough energy to the United States to enable Hydro-Quebec to offer cheap, subsidized electricity to magnesium and aluminum manufacturers in Quebec.

The magnesium industry in Quebec had already suffered a setback in December when the U.S. Commerce Department ruled that magnesium imports from Canada were being unfairly subsidized by below-cost Hydro-Quebec energy, and threatened a 33 percent countervailing duty.

A New York bond rating expert, William Chambers, told the Canadian Press news agency, "The loss of the contract will have an effect on the utility's borrowing power. But it remains to be seen how much."

Bond analysts here said that approximately half of Hydro-Quebec's $30 billion debt is held by pension funds, insurance companies and other U.S. bond-buyers, some of whom are likely to review their investments if the utility's bond rating is affected by the New York cancellation.

A bill already has been introduced in the Massachusetts state legislature that would prohibit the state employees' pension fund from buying Hydro-Quebec bonds, and six other northeastern U.S. states are considering similar measures.

Environmental critics of the Great Whale project, which would divert four rivers and flood 1,700 square miles of land at the southern end of Hudson Bay, also said they doubt if Hydro-Quebec will be able to continue financing the construction.

"This is going to stop them dead. They're the pariah of the northeastern United States, and they won't be able to find new {bond} markets. If they are going to proceed at all, they have to find new investors, and they can't," said Karen Lohr, a Greenpeace activist who has led the campaign against Great Whale for more than two years.

Bill Namagoose, executive director of the Grand Council of the Cree of Quebec, said, "Borrowing will be very, very difficult, if not impossible. Hydro-Quebec will try to rationalize their problems, but the normal {bond} market forces will come into play regardless of their bravado. Great Whale is finished." The Cree argued that flooding such a vast area of northern Quebec would destroy their traditional hunting and trapping grounds and end their way of life to benefit others.

Bacon angrily blamed the Cree for endangering the province's economic development. Speaking to reporters at the Quebec legislature in Quebec City last week, the energy minister said, "I blame them for discrediting Quebec all over the world. . . . The territory that they claim is theirs is still ours. We haven't given it up yet."

Document wp00000020011108do4700dh4

 © 2023 Factiva, Inc. All rights reserved.

THE GLOBE AND MAIL

ROB

Hydro-Quebec plans in turmoil Key contract loss could hamper megaproject financing

BARRIE McKENNA
854 words
31 March 1992
The Globe and Mail
GLOB
B1
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

MONTREAL

The loss of a key $17-billion export contract has thrown into doubt Hydro-Quebec's ambitious plans to build a series of hydroelectric megaprojects on borrowed money.

Some Hydro-Quebec watchers say New York's decision Friday to cancel the largest and richest export deal it has ever struck will push up the utility's borrowing costs and could endanger the fragile economic viability of projects like Great Whale and others in the James Bay area, known collectively as James Bay II.

Robert Blohm, a Montreal-based investment banker and frequent critic of the utility's financing, said Hydro-Quebec desperately needs U.S.-dollar revenue to offset the money it has borrowed there. Of the utility's nearly $30-billion debt, 30 per cent is payable in U.S. dollars after currency hedging.

"It won't make sense to build megaprojects because those projects may become unprofitable," he said yesterday.

William Chambers of New York-based rating agency Standard & Poor's Corp. agreed that the loss of the New York contract has weakened the utility's financial position.

"I think it's safe to say that Hydro-Quebec is not as strong today as it was last Thursday - before New York pulled out of the 1,000-megawatt energy deal," he told Canadian Press.

"The loss of the contract will have an effect on the utility's borrowing power. But it remains to be seen how much."

Hydro-Quebec's plan to slow down the pace of construction of the $12.6- billion Great Whale project is the "appropriate thing to do" in the circumstances, said Ihor Kots, managing director of Canadian Bond Rating Service Ltd. in Montreal.

But he added that it is now time for the utility and the Quebec government to take a second look at their economic development strategies. Since the mid-1980s, Premier Robert Bourassa has aggressively pursued a strategy of selling power at hefty prices to the United States and luring heavy energy users - like aluminum smelters - to Quebec with cut-rate prices.

But hydroelectric power is just not the bargain it once was because of tumbling oil and gas prices, Mr. Kots said.

"Much of the assumptions underlying James Bay II are based on $30-a- barrel oil. We are now looking at a whole different energy pricing environment. But natural gas is not even touted as a viable alternative in Quebec."

The New York Power Authority, New York's state-owned energy wholesaler, cited cheaper alternative sources of energy, including Western Canadian natural gas, and weaker demand as reasons for cancelling the contract.

Mr. Kots said Quebec must also begin to look seriously at alternatives, such as power co-generation and the use of natural gas generators to handle midwinter peak loads.

Other analysts questioned whether Hydro-Quebec's first Great Whale generating station will go ahead as planned, with deliveries starting in the year 2000.

A further delay or even the death of Great Whale is possible, said one New York-based bond salesman, who asked not to be named. "The real question becomes will the project go ahead without a lead contract or not? It's much too early to tell."

Hydro-Quebec officials and bond analysts insist that the utility's coveted double-A (minus) credit rating is safe. A drop in the credit rating would automatically push up borrowing costs.

"Until we have invested in cement and excavation, we have not risked anything," said Michel Labonte, the utility's vice-president of finance and treasurer.

Mr. Labonte also dismissed the view that losing U.S.-dollar revenue could prove crippling.

"We are not short of U.S.-dollar revenue," he said in a telephone interview. "There is no reason to believe our borrowing in foreign currencies will be affected. I see no reason why we can't continue to do it."

Mr. Labonte said borrowing will actually fall because Hydro-Quebec has pushed back construction of the planned second and third Great Whale generating stations by up to five years. Still, the first generating station will account for about 60 per cent of the project's costs, he said.

Hydro-Quebec has already said it will be forced to do more currency hedging to offset the loss of U.S. dollar revenue. The utility's executive vice-president Pierre Bolduc said Friday that current rates on currency swaps make the strategy attractive right now.

John Cote, senior vice-president of Yamaichi International in Montreal, said the big losers will be Hydro-Quebec's underwriters, not the utility or its lenders.

Yamaichi is Hydro-Quebec's lead underwriter in Japan and a member of a syndicate in a 1991 issue of the utility's global bonds. "The long-term impact on its financing can only be positive if you take a credit raters' perspective. They'll have less debt."

Mr. Cote said Hydro-Quebec bonds are still "sought-after" in both the U.S. and Japanese markets, with or without the New York contract.

Document glob000020011107do3v00ebd

 © 2023 Factiva, Inc. All rights reserved.

THE CHRISTIAN SCIENCE MONITOR

THE WORLD

New York Says Non To Hydro-Quebec; Crees Rejoice

Mark Clayton, Staff writer of The Christian Science Monitor
689 words
31 March 1992
The Christian Science Monitor
CHSM
All 03/31/92
6
English
© 1992 Christian Science Monitor. Provided by ProQuest Information and Learning. All Rights Reserved.

HYDRO-QUEBEC'S plan to build a huge hydroelectric dam complex on the Great Whale River in northern Quebec was harpooned Friday afternoon by the governor of New York.

Governor Mario Cuomo said a pending 21-year, $19-billion contract to bring 1,000 megawatts of hydro power into the state each year was unnecessary because of low power demand and cheaper alternatives. Great Whale would have supplied power to New York under the contract, which was canceled for economic reasons, not environmental concerns, the governor said.

Cree Indians and environmental groups that had vigorously opposed the Great Whale project on grounds that native lands would be flooded immediately rejoiced.

"We thought it was a great victory for the environment," said Bill Namagoose, executive director of the Grand Council of the Crees of Quebec in a phone interview. "The contracts were being used as justification here to proceed with Great Whale. We feel it is the kiss of death for the project."

Hydro-Quebec spokesmen followed the governor's announcement by saying the project would be delayed only a year until 1999. In a January interview, Hydro-Quebec Chairman Richard Drouin told the Monitor the project would go forward even if the contract failed, but might be delayed until 2004.

"We would not start construction of Great Whale without knowing that we have the amount of power that would be purchased from that facility," he said. News reports in Montreal over the weekend cited company statements that a part of the project might be built instead of the entire thing.

But independent financial analysts say loss of US-dollar income from the New York contract not only makes $13.1 billion Great Whale a nonstarter, but removes a crucial support investors and ratings agencies have relied on when scrutinizing company debt offerings that finance such projects. The result, these analysts say, is that the company may have to drastically scale back or eliminate much of its $64 billion in planned dam projects.

"It was such a key component that now the whole thing will start to unravel {Hydro-Quebec's} plans," says Robert Blohm, an American investment banker based in Montreal. "They needed the revenue from this New York contract to service the existing US dollar debt, about $9 billion, let alone build new projects."

Mr. Blohm argues that the company in 1986 convinced Wall Street that interest and principle costs payable in US dollars would be covered by the New York contract when it was ratified. He predicts tougher terms and higher interest rates will now be demanded by purchasers of long-term bonds that have financed such projects. The company holds nearly $30 billion in debt and has plans to sell $9.5 billion more to finance Great Whale.

"Higher borrowing costs will likely remove the profitability from any new projects or new construction," beyond just Great Whale, says Blohm. For every 1/10th of one percent rise in bond interest rates, the profit on any new project falls by 1 percent, he says. The result: Most projects could be short-circuited by making them so expensive to finance they would not be profitable.

Hydro-Quebec spokesmen said loss of the New York contract would not severely hurt company revenues, and that expected 2.5 percent annual growth in power demand through the end of the decade in Quebec makes Great Whale necessary. But several question whether it would be the cheapest option.

Robert McCullough, a former utilities executive who has analyzed Hydro-Quebec's finances for the Cree, seconds Blohm's conclusions. The company, he says, will be forced to conserve more energy, and buy more power from small private producers. Building such projects without export markets would put the full weight of borrowing on Quebec ratepayers, Mr. McCullough says.

"The important thing about the New York decision is that they found they could not afford to buy from Hydro-Quebec because other alternatives were cheaper," says McCullough. "Those same alternatives are equally available in Quebec."

Document chsm000020011107do3v001zk

 © 2023 Factiva, Inc. All rights reserved.

NATIONAL POST

THE INSIDERS
4, Spectrum: Comment and Opinion
A little good news, a little bad news

Diane Francis
662 words
30 March 1992
The Financial Post
FINP
Weekly
S3
English
(Copyright The Financial Post)

Good news is the hot rumor that Ontario Premier Bob Rae has decided to postpone the dreaded labor law reforms which the business community here, and international investors, say will economically damage the province.

Bankers and business types alike have been telling the premier that international investors - who must allow us to live beyond our means by buying our bonds - are nervous about these impending changes.

A sign of concern is that Ontario and other provincial bonds are suffering in the markets. One broker estimates that Ontario alone must borrow from foreigners more money over the next three years than Ottawa.

A source says one strategy to back away from the labor reform and save face may be to shift the current, respected deputy labor minister elsewhere, then announce that further study must be undertaken and the bill will be postponed. Rae's extremist caucus and cabinet are upset, not to mention his union bosses, and he's reportedly told them the labor laws will be changed when the economy turns around.

Meanwhile the Saskatchewan socialists nuked a multimillion-dollar deal with Atomic Energy of Canada Ltd. to construct a prototype for a smaller version of the Candu. They did this because their environmentalist supporters want a nuclear-free province.

Called the Candu-3, AECL hopes to sell a few of these $1-billion, 450-megawatt reactors capable of serving a city of 200,000. Whether they'll have any luck or not is debatable, but former premier Grant Devine had signed an agreement with AECL, which would have created up to 150 jobs in Saskatoon.

Jobs aside, the development of safe, reasonable nuclear power is very much in the interests of Saskatchewan because it has the richest uranium deposits in the world and singlehandedly produces 22% of the Western world's supplies, according to 1991 federal government figures.

I wonder if environmentalists will now convince newly crowned socialist Premier Roy Romanow he should also close down Saskatchewan's uranium mines which "aid and abet" the nuclear power they fear so much?

British Columbia's NDPers also showed their true stripes by saying they will insist that any business which tenders for government business must pay union scale. Someone should challenge that under the Charter of Rights and Freedoms.

Alberta certainly isn't fiddling while Ontario burns. Delegations from Alberta have been calling on businesses back east and word is from several Alberta officials that large warehouse-distribution operations may shift.

The reasons are varied and not always negative. On the positive side, Alberta is a very pleasant place to live. Has less crime. Lower taxes. Reasonable housing prices. Steady growth. Great infrastructure. An enterprising workforce. Many entrepreneurs. Governments committed to private-sector, as opposed to public-sector, growth.

Calgary Mayor Al Duerr says most complaints heard from back east are about taxes, employee pension changes as well as the inevitable, if possibly postponed, labor legislation the NDP has promised unions in Ontario.

 © 2023 Factiva, Inc. All rights reserved.

Last but not least is poor old Quebec - where unions and separatists have joined for years in an unholy alliance. A firestorm of controversy has been caused by two writers. Mordecai Richler's new book expresses his unexpurgated disdain toward Quebec's foolish language laws and also talks about its hostility toward anglophones.

Then there was a piece in the Wall Street Journal by Robert Blohm, an American private investment banker living in Montreal who says Canadians should call the separatists' bluff because independence is a disaster for Quebecers.

He says Quebec's current-account deficit is $6 billion, not including what its share of the federal debt would be if it left. Canada has a trade surplus which will jump if Quebec leaves. "Quebec has the industrial world's worst combination of trade and current-account deficits per capita."

*** Infomart-Online ***

(Ed. note) Diane Francis is editor of The Financial Post.

Document finp000020011107do3u005d7

 © 2023 Factiva, Inc. All rights reserved.

The New York Times

Foreign Desk; 1
Albany Cancellation Hits Quebec Power Project

By CLYDE H. FARNSWORTH
Special to The New York Times
582 words
29 March 1992
The New York Times
NYTF
Late Edition - Final
9
English
Copyright 1992 The New York Times Company. All Rights Reserved.

TORONTO, March 28 -- New York State's cancellation of a $12 billion, 20-year contract to buy power from Quebec has struck perhaps a fatal blow to one of the biggest and most controversial efforts to exploit the Canadian province's vast water resources for energy.

The provincially owned Hydro-Quebec utility insisted today that its northern expansion project in the Cree Indian country to the east of Hudson Bay will still go forward. But the loss of hundreds of thousands of dollars anticipated from Albany annually will almost certainly strain the giant utility's finances as well as bring a damaging reduction in its credit rating.

In turn, this could raise the cost of borrowing money to such an extent that the project, which has been under fire from the Cree and environmentalists, would no longer be feasible, or profitable, several analysts said.

"I believe this will make it extremely difficult for them to borrow any additional amounts of capital beyond what they have outstanding," said Robert Blohm, a Montreal investment banker.

The utility, moreover, has counted on export revenue to keep domestic prices for energy low. New York's decision on Friday may thus mean higher electricity charges within Quebec, which could create a political storm.

Hydro-Quebec still needs to market some $9.5 billion of bonds to finance the massive Great Whale project. The cancellation, in effect, has made such bonds far more difficult to sell. The utility's long-term debt stands at $25.6 billion, of which nearly $9 billion is payable in United States dollars. The magnitude of its debt was described recently by William Streeter, vice president of Moody's Investors Service, an agency that evaluates bonds for investors, as "unprecedented."

On the drawing boards for at least 10 years, the Great Whale development -- in the area of the Grande Baleine or Great Whale River, which empties into Hudson Bay 750 miles north of Montreal -- entails building dikes and dams, roads and airports, diverting four rivers and flooding an area a little larger than Rhode Island, where up to 10,000 Cree Indians and 5,000 Eskimos live.

The utility's lobbyists had said that it could carry out the construction work while both preserving the environment and raising living standards of the native peoples.

But lobbysts for the Cree and the environmentalists contended that the project would take a devastating toll on an area that is the ecological heart of northern Quebec and have unfortunate consequences on the native people, for example, by raising mercury levels in the fish they catch.

In taking their action on Friday, New York officials cited only economic factors, the utility's refusal to cut prices another 30 percent on the future hydropower it would be selling the state.

The New York Power Authority and Hydro-Quebec, whose generally cheap electricity in earlier years powered Quebec's postwar industrial expansion, had been discussing the contract for the past three years.

The utility put a brave face on what most outside observers called a major setback. Pierre Bolduc, Hydro-Quebec's executive vice president for external trade, told a news conference in Montreal Friday night that the cancellation would not affect project, except possibly to delay it by a year.

"Great Whale will be producing energy by the year 2000," he predicted.

Map of Quebec, indicating Great Whale Project Area.

Document NYTF000020050413do3t00u13

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
EUROPE EDITION

The Americas
Will Quebec Bail Out With No Parachute?

By Robert Blohm
867 words
25 March 1992
The Wall Street Journal Europe
WSJE
PAGE 8
English
(Copyright (c) 1992, Dow Jones & Co., Inc.)

MONTREAL -- Quebec's local politicians have just rejected a constitutional proposal to prevent Quebec's separation from the rest of Canada -- the product of months of public hearings across the country. As a result, Canada's leading politicians and bureaucrats are trying to work out an eleventh-hour proposal, lest Quebec call an autumn referendum on independence.

Referendum or not, federalist politicians could resolve the constitutional impasse in one fell swoop if they just stuck to a proposal made last September to remove interprovincial protectionism. This would subject Quebec's state-directed economy to the competitive forces of the marketplace. Indeed, only a Canadian market free from statist interventionism can save Quebec from an imminent economic crash.

Nevertheless, two decades of government (or government-sponsored) external borrowing is a habit Quebec politicians won't break willingly. The rest of Canada must now carry the case for a free-market conversion of the economy directly to the people of Quebec. Appeasing the self-styled descendants of French colonial administrators, as former Prime Minister Pierre Trudeau did, is what has set Quebec's economy up for a great fall.

From the mid-1970s to the mid-1980s Quebec, then governed by the separatist "Parti quebecois," received net expenditures from the Trudeau federal government that, with interest, account for 30% of today's $400 billion federal market debt. Fortunately, when Brian Mulroney succeeded Mr. Trudeau in late 1984, he almost immediately put an end to the federal government's net non-interest expenditure in Quebec and made it take its pro-rated share in federal deficit reduction. This, in fact, caused Quebec to begin paying more to the federal government in taxes and bond purchases last year than it receives in federal expenditures.

But Quebec politicians haven't taken this as a lesson against wanton government borrowing and spending. On the contrary: They have been exploiting popular discontent with the federal government's austerity to get a mandate to borrow and spend and to grab more regulatory power for themselves. Such maneuvering only jeopardizes Quebec's continued ability to access the outside funds it has been using to finance consumption, reflected in its huge trade deficit with the outside world.

The net Trudeau transfers to Quebec indirectly stimulated Quebec's high trade deficit. So did subsequent net transfers to Quebec from Canadian chartered banks and recent major direct borrowing abroad by the government-owned utility, Hydro-Quebec. Quebec is unlikely to export its way out of its trade deficit -- even with eventual hydroelectric and metals exports -- because its net imports haven't been goods destined to improve productive capacity.

What should make Quebec's nationalist politicians think twice about their drive for sovereignty is the sheer magnitude of the foreign capital Quebec continues to need to finance its growing annual current-account deficit of at least $6 billion (Canadian), made up almost entirely of the trade deficit. (Canada as a whole has a trade surplus.) Quebec has the industrial world's worst combination of trade and current-account deficits per capita. If Quebec (with only a quarter of Canada's population) becomes independent and takes on its share of interest payments on Canada's foreign debt, it would walk away with at least half of Canada's more than $20 billion annual current-account deficit, and perhaps more, depending on flight from Quebec by holders of federal bonds.

Unless Quebec dramatically changes ideological course away from 30 years of promoting ethnocentric state control of the economy, it won't get nearly the foreign capital it used to, let alone the massive amount an independent Quebec would need. U.S. dollar borrowing for state-backed hydroelectric megaprojects, which require controversial export contracts to service it, won't nearly suffice. In addition, Quebec gets only a small

fraction of the equity investment coming into Canada from abroad. And foreign investors wouldn't readily refinance an independent Quebec's portion of Canada's federal debt, even in their own (foreign) currencies.

Since a Quebec currency would initially be worth at most 50 U.S. cents (vs. a Canadian dollar at par with the U.S.), Quebec would have to pay much more in its own currency just to service its existing huge foreign-currency debt -- unless it could secure sufficient U.S. dollar revenue from smelters and from hydroelectric exports to New England and New York state. But this prospect is made even more unlikely because of New York's reluctance to go ahead with a $19 billion contract with Hydro-Quebec. Nor could Canada's chartered banks continue to convert big portions of Quebec's foreign-currency debt into local-currency debt.

While Quebec can't possibly afford to separate from Canada without scorching its own economy, the rest of Canada, with its multibillion-dollar trade surplus, can well afford to say goodbye to Quebec. So Canada's government should call Quebec's bluff that it will secede, and use the current round of constitutional talks to discourage in the strongest terms social and economic engineering by provincial governments.

Mr. Blohm is an American private investment banker living in Canada.

Document wsje000020011108do3p00670

 © 2023 Factiva, Inc. All rights reserved.

THE GLOBE AND MAIL

ROB
WORTH REPEATING

403 words
25 March 1992
The Globe and Mail
GLOB
B6
English
All material copyright Thomson Canada Limited or its licensors. All rights reserved.

JOHN RAYMOND

Quebec's

separatists need

to think again

U.S. Investment banker Robert Blohm, writing in The Wall Street Journal:

WHAT should make Quebec's nationalist politicians think twice about their drive for sovereignty is the sheer magnitude of the foreign capital Quebec continues to need to finance its growing annual current-account deficit of at least $6-billion, made up almost entirely of its huge trade deficit with the outside world.

Quebec has the industrial world's worst combination of trade and current-account deficits per capita. If Quebec becomes independent and takes on its share of interest payments on Canada's foreign debt, it would walk away with at least half of Canada's more than $20-billion annual current-account deficit, and perhaps more, depending on flight from Quebec by holders of federal bonds.

Unless Quebec dramatically changes ideological course away from 30 years of promoting ethnocentric state control of the economy, it won't get nearly the foreign capital it used to, let alone the massive amount an independent Quebec would need.

U.S. dollar borrowing for state-backed hydroelectric megaprojects, which requires controversial export contracts to service it, won't nearly suffice. In addition, Quebec gets only a small fraction of the equity investment coming into Canada from abroad. And foreign investors wouldn't readily refinance an independent Quebec's portion of Canada's federal debt, even in their own (foreign) currencies.

Ah poverty! Cartoonist Jules Feifer:

I used to think I was poor.

Then they told me I was needy.

Then they said it was self-defeating to think I was needy. Instead, I was deprived.

Then they said "deprived" had a bad image; I was really underprivileged. Then they said "underprivileged" was overused; I was disadvantaged.

I still don't have a cent. But I have a great vocabulary.

Canada's future Bell Canada executive vice-president Jack Sinclair:

While (the politicians) are debating whether the challenges Canada faces are a federal or a provincial responsibility, the rest of the world is busy deciding our children's future.

The current political debate will mean very little if it fails to take into account the economic priorities necessary to win out over foreign competition -in our markets here at home as well as overseas.

Only in that context can Canadians really judge, in an informed way, the relative merits of the various options.

Document glob000020011107do3p00cca

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.
ASIA EDITION

The Americas
Will Quebec Bail Out With No Parachute?

By Robert Blohm
852 words
25 March 1992
The Asian Wall Street Journal
AWSJ
PAGE 6
English
(Copyright (c) 1992, Dow Jones & Co., Inc.)

MONTREAL -- Quebec's local politicians have just rejected a constitutional proposal to prevent Quebec's separation from the rest of Canada -- the product of months of public hearings across the country. As a result, Canada's leading politicians and bureaucrats are trying to work out an 11th-hour proposal, lest Quebec call a referendum on independence later this year.

Referendum or not, federalist politicians could resolve the constitutional impasse in one fell swoop if they just stuck to a proposal made last September to remove interprovincial protectionism. This would subject Quebec's state-directed economy to the competitive forces of the marketplace. Indeed, only a Canadian market free from statist interventionism can save Quebec from an imminent economic crash.

Nevertheless, two decades of government (or government-sponsored) external borrowing is a habit Quebec politicians won't break willingly. The rest of Canada must now carry the case for a free-market conversion of the economy directly to the people of Quebec. Appeasing the self-styled descendants of French colonial administrators, as former Prime Minister Pierre Trudeau did, is what has set Quebec's economy up for a great fall.

From the mid-1970s to the mid-1980s Quebec, then governed by the separatist Parti quebecois, received net expenditures from the Trudeau federal government that, with interest, account for 30% of today's $400 billion federal market debt. Fortunately, when Brian Mulroney succeeded Mr. Trudeau in late 1984, he almost immediately put an end to the federal government's net non-interest expenditure in Quebec and made it take its prorated share in federal deficit reduction. This, in fact, caused Quebec to begin paying more to the federal government in taxes and bond purchases last year than it receives in federal expenditures.

But Quebec politicians haven't taken this as a lesson against wanton government borrowing and spending. On the contrary: They have been exploiting popular discontent with the federal government's austerity to get a mandate to borrow and spend and to grab more regulatory power for themselves. Such maneuvering only jeopardizes Quebec's continued ability to access the outside funds it has been using to finance consumption, reflected in its huge trade deficit.

The net Trudeau transfers to Quebec indirectly stimulated Quebec's high trade deficit. So did subsequent net transfers to Quebec from Canadian chartered banks (partly to pay for construction of government-subsidized smelters to downstream hydroelectricity), and recent major direct borrowing abroad by the government-owned utility, Hydro-Quebec. Quebec is unlikely to export its way out of its trade deficit -- even with eventual hydroelectric and metals exports -- because its net imports haven't been goods destined to improve productive capacity.

What should make Quebec's nationalist politicians think twice about their drive for sovereignty is the sheer magnitude of the foreign capital Quebec continues to need to finance its growing annual current-account deficit of at least C$6 billion (US$5 million), made up almost entirely of the trade deficit. (Canada as a whole has a trade surplus.) Quebec has the industrial world's worst combination of trade and current-account deficits per-capita. If Quebec (with only a quarter of Canada's population) becomes independent and takes on its share of Canada's foreign debt, it would walk away with at least half of Canada's more than $20 billion annual current-account deficit, and perhaps more, depending on flight from Quebec by holders of federal bonds.

Unless Quebec dramatically changes ideological course away from 30 years of promoting ethnocentric state control of the economy, it won't get nearly the foreign capital it used to, let alone the massive amount an independent Quebec would need. U.S. dollar borrowing for state-backed hydroelectric megaprojects, which

 © 2023 Factiva, Inc. All rights reserved.

require controversial export contracts to service it, won't nearly suffice. In addition, Quebec gets only a small fraction of the equity investment coming into Canada from abroad. And foreign investors wouldn't readily refinance an independent Quebec's portion of Canada's federal debt, even in their own (foreign) currencies.

Quebec would have to pay much more in its own currency just to service its existing huge foreign-currency debt -- unless it could secure sufficient U.S. dollar revenue from smelters and from hydroelectric exports to New England and New York state. But this prospect is made even more unlikely because of New York's reluctance to go ahead with a $19 billion contract with Hydro-Quebec. Nor could Canada's chartered banks continue to convert big portions of Quebec's foreign-currency debt into local-currency debt.

While Quebec can't possibly afford to separate from Canada without scorching its own economy, the rest of Canada, with its multibillion-dollar trade surplus, can well afford to say goodbye to Quebec. So Canada's government should call Quebec's bluff that it will secede, and use the current round of constitutional talks to discourage in the strongest terms social and economic engineering by provincial governments.

Mr. Blohm is an American private investment banker living in Canada.

Document awsj000020011107do3p004xt

 © 2023 Factiva, Inc. All rights reserved.

THE WALL STREET JOURNAL.

The Americas: Will Quebec Bail Out With No Parachute?

By Robert Blohm
914 words
20 March 1992
The Wall Street Journal
J
PAGE A13
English
(Copyright (c) 1992, Dow Jones & Company, Inc.)

MONTREAL -- Quebec's local politicians have just rejected a constitutional proposal to prevent Quebec's separation from the rest of Canada -- the product of months of public hearings across the country. As a result, Canada's leading politicians and bureaucrats are trying to work out an eleventh-hour proposal, lest Quebec call an autumn referendum on independence.

Referendum or not, federalist politicians could resolve the constitutional impasse in one fell swoop if they just stuck to a proposal made last September to remove interprovincial protectionism. This would subject Quebec's state-directed economy to the competitive forces of the marketplace. Indeed, only a Canadian market free from statist interventionism can save Quebec from an imminent economic crash.

Nevertheless, two decades of government (or government-sponsored) external borrowing is a habit Quebec politicians won't break willingly. The rest of Canada must now carry the case for a free-market conversion of the economy directly to the people of Quebec. Appeasing the self-styled descendants of French colonial administrators, as former Prime Minister Pierre Trudeau did, is what has set Quebec's economy up for a great fall.

From the mid-1970s to the mid-1980s Quebec, then governed by the separatist Parti quebecois, received net expenditures from the Trudeau federal government that, with interest, account for 30% of today's $400 billion federal market debt. Fortunately, when Brian Mulroney succeeded Mr. Trudeau in late 1984, he almost immediately put an end to the federal government's net non-interest expenditure in Quebec and made it take its pro-rated share in federal deficit reduction. This, in fact, caused Quebec to begin paying more to the federal government in taxes and bond purchases last year than it receives in federal expenditures.

But Quebec politicians haven't taken this as a lesson against wanton government borrowing and spending. On the contrary: They have been exploiting popular discontent with the federal government's austerity to get a mandate to borrow and spend and to grab more regulatory power for themselves. Such maneuvering only jeopardizes Quebec's continued ability to access the outside funds it has been using to finance consumption, reflected in its huge trade deficit with the outside world.

The net Trudeau transfers to Quebec indirectly stimulated Quebec's high trade deficit. So did subsequent net transfers to Quebec from Canadian chartered banks (partly to pay for construction of government-subsidized smelters to downstream hydroelectricity), and recent major direct borrowing abroad by the government-owned utility, Hydro-Quebec. Quebec is unlikely to export its way out of its trade deficit -- even with eventual hydroelectric and metals exports -- because its net imports haven't been goods destined to improve productive capacity.

What should make Quebec's nationalist politicians think twice about their drive for sovereignty is the sheer magnitude of the foreign capital Quebec continues to need to finance its growing annual current-account deficit of at least $6 billion (Canadian), made up almost entirely of the trade deficit. (Canada as a whole has a trade surplus.) Quebec has the industrial world's worst combination of trade and current-account deficits per capita. If Quebec (with only a quarter of Canada's population) becomes independent and takes on its share of interest payments on Canada's foreign debt, it would walk away with at least half of Canada's more than $20 billion annual current-account deficit, and perhaps more, depending on flight from Quebec by holders of federal bonds.

Unless Quebec dramatically changes ideological course away from 30 years of promoting ethnocentric state control of the economy, it won't get nearly the foreign capital it used to, let alone the massive amount an independent Quebec would need. U.S. dollar borrowing for state-backed hydroelectric megaprojects, which require controversial export contracts to service it, won't nearly suffice. In addition, Quebec gets only a small

fraction of the equity investment coming into Canada from abroad. And foreign investors wouldn't readily refinance an independent Quebec's portion of Canada's federal debt, even in their own (foreign) currencies.

Since a Quebec currency would initially be worth at most 50 U.S. cents (vs. a Canadian dollar at par with the U.S.), Quebec would have to pay much more in its own currency just to service its existing huge foreign-currency debt -- unless it could secure sufficient U.S. dollar revenue from smelters and from hydroelectric exports to New England and New York state. But this prospect is made even more unlikely because of New York's reluctance to go ahead with a $19 billion contract with Hydro-Quebec. Nor could Canada's chartered banks continue to convert big portions of Quebec's foreign-currency debt into local-currency debt.

While Quebec can't possibly afford to separate from Canada without scorching its own economy, the rest of Canada, with its multibillion-dollar trade surplus, can well afford to say goodbye to Quebec. So Canada's government should call Quebec's bluff that it will secede, and use the current round of constitutional talks to discourage in the strongest terms social and economic engineering by provincial governments.

Mr. Blohm is an American private investment banker living in Canada.

(See related letter: "Letters to the Editor: Quebec Seen Through Glum-Colored Glasses" -- WSJ April 30, 1992)

(See related letter: "Letters to the Editor: A Rude Awakening in Quebec?" -- WSJ Oct. 24, 1995)

920320-0085

Document j000000020011107do3k0068e

THE CHRISTIAN SCIENCE MONITOR

ECONOMY
Hydro-Quebec's Plan Questioned Analysts point to weak earnings and doubt demand for power from new dam complex

Mark Clayton, Staff writer of The Christian Science Monitor
1,450 words
19 March 1992
The Christian Science Monitor
CHSM
All 03/19/92
8
English
© 1992 Christian Science Monitor. Provided by ProQuest Information and Learning. All Rights Reserved.

HYDRO-QUEBEC'S plan to build a huge power project on the Great Whale River in northern Quebec, already challenged by environmentalists, faces a new attack from financial analysts who question whether it may not be a white elephant.

Hydro-Quebec plans to spend $51.7 billion (Canadian; US$43 billion) by the year 2000 on capital projects, $33 billion of it on dams like Great Whale and new transmission lines. Three-fourths of the funds would be borrowed, much in bonds repayable in United States dollars.

But some economists and analysts wonder whether spending such a huge sum on these projects makes good business sense, especially if a greater push toward alternate energy sources and power conservation could greatly reduce demand.

Others question the company's exposure to foreign-currency exchange losses should Quebec secede from Canada. They also raise doubts about the profitability of recent mega-projects.

"Hydro-Quebec has these grand plans for producing cheap, abundant electricity, but technically it's not that cheap," says Damian DiPerna, utilities analyst at the Canadian Bond Rating Service in Montreal. "We feel there's a high risk building dams worth billions just to export electricity to a US market that may not buy it."

Though already owing about $30 billion, Hydro-Quebec says borrowing $54 billion more between 1992 and the year 2001 is no trouble. Some debt will be paid down, keeping the company at a desired debt-to-equity ratio of 75 percent debt to 25 percent equity.

Further, Hydro-Quebec's debt is guaranteed by the province, which is also the owner. And the company has programs to mitigate the currency-exchange risk on dollars borrowed abroad. Besides, officials say, the new projects will be moneymakers - and will provide jobs.

"We wouldn't build Great Whale or any other project if we didn't have the demand growth, whether it be internally or for exports," says Richard Drouin, chairman and chief executive officer of Hydro-Quebec, in a recent Monitor interview. "Otherwise, it would be sitting there, a white elephant, where we would have to cover the financing of it without using the power coming from it."

Moody's and Standard & Poor's, US bond-rating companies, seem to agree. They give the company and province a good rating. At the same time, there is recognition that borrowing $54 billion over the next decade ($5.8 billion last year) is unusual.

"For that amount of money, you could effectively buy enough utilities to serve the entire state of California and have a pile of money left over," says Robert McCullough, a former utility executive hired to analyze Hydro's finances by Quebec's Cree Indians, who oppose Great Whale. Uncertain demand

While Mr. Drouin says Hydro will not build a "white elephant," economist H. Connor-Lajambe says this is precisely what happened with James Bay I, a mega-project begun in 1971. By 1979, she writes, turbines were providing 5,000 megawatts of surplus power, forcing the company to send millions of wasted megawatt hours down spillways.

Hydro-Quebec swung into gear, sopping up excess capacity by giving away electric appliances and promoting electricity for home heating. It also lured metal smelters and other power-guzzling companies to the province. By 1988 the surplus was gone. Hydro forecasts 2.2 percent annual growth in energy demand in Quebec through the end of the decade, though that hinges on new industrial demand.

Cushioning Hydro-Quebec's earnings is one of its spectacular financial successes: a 1960s contract to buy power at exceedingly favorable rates from the Churchill Falls Corporation hydro project in Labrador. Hydro-Quebec realized an estimated profit on the contract of $928 million in 1990, according to Norman Hawkins, a Montreal accountant. Labrador cash cow

"Since Hydro-Quebec's reported net profit for 1990 was only $404 million, it is obvious that Hydro-Quebec would have shown a substantial loss if it did not have the contract," wrote Mr. Hawkins in a January letter to Brian Craik, a Cree advisor. Hawkins says this shows that Hydro's recently built mega-projects, far from being big winners, are only marginally profitable.

"If you look at Hydro-Quebec's net income at the end of 1991, it was $760 million," says bond analyst DiPerna. "But they actually lost money on their own system. Churchill Falls is really keeping them in the black."

Hydro-Quebec officials reject this argument, stating that the contract is a fact of life, and that even if they had not signed such a pact, they would have built other lucrative sites in Quebec.

Hydro-Quebec last week announced a price agreement with Newfoundland to develop the lower Churchill river, a project similar in magnitude to Great Whale, and a possible replacement should Great Whale be delayed for environmental reasons.

Another cushion to earnings, says Mr. McCullough, the former utility executive, is the company's legitimate, but unorthodox depreciation schedule.

The effect of this "sinking-fund" depreciation method, he says, has been to make Hydro-Quebec's annual net profit appear several hundred million dollars higher than it would be if a traditional "straight-line" schedule were used. The deferral of depreciation expenses undercuts future years' earnings, he says.

"What Hydro-Quebec is doing is not in sync with generally accepted accounting procedures," McCullough says. "It's not unethical, and you don't go to jail for this.... It is, however, a business practice that brings the company's financial statements into some question; they are not comparable to similar statements from other large utilities."

To such allegations, Drouin responds that Hydro-Quebec's reputation is solid: "The credibility of our name is very high. You have to expect that the people who buy these bonds are people ... that have all the experts to analyze the financial statements of a company like ours, and be able to see the financial results."

Such assurances are little comfort to Daphna Castel, a spokeswoman for Au Courant, a Quebec citizens group critical of Hydro-Quebec. She worries that residential customers will end up footing the bill for new mega-projects through higher electric rates.

"They are planning to borrow billions to produce power at a cost only marginally lower than what they will sell it for," she says, citing analysis that Great Whale power will cost nearer 6 cents per kilowatt hour, not 4.4 cents as the company says. Key New York contract

Great Whale's future will likely depend on the outcome of a pending $17-billion contract with the New York Power Authority. Finalization of the 21-year pact was delayed a year until Nov. 31. Because of forecast low demand, New York is renegotiating the start date, to 1998 or beyond. The price in the proposed contract is 6.5 Canadian cents per kilowatt hour. That's already close to the 6 cents Ms. Castel says is break-even, and the contract price might be negotiated downward.

Robert Blohm, a US investment banker in Montreal, says the company wants to sell power from Great Whale in the US whether it makes a profit or not - mainly to gain US dollar income.

"If Hydro doesn't have sufficient US dollar income, then rating agencies would require them to keep Canadian dollars on hand to meet any potential loss," Mr. Blohm says. "The big question is whether Hydro or Quebec have enough cash on hand to cover potential foreign currency losses if there is independence."

Of Hydro-Quebec's $30 billion debt, about $9 billion is US dollar debt that Blohm says is unhedged, although the company insists it is. If Quebec separates from Canada, Hydro-Quebec might be stuck trying to repay its US dollar debt in a weak new Quebec currency, creating a possible repayment problem, he says.

 © 2023 Factiva, Inc. All rights reserved.

Drouin responds: "You can talk of separation, but with Hydro-Quebec, it's a business that's going to sell electricity whether we're separated or not. We've always respected the financial criteria that make ours a sound company to invest in."

Others are less certain.

"Hydro-Quebec is a solid company," DiPerna says. "We're just questioning the need to go out and build these dams when there doesn't appear to be a need to build the dams."

PHOTOS: 1)WATER POWER: an employee does maintenance work alongside a turbine shaft in Hydro-Quebec's Beauharnois dam near Montreal., R. NORMAN MATHENY - STAFF, 2)company chief executive Richard Drouin., NEAL J. MENSCHEL - STAFF

Document chsm000020011107do3j001r4

 © 2023 Factiva, Inc. All rights reserved.

The New York Times

Financial Desk; D
Canada Moves to Spur Consumers Into Buying

By CLYDE H. FARNSWORTH
Special to The New York Times
642 words
6 February 1992
The New York Times
NYTF
Late Edition - Final
10
English
Copyright 1992 The New York Times Company. All Rights Reserved.

TORONTO, Feb. 5 -- The Canadian Government, fighting a recession even more severe than in the United States, has just begun its own program to spur housing demand and revive the economy along with its political fortunes.

Like the measures President Bush proposed last week, the Canadian actions are meant to raise the entire economy on a wave of demand by new homeowners for appliances, furniture and other consumer items. These actions could well give the United States a look at the possible results of its own program.

The programs, despite their differences, underscore the parallels between these economies. The two Governments are fighting huge deficits, which limit room to maneuver. Ottawa's accumulated debt is proportionately about as large as Washington's. Yet unemployment here is more than 10 percent, against around 7 percent in the United States.

In its first concrete response to widespread demands for pump-priming, Ottawa has announced that effective immediately the minimum down payment for first-time home buyers under Government programs will be halved.
Called Long Overdue

The Canada Mortgage and Housing Corporation, which backs mortgages much as the Federal Housing Administration and the Veterans Administration do in Washington, will insure loans of as much as 95 percent of a home's value, instead of 90 percent.

Builders said the action was long overdue and should lead to at least a 15 percent increase in new housing this year. Canada's construction industry is desperate for work, having started only 156,000 units last year, the least since the 1981-83 recession.

"This is the vote of confidence consumers need from the Government to spur them on to make buying decisions," said Gary Reardon, president of the Canadian Home Builders Association.

Even at 5 percent, where the minimum down payment had been until an explosion in borrowing in 1982, the rate is higher than under United States Government programs, where home buyers may now put down as little as 3 percent. Until regulations were tightened last year, Americans had been able to put even less down.

Some economists still question whether more borrowing is truly what the Canadian economy now needs. At the end of the last recession, many homeowers walked away from mortgages that exceeded the depressed values of their homes, leaving the Canada Mortgage and Housing Corporation's insurance fund deep in the red.

Potentially as significant as the easier down payment terms was Finance Minister Donald Mazankowski's statement in the House of Commons that the Government would also permit withdrawals from Canada's equivalent of individual retirement accounts for first-time home purchases.

His idea is to allow as much as $7,500 to be taken out of Registered Retirement Savings Plans, which have been in place since 1957 and now hold more than $100 billion of Canadian savings. The money could be used for down payments without penalties or taxes.

Only a few weeks ago, Government officials had described such a withdrawal plan as unworkable and risky. The turnabout perhaps reflected the economy's further deterioration. Government forecasts for renewed growth have been reduced this year even as interest rates and inflation have dropped sharply.

"They're desperate and groping for anything that will improve the economic situation," said Robert Blohm, a Toronto investment banker.

The painless withdrawals from the retirement fund, economists said, could have the same sort of impact as the $5,000 tax credit for first-time home buyers proposed by President Bush in his State of the Union Message to Congress last week.

The difference is that while the President depends on Congressional approval, the Government in Ottawa, which controls a large majority of the seats in the House of Commons, can readily enact what it proposes.

Document NYTF000020050413do2600kbv

 © 2023 Factiva, Inc. All rights reserved.

The New York Times

Section 6
LETTERS TO THE EDITOR: POWER STRUGGLE

31 words
2 February 1992
New York Times Abstracts
NYTA
Pg. 8, Col. 3
English
c. 1992 New York Times Company

Robert Blohm letter challenges Hydro-Quebec's claim that it can build Great Whale hydroelectric project (Jan 12 article) without New York State

Document nyta000020011107do2200655

 © 2023 Factiva, Inc. All rights reserved.

The New York Times

Magazine Desk; 6
POWER STRUGGLE

180 words
2 February 1992
The New York Times
NYTF
Late Edition - Final
8
English
Copyright 1992 The New York Times Company. All Rights Reserved.

Sam Howe Verhovek's article "Power Struggle" (Jan. 12) doesn't clearly counter Hydro-Quebec's claim that it can build the Great Whale project without New York. It's not the electricity exports to New York but the dollar revenues from the United States that Hydro-Quebec desperately needs -- and not just to build but possibly to survive in its current form.

This is because Hydro-Quebec has borrowed huge amounts of United States dollars to get where it is today. Without the expected revenue from New York, Hydro's ability to meet its debt repayment obligations to the United States would depend on the strength of Quebec's own currency. In the increasingly likely event of Quebec's independence, it would have the largest foreign-payments deficit in the industrial world and a currency worth some 50 United States cents. This would virtually double Hydro-Quebec's debt repayment obligations, primarily to the United States pension funds and insurance companies that currently hold Hydro's United States dollar-denominated bonds. ROBERT BLOHM Montreal

Document NYTF000020050413do2200jpy

Institutional Investor.com

Hydro-Quebec's big power play. (Corporate Finance) (Company Profile)

Beth Selby
1,834 words
1 February 1992
Institutional Investor
INVS
33
Vol. 26, No. 2, ISSN: 0020-3580
English
COPYRIGHT 1992 Institutional Investor Inc.

As relentlessly as Quebee's raging rivers flow over Hydro-Quebee's dams and spin its turbines, the giant Canadian utility has expanded its electrical empire across the province. And with equal relentlessness, Hydro has tapped financial markets around the world. Now, as it undertakes the largest construction program in its history, the utility finds itself facing wholly new political, financial and social challenges.

During this decade the company wants to rais C$62.9 billion (US$52.5 billion) for construction projects and debt refinancing. And it expects to pick up more than C$44 billion of that abroad. "Hydro-Quebee's capital - raising program is unprecedented in terms of scale by any nonsovereign government," says William Streeter, a vice president at Moody's Investors Service.

But the utility, one of Quebee's largest employers, has already seen work on its Great Whate hydroelectric plant stalled by pressure from environmentalists and Cree Indians, and that is likely to be only the first of many snags that could foul up Hydro's plans. There's also the threat of Quebee's secession from Canada, the need to orchestrate massive borrowing without wearing out Hydro's welcome and the matter of convincing regulators, politicians and investors that Hydro-Quebec's ever-expanding borrowing, building and generating make sense in the 1990s.

Grandiose plans

Hydro's blueprints call for developing a C$12.6 billion, 3,200-megawatt hydroelectric generating facility on the Great Whale River, plus projects on the Nottaway, Broadback and Rupert rivers that will add a further 8,400 megawatts. The utility also wants to add to its grid 4,500 megawatts of hydro power from the La Grande River by 1995. Altogether, Hydro would produce 27,000 megawatts of electricity, 15 percent of which would be for export.

The projects would constitute some of the largest hydroelectric complexes in the world -- and would produce a highly marketable export product for an independent Quebec. Many analysts argue that the demand for electricity in Quebec won't be sufficient to use the additional capacity for a number of years, given Quebec's current rate of economic growth.

Hydro's grandiose plans are inexorably linked to those of the Province of Quebec, which not only owns the utility but also guarantees most of its debt, giving Hydro quasi-sovereign-borrower status. As Quebec goes, so goes Hydro, and a real possibility exists that Quebec will secede from Canada. Quebec's enduring separatist movement could have its aspirations put to a vote in a provincial referendum by October 26, although Bill 150, as it is known, provides the Quebec government with some loopholes out of a simple thumbs up or down on the issue of secession.

Whatever the merits of independence, it would have a devastating effect on Hydro's plans -- and on its creditworthiness. The economic outlook for a nation of Quebec, initially at least, would be uncertain, as would prospects for the growth of its electrical-power needs. And how readily would the capital markets swallow debt issued by a utility from a brand-new country with its own currency?

Robert Blohm, a U.S. investment banker based in Montreal who helps bring Japanese capital to Canada, estimates that the Quebec ||franc" would be worth 50 U.S. cents. Blohm's reasoning for such a valuation: There would be two currencies, Canada's and Quebec's, which would move in equal and opposite directions from the current value of the Canadian dollar. The Canadian dollar would rise, because Canada (sans Quebec and Hydro) would see its trade surplus boosted by C$5.5 billion (Quebec is a big importer) while its net payment to foreign

 © 2023 Factiva, Inc. All rights reserved.

investors would fall by C$4.5 billion, given the enormous foreign debt of both the province and the utility. Such a valuation, he says, would transfigure Hydro's balance sheet, dramatically increasing its sizable foreign-currency exposure, Canadian-dollar obligations and U.S.-dollar income from selling power to Northeastern U.S. utilities.

Hydro-Quebec officials won't comment on the issue of independence, but they've certainly been borrowing as if money, and confederation, were going out of style. Although Hydro's original plans called for raising C$3.8 billion in long-term debt in 1991, by year-end if had issued C$5.8 billion. The utility had started off the year with its first foray into the domestic yen market, raising 8 billion Yen through a private offering of ten-year samurai notes -- which it then swapped into Canadian dollars. In early February if followed with a US$900 million (C$1.04 billion) 30-year Yankee-bond deal. ||The strong positive reactions [to the Yankee issue] got our momentum rolling for the rest of the year."

Next, starting in February Hydro did a Euro-U.S.-dollor issue, a Euro-Canadian-dollar-issue, a 100 million pounds sterling (C$203 million) sterling offering and a Dm600 million (C$395 million) ten-year-note deal, all within three months. Then in late April it followed with a private placement of Sf150 million (C$117 million) in ten-year notes.

In late June Hydro did its first global bond offering, raising C$1.1 billion in ten-year notes placed simultaneously in Europe, the U.S., Canada and Japan. The power company retreated from the public markets for the summer, but ventured abroad again in October for another billion-dollar-plus global deal, this time raising 30-year money.

"The most interesting deal, in my opinion, is the 30-year global Canadian-dollar issue," says Hydro-Quebec treasurer Michel Labonte. "If you had asked me ten months before if we would be able to place 30-year Canadian paper in Europe and Asia, I would have said it was not possible." Labonte believes that investors embraced the long-dated paper because it offered high liquidity; as a global issue, it was offered and traded in all major markets. Investors felt comfortable switching from Canadian government long bonds to the Hydro paper for the yield pickup (about 80 basis points at the time of the offering).

The flurry of financings means that Hydro has prefunded close to C$2 billion and reduced its need for new money this year by some C$500 million, to C$4.4 billion. Construction delays could lower near-term borrowing requirements even further. The lure of low-cost money and receptive markets may well prompt the utility to continue its prefunding efforts or to refinance callable paper it hadn't expected to retire, says Labonte. Left unstated is another motive for borrowing now: to raise as much as possible in case a constitutional crisis later limits Hydro's access to funds.

Avid swapper

The huge utility cannot exactly slip in and out of the markets unnoticed. At the end of 1991 Hydro had long-term indebtedness of more than C$30 billion. Management of interest rate and foreign-currency risks has understandably assumed high priority. "Part of strategic risk management," Labonte observes, "is to try to keep in balance net income before interest payments that fluctuate with inflation and interest payments on debt that fluctuates with inflation." Hydro has increased its percentage of variable debt to total debt from 12 percent in 1990 to 15 percent in the past year, and it's aiming of hit 20 percent by the end of 1992, although a 17 percent figure is probably more likely.

Despite having substantial exposures in all major currencies, "our foreign exchange risk is almost zero today," brags chief financial officer John Hanna. Ever since it suffered a C$300 million forex loss in the early 1980s, Hydro has been an avid user of the swaps and currency markets. A scant 2 percent of its total non-U.S.-dollar debt -- about C$600 million worth -- is unhedged. There's no fancy pirouetting in the forward markets. Says Hanna, "The purpose of our forex operations is not to make money but to be risk-free, to minimize our currency risk." Hanna says that forex losses in 1991 amounted to less than C$50 million.

Hydro, one of the world's largest corporate borrowers of U.S. dollars, does not bother to hedge its roughly C$9.3 billion greenback exposure, because it's offset by dollar revenues from selling electricity to U.S. utilities. There's just one hitch, says banker Blohm: Some of the U.S. dollars Hydro anticipates earning may not materialize. Indeed, Hydro has already received bad news from one major customer in the recession-plagued Northeast: the New York Power Authority. NYPA has said it won't be needing that extra 1,000 megawatts come 1996 after all. The power authority has put off delivery until the turn of the century. Besides the shortfall in demand, there are also signs of growing concern in the U.S. that by buying power from Canada, New York is simply exporting environmental problems.

Another large portion of Hydro's U.S.-dollar revenues comes from aluminum smelters in Quebec. These pay rates are based on a complex formula that takes into account inflation, world metal prices and their profits and basically

 © 2023 Factiva, Inc. All rights reserved.

entitles them to a price break in tough times. Lately, the rates have been just one quarter of what NYPA pays. Never mind, insist Hydro officials: When good times return, the smelter contracts will pay off handsomely.

The prospect of reduced U.S.-dollar revenue leaves Labonte unperturbed. The only real impact, he says, is a delay for a year or so in construction of the Great Whale complex, 1,000 of whose 3,200 megawatts were earmarked for NYPA. And if NYPA decides to cancel the 1,000-megawatt contract outright, the Great Whale project will likely be killed or put of until 2009, when local demand would require this additional capacity, says Hanna. "If we build less, then we have less need for debt and we'll borrow less," says Labonte.

Build less? Borrow less? That seems alien to the expansionist Hydro-Quebec. Yet it's encountering stiff resistance to the Great Whale project from opponents who fear that irreparable ecological damage would be caused by dikes, dams and flooding. "It could utterly destory a good portion of the North American wilderness," charges Marilyn England, a research assistant for the U.S.-based National Audubon society. Hydro officals say their studies show that the environmental impact would be limited, but critics won a victory last August when Quebec's environment minister, Pierre Paradis, blocked further work on the project until an environmental assessment for all three phases of the project could be completed, sometime this summer.

Others question whether Quebec needs all that additional generating capacity anyhow. Whoever's right, Hydro-Quebec won't stop trying to generate fresh power, and fresh funds, unless, or until, someone else pulls the plug.

illustration photograph

Document invs000020020327do21000h9

 © 2023 Factiva, Inc. All rights reserved.

The New York Times

Financial Desk; 3
Toughest Fight Yet For Hydro-Quebec

By CLYDE H. FARNSWORTH
1,964 words
6 October 1991
The New York Times
NYTF
Late Edition - Final
5
English
Copyright 1991 The New York Times Company. All Rights Reserved.

MONTREAL -- Hydro-Quebec, the $50 billion utility that is wholly owned by the Quebec government, has powered a vast industrial expansion in the province. And the company is committed to further development that would almost double its output of inexpensive hydropower. But getting there might be a problem. For the first time, the company is encountering fierce resistance.

Hydro-Quebec's chief executive, Richard Drouin, has faced tough fights before. He took office three years ago amid a labor battle in which unionized workers ransacked some of the company's executive offices. He has since brought a measure of labor calm and improved the reliability of the company's electrical service.

But he may have more difficulty carrying out the company's ambitious growth plans. Hydro-Quebec is now in the center of a storm over a proposed project that would spend 12.6 billion Canadian dollars to tap hydropower on the Great Whale River, which flows into Hudson Bay. The project is intensely opposed by the Cree Indians who live in the area and by environmentalists.

The dispute has spread to the United States, where opponents are pressing New York and Vermont to restrain purchases of power from Quebec even as growth in power demand is slowing. New York, which currently gets only a tiny percentage of its power from Quebec, has delayed until late next year a final decision on proceeding with a contract to pay 14.5 billion American dollars over 21 years for power from Quebec.

In this atmosphere of uncertainty about demand for its hydropower, the company's heavy use of debt to finance construction is causing some analysts to wonder if it will have sufficient revenue to pay off its bonds.

Mr. Drouin, however, expresses no doubts about the worthiness of the project. Still, he acknowledges with a diffident grin that the company's profile "is a little higher these days than we would like."

The 59-year-old Mr. Drouin went to school with the current Premier of Quebec, Robert Bourassa, at the College Jean-de-Brebeuf in Montreal, then took a law degree at Laval University in Quebec City. That early friendship, combined with Mr. Drouin's expertise in labor relations, won him the job that some say is equivalent to economics minister of the province. As a source of big construction projects as well as of hydropower, the company has long been an important engine of growth for Quebec.

The urbane, square-jawed, silver-haired executive, who as a sailor in the Gulf of Saint Lawrence often braves inhospitable seas, came aboard Hydro-Quebec three years ago, when the utility faced severe labor problems.

The rancor stemmed from the company's insistence on contracting out work instead of hiring additional workers or paying more overtime. Mr. Drouin reached an agreement with the unions under which company workers perform operating and maintenance work, while subcontractors handle new construction. Nonetheless, relations with the company's 25,000 workers are still touchy.

As chief executive, Mr. Drouin has tried not only to get a better handle on labor relations but also to improve the company's reliability. In the last decade Hydro-Quebec has been plagued by power blackouts and brownouts. But failures have already been sharply reduced, and Mr. Drouin's goal is to make Hydro-Quebec one of Canada's most dependable utilities by the mid-1990's.

The Great Whale construction project had already been set in motion by the time Mr. Drouin arrived on the scene. He has pursued it vigorously, saying expansion is essential for the well-being of the province, where the company's operating and construction activities in 1990 injected more that $7.5 billion into the economy, equivalent to 4.5 percent of Quebec's gross domestic product.

The entire province is believed to have a hydroelectric potential of about 50,000 megawatts, equivalent to the output of about 60 traditional power plants. The company has already developed about 25,000 megawatts, with plans for 20,000 more.

Noting that hydropower is "cheaper to develop and bring to major load centers than any other generating option," Mr. Drouin said he expects to be able to sell power in the northeast United States for 40 percent below other electricity producers.

But to continue tapping Quebec's hydro resources, the giant utility, which generates revenues of $6 billion a year and borrows about $4 billion a year, needs environmental approval to go forward with the 3,100 megawatt Great Whale project.

The project entails building dikes and dams, roads and airports, diverting four rivers and flooding an area slightly larger than Lake Champlain, in a region where 10,000 Cree and 5,000 Inuit make their home. Mr. Drouin insists that his company can carry out the construction work while preserving the environment and raising living standards of the native peoples.

The Cree and their lawyers in Montreal dispute this. They argue that the project will take a severe toll on the environment. They are fighting the project every inch of the way and now have help from North American conservationist groups, including the Sierra Club and the National Audubon Society. Entertainers are also getting involved; three rock concerts are scheduled for this week at the Beacon Theater in Manhattan under the title "Ban the Dam Jam."

The coalition recently won a significant victory. Quebec's Environment Minister, Pierre Paradis, announced on Aug. 22 that no work would begin on the Great Whale project until after there has been a thorough environmental assessment by the province, which will take at least a year.

In addition, a federal judge in Ottawa last month ordered the Canadian Government to undertake its own environmental review, and Ottawa and Quebec are weighing a joint assessment. But it cannot begin until the indigenous people agree to participate.

Quebec's Energy Minister, Lise Bacon, said the province needs the power and faces a choice of using either hydropower or nuclear power. "Do you want a nuclear plant to be built in Quebec?" she asked at a news briefing last week. In fact, Hydro-Quebec already operates two small nuclear plants.

When Mr. Bourassa and Governor Cuomo signed a power contract in 1989 under which Hydro-Quebec would provide 1,000 megawatts of electricity to New York State for 21 years beginning in 1995, they gave each other until next Dec. 31 to back out without penalty. Now both parties have extended the deadline until Nov. 30, 1992.

Richard M. Flynn, chairman of the New York Power Authority, said the state would use the time to reassess its power needs in light of the reduced growth in electricity sales resulting from the recession and from greater conservation. The growth has fallen to six-tenths of 1 percent annually from 1.5 percent in the mid-80's. This could mean changes in the contract to adjust delivery schedules.

Mr. Flynn said in an interview that the contract offered "significant environmental benefits" for New York. He cited a report of the state's energy office that hydroelectric power cuts "millions of tons" of carbon dioxide, nitrogen oxide and sulfur dioxide pollutants that would otherwise pour out of from oil- and coal-fired power stations.

In addition, he calculates that Quebec power has saved the state's residents more than $600 million since 1978.

The Great Whale project is only the latest of a number of projects to open up the hydro resources of the north. A huge complex on La Grande River, a couple of hundred miles to the south of the Great Whale, was completed in 1985 and generates 10,300 megawatts of power. A second phase at La Grande is scheduled to add 4,500 megawatts in 1995.

In the next decade the company expects to spend some $64 billion not only on La Grande Phase 2 and the Great Whale but a vast new complex along the Nottaway, Broadback and Rupert Rivers, south of La Grande, which would generate 8,400 megawatts. It is also negotiating with Newfoundland to develop two big hydroelectric sites on the lower Churchill River in Labrador.

 © 2023 Factiva, Inc. All rights reserved.

To get the funds for these tremendous capital-intensive ventures, the company has used retained earnings and borrowed heavily in local and foreign capital markets.

With long-term debt of $25.6 billion at the end of last year, including $7.5 billion in United States dollars, Hydro-Quebec already owes more money than all but a few other North American corporations, and some bankers have expressed uneasiness about future borrowing for the new ventures.

Robert Blohm, an American investment banker in Montreal, said the export contracts for New York and Vermont are intended to provide the bulk of the income needed to service the American indebtedness. If these contracts are annulled, he warned, the company could be "dangerously exposed to risk on the American portion of its debt."

But William Streeter, vice president of Moody's Investors Service, is less worried. He cites positive factors, including the company's "strong management," its "flexibility" in construction programs and its "very competitive" electricity prices.

There is no greater enthusiast of water power than Premier Bourassa himself, the 58-year-old leader of Quebec's Liberal Party, who has been provincial chief executive on and off since 1970.

In a book titled "Power From the North," published by Prentice-Hall Canada in 1985, Mr. Bourassa wrote: "Quebec is a vast hydroelectric plant in the bud, and every day millions of potential kilowatt-hours flow downhill and out to sea. What a waste!" A BARGAIN FOR SMELTERS

THE secret is finally out about how much big energy-hungry aluminum smelters and other metal refiners actually pay for the power they buy from Hydro-Quebec, the utility owned by Quebec's taxpayers.

The answer: precious little in bad times, more in good times. Under risk-sharing variable-rate contracts, prices are pegged to a combination of the inflation rate, the world price of the metal and the customer's profits.

For example, Norsk Hydro Canada Inc., operating a magnesium smelter at Becancour, Quebec, for its Norwegian parent, now pays 1.6 cents a kilowatt-hour. This is about half of what Hydro-Quebec charges other industrial users and a quarter of what the New York Power Authority pays.

Norsk Hydro is one of 13 heavy energy users that have invested billions of dollars in Quebec and have similar contracts. Of the 13, four are magnesium or aluminum smelters -- companies that use enormous amounts of electricity to separate and refine metals.

As times improve for Norsk Hydro, its payments for electricity would rise under the formula so that over the term of the contract Hydro-Quebec theoretically would fare as well as with its other industrial customers.

Still, there are questions about whether the smelters are being subsidized at the expense of other consumers, the taxpayers and competitors. The Utah-based Magnesium Corporation of America has brought a case before the United States International Trade Commission seeking duties to wipe out any competitive advantages Norsk Hydro may have gained from its contract with Hydro-Quebec.

Hydro-Quebec says no subsidy is involved. It calculates that it may lose as much as $125 million this year on the 13 agreements but that it can make a profit of twice that much if aluminum sales and profits recover.

Photos: Richard Drouin, Hydro-Quebec's president for the last three years (Canadian Press); A spillway built by Hydro-Quebec in its La Grande River project. (Hydro-Quebec) Graphs: "Faltering Profits," tracks Hydro-Quebec's annual revenues and profits, 1986-1990 (Source: Hydor-Quebec) Map of Quebec indicating Great Whale Project Area.

Document NYTF000020050415dna600qtk

 © 2023 Factiva, Inc. All rights reserved.