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Infrastructure in Ports:

Is private infrastructure investment an illusion?

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Every Industry is Special

There is no general methodology for solving problems

The conventional view serves to protect us from the painful job of thinking.

(John Kenneth Galbraith)

Different Port Models Public, Private and Semi-Private Ports

Port Models	Port Infrastructure	Operator
Public	Public	Public
Semi-Private	Public	Private
Private	Private	Private

Considering the top 100 container ports Semi-private port model is dominant

Port Models	Public	Semi- Private	Private
Number of Ports	7	88	5

Considering the top 100 container ports The 5 private port models: all in UK

- Felixstowe
- Liverpool
- Thamesport
- Tilbury
- Southampton

Analysing Infrastructure Investment The concept of sunk costs

Sunk costs are costs that cannot be reversed.

"Sunk costs are sunk".

Example:

 expenditure on non-transportable, nonconvertible infrastructure, such as quays.



Analysing Infrastructure Investment Fixed versus Sunk Costs

People often confuse fixed and sunk costs!

Keep in mind:

Fixed costs can avoided if the firm goes out of business.

Sunk costs are costs that have been incurred and cannot be recovered.



Analysing Infrastructure Investment Why are sunk costs important?

- Sunk costs generate entry barriers prior to the infrastructure investment.
- Investments with high sunk costs are extremely risky, because only a small part of the investment cost can recaptured.
- Risky investments require a higher return on equity (ROE) for private investors.

Container Terminal Investment Public Private Partnership & Leverage Effect

	Public	Private	Semi-Private (= Public Private Partnership)
Total Investment	1.000€	1.000 €	1.000 €
Infrastructure	600 €	600 €	600 € (Public)
Superstructure	400 €	400 €	400 € (Private)
Expected Annual Return	100 €	100 €	100 €
Public	100 €	0 €	30 €
Private	0€	100 €	70 €
Return on Investment (ROI)	10%	10%	10%
Return on equity (ROE)			
Public	10%	0%	5%
Private	0%	10%	17.5% Higher ROE due to leverage effect.
		ROE is not enough due to high sunk cost risk.	

Remember the top 100 container ports Semi-private port model is dominant – we know why!

Port Models	Public	Semi- Private	Private
Number of Ports	7	88	5

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Container Terminal Investment Conclusion

Sunk costs are the main reason why private investors are reluctant to invest in completely new infrastructure!



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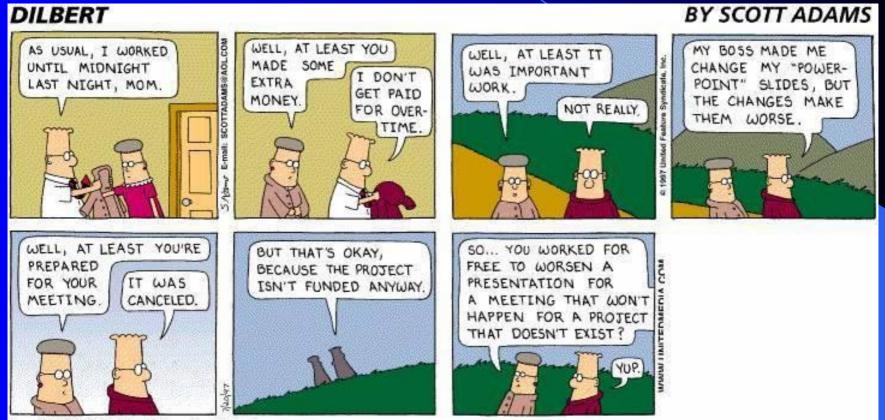
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