

NEGOTIATING JOINT PURPOSE FOR PUBLIC ACCEPTANCE IN PUBLIC PRIVATE PARTNERSHIPS: A TALE OF TWO TUNNELS

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Abstract

Public private partnerships (PPPs) in project finance involve public and private sectors working together usually in the development of large scale projects. Their involvement represents the creation of collaborative arrangements to deliver completed infrastructure. Over the last five years, private finance has been a significant catalyst in the delivery of renewal and development of infrastructure. In other parts of the world, this was due to the severe constraints on public sector budgets and significant liquidity in world financial markets. In the case of Australia, this was because of the belief that private sector would manage the development of major large scale projects much more efficiently and effectively than the public sector. However, this belief has recently been debated in the light of perceived failures of a few projects.

One of the most important risks in launching new PPPs is market risk - that is, the risk that “the project’s product may not be sold at a price sufficient to cover all the essential costs of the project and to repay the debt in full” (Mckechnie, 1990, p13). For transportation infrastructure such as highway tunnels, gaining public acceptance of the project is a key component in managing market risk. In this paper, we address key issues of market risk management in PPPs, namely, asymmetric information between the partners, innovative risk sharing strategies, and negotiation of joint purpose for public acceptance. Our findings are drawn from an empirical study of two road tunnel projects in Sydney that were under construction over almost the same period of time and completed within one year of each other, but with different outcomes. While Lane Cove Tunnel experienced wider public acceptance and is considered by the media as a success story of public private partnerships, Cross City Tunnel was faced with huge negative public demonstrations and unkind media rhetoric when it

was first opened. While both these projects have now received a broader public acceptance, Cross City Tunnel remains an example of a failed public private partnership.

We first review the recent literature on PPPs, market risk in PPPs, collaborative advantages and negotiation theory. Secondly, this paper then develops a framework for the empirical study of these two tunnels with the application of these theories. This section discusses market risk management in the context of asymmetric information within the partnerships, the innovative risk sharing strategies, and negotiation of joint purpose for public acceptance. These issues are applied to the framework to measure success or failure in public private partnerships. It further highlights the importance of negotiation of joint purpose in public private partnerships based on accurate information, transparent way of allocating or sharing risks and the need for public sector to retain interest in the planning and management of such projects.

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