

ABSTRACT

The Construction of a Direct Reduced Iron Plant in Trinidad & Tobago: A Risk and Cost Benefit Analysis

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Country risk assessment and financial analysis are important tools used by foreign investors in selecting the country in which to invest and in determining the commercial viability of the proposed investment. Cost benefit analysis are generally only conducted by donor agencies such the World Bank and the Inter-American Development Bank, and by a few countries to quantify the total net benefit to the county as a result of a particular investment.

The construction of the Circored[®] Hot Briquetted Iron Plant in Trinidad by Cleveland Cliffs Inc., LTV Corporation and Lurgi A.G. in 1996-99 is used as a case study to illustrate the methodologies of country risk assessment, financial analysis and cost benefit analysis in project evaluation.

A country risk assessment was conducted for Trinidad & Tobago and Venezuela. Venezuela was found be the riskier of the two countries with regard to foreign investment. The Country Risk Assessment was conducted using a modified form of the BERI S.A. model; Trinidad & Tobago obtained a total score of 193.5 that is categorized as investment quality. Meaning that the risks are sufficiently low to permit investment in the country. Venezuela on the other hand received a total score of 151.25 that is categorized as trade only. Thus the recommended investment option is a 'trade only' basis with limited capital outlay for the acquisition of fixed assets.

There was a significant disparity between the assessment of the net worth of the project by financial analysis and by cost benefit analysis. For the Circored Project the financial analysis indicate that the rate of return is poor, as the net present value was negative US\$10.26 million using a discount rate of 12%, the opportunity cost of capital for Cleveland Cliffs Inc. The cost benefit analysis determined the net value to Trinidad and Tobago from the Circored Project to be over US\$200 million at a 'social' discount rate of 12.5% and US\$75.5 million at a 'social' discount rate of 25%.

Keywords: Patrick Anthony Bailey; Direct Reduced Iron; Country Risk Assessment; Cost Benefit Analysis; Financial Analysis; Circored[®]