

Support systems

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The Japan Bank for International Cooperation (JBIC) was established through the merger of the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund, Japan (OECF) on October 1, 1999. JBIC performs its operations on two segregated accounts; one for 'International Financial Operations' formerly performed by JEXIM and the other for 'Overseas Economic Cooperation Operations' formerly performed by OECF. Overseas Economic Cooperation Operations support self-sustaining development efforts in developing countries 'ODA Operations'.

Among the range of JBIC products, export loans, untied loans and overseas investment loans are often provided in the oil and gas sector.

Export loans

A pipeline project between Bolivia and Brazil is a typical example of using JBIC's export loans. Bolivia has abundant natural resources, but was experiencing financial difficulties in developing the supply routes. Brazil had an energy supply problem resulting from its rapidly growing economy. Out of these mutually compatible concerns, the Bolivia-Brazil gas pipeline project was born.

Instead of Bolivia, which was struggling to raise funds, Petras experiencing financial difficulties in developing the supply routes. Brazil had an energy supply problem resulting from its rapidly growing economy. Out of these mutually compatible concerns of ¥35 billion JBIC's portion: ¥21 billion was provided to the company in the form of an export loan.

JBIC and private financial institutions also offered a syndicated loan of ¥13 billion yen (JBIC's portion ¥7.8 billion) to the Natural Gas Processing Plant Construction in Urucu Oil Fields. As the northwestern regions of Brazil have suffered from lack of energy supplies, and securing a stable source of electricity is vital to the development of these regions, the Urucu Oil Field Gas Processing Plant Construction Project is expected to contribute to securing a stable supply of energy by putting to effective use the by-product gas from the Urucu Oil Fields. The plant's production will help overcome the regional imbalance of energy supplies in Brazil. This has become a pressing problem for the country.

Untied loan

Economies in development and in transition are strapped by a wide range of economic problems such as trouble in underdeveloped infrastructure and capital markets, lack of competitiveness of their industries outside of the country and environmental pollution. Untied loans are financial assistance for the structural adjustment or for projects undertaken by the governments of these countries, not requiring the purchase of equipment or machinery from Japan. The benefits of untied loans include: (1) maintaining orders in the international financial community including Japanese financial institutions; (2) greater trade and foreign direct investment flows of Japanese companies; (3) securing energy resources for Japan; and (4) international cooperation in environment problems.

For example, JBIC provided with private financial institutions a total of ¥140 billion (JBIC's portion ¥98 billion) to Mexico's state-owned oil company, Petroleos Mexicanos (PEMEX), for a development project in the Cantarell oil field. Located in the Bay of Campeche approximately 80 km off the western coast of the Yucatan Peninsula, Cantarell is the largest oil field in Mexico. In 1996, crude oil production from Cantarell accounted for more than one-third of Mexico's total output. The project aims to increase production of crude oil and gas with new wells, while maintaining acceptable levels of reservoir

pressure amid substantial declines recently. The development is expected to work for the economic stability and development of Mexico, providing higher availability of foreign currency through the increase of crude oil exports, and through the more investments in oil refineries and other related projects. The project is also expected to bring the stability to the international crude oil market in the mid- and long-run. By strengthening the relationship between PEMEX and Japanese partners, the JBIC's untied loan contributes to enhanced cooperation between Japan and Mexico.

Another instance shows that JBIC's offer of a syndicated loan with private financial institutions in the amount of ¥6.9 billion (JBIC's portion ¥48.3 billion) to Petróleos de Venezuela, S.A. (PDVSA) for the modernization of facilities in the Puerto La Cruz Refinery. The loan will be used to modernize the Puerto La Cruz Oil Refinery located along the coast of the Caribbean Sea, 320 kilometers east of Caracas, by introducing production facilities for higher valued products such as upgraded gasoline, unleaded gasoline, and low-sulfur light oil. These products will be sold in the domestic markets of Latin America. The Government of Venezuela as part of their environmental policy aims to convert all of their gasoline to unleaded and gradually reduce sulfur content of light oil. This is a top priority project for Venezuela if they hope to meet their nation's environmental regulation standards.

Endowed with abundant natural resources, Venezuela boasts the world's fifth largest crude oil reserves and the world's sixth largest natural gas reserves. This loan will strengthen cooperative ties with PDVSA, Venezuela's national oil corporation, as well as contributing to building closer economic ties between Venezuela and Japan.

Overseas investment loans

Overseas investment loans support the overseas investment undertaken by Japanese firms. The loans are provided to Japanese investors, to joint ventures into which Japanese firms have equity investment, and to the foreign governments and/or banks that make equity investment in or provide loans to ventures. Overseas investment contains risks that are not imaginable in domestic situations, such as the risk of a sudden change in economic policies, financial collapses and economic disorders. As a public lender, however, JBIC reduces these risks through negotiations with the host country governments and governmental institutions as well as the financial support for the overseas investments of Japanese enterprise under this loan facility.

As for the overseas investment loan facility, JBIC provided four loans to oil and gas sector development in Brazil in 2000. These four projects ? EVM Oil Fields Development Project, Barracuda & Caratinga Oil Fields Development Project, Albacora Oil Field Development Project and Cabiunas Gas Processing and Transfer Project ? are typical examples of JBIC's support for the development of the energy sector and also have various implications for JBIC's future role in this sector will be explained in more details in the following section.

Recent JBIC Operations in Brazil

Profiles of EVM, Barracuda, Albacora and Cabiunas Projects in Brazil

JBIC provided overseas investment loans for three oil field development projects such as EVM (Note), Barracuda & Caratinga, and Albacora. In these projects, a wholly owned leasing subsidiaries of Japanese trading companies offer the lease to Petrobras the facilities for producing and transporting crude oil and gas at these oil fields in the Campos Basin. JBIC provided long-term funding necessary for the leasing companies to execute these projects. JBIC undertook \$508 million, \$1,140 million and \$75 million, respectively. JBIC also offered an overseas investment loan for Cabiunas Gas Processing and Transfer Project, which is closely related to these oil field development projects. The objective of Cabiunas project is to construct gas processing and transfer facilities for oil-well gas from oil fields in the Campos Basin. Like the other three projects, wholly owned leasing subsidiaries of Japanese trading companies offered the lease of the facilities to Petrobras. The total amount of JBIC loan commitments is \$459 million. (See table overleaf.)

Note: Espadarte, Voador, Marimba and other fields.

Accordingly, JBIC made the commitment to provide the fund as much as \$2,182 million just for these four projects, and along with these JBIC loan commitments, Japanese corporations and banks put \$3,293 million into these projects in the forms of loan and equity investment. As clearly shown by the above examples, the participation of JBIC in the projects mitigated various risks by offering the sizable amount of loans, thereby attracting the huge amount of financial resources from Japanese corporations as well as from banks.

JBIC's criteria

When JBIC planned its commitments to these projects, it paid attention to several factors, such as the feasibility, financial viability, security package of each project, with the possibility of acquisition of concession rights in oil and gas by Japanese companies. In addition to the above, JBIC put emphasis on the support for the investment by Japanese corporations and on the economic cooperation with Brazil in the process of decision making.

Ever since the oil developing opportunities were made available for the private and foreign firms, offshore oil fields in Brazil, especially those in the Campos Basin have attracted the worldwide attention for their high potentials. Japanese companies have been no exception, showing strong interest. Japanese trading companies embraced the high expectations that the ties with Petrobras would become closer and tighter, and they would obtain that the know-how of deep-sea oil field through participation in these projects.

Based on the enhanced ties with Petrobras that are expected to be acquired through these projects, some trading companies have set their sights on the positive participation in the future projects scheduled off the Campos Basin, with a view to obtain the privileges.

JBIC's loan commitments assisted these activities by private entities, thus largely contributing to the improved economic interactions between Japan and Brazil. It was also expected that the JBIC's commitment would strengthen relations between the Japanese firms and oil-producing nations, which would eventually help to secure the energy sources of Japan in the form of acquisition of concession rights of oil or gas fields by Japanese companies. .

The aspect of economic cooperation for Brazil was also carefully discussed when JBIC considered its loan commitments for the four projects. Being a net importer of petroleum, Brazil was striving to maintain the supply of oil for its own use. These projects were expected to boost the output and reduce the dependency on imported oil, thus contributing largely to the cutback of foreign currency spending. Besides, it should be noted that investment in Brazil by Japanese companies will be promoted in the future due to the mutual understandings between Brazil and Japan through these four big projects.

JBIC's Operation Strategy for the Oil and Gas Sector Development

1) JBIC's Main Policy in the Oil and Gas Sector Development

Among JBIC's policies in the development of oil and gas industry, the most important is how JBIC, as a public lender, can contribute to the stabilization and development of the world economy through its various supports for the development oil and gas industry. Japan has been expected to take its active role in the stabilization and development of world economy in the international community, however its economy is still stagnated with little prospect of economic recovery in the near future. Nevertheless the vigorous activities of Japanese companies in the development of oil and gas industry are prerequisite for the economic recovery of Japan with its poor natural resources as well as for the world economic development. Accordingly, JBIC believes that, as a public institution with functions assisting Japanese companies activities in the development of oil and gas industries, JBIC needs to take more active roles in the development of the oil and gas industry by using its variety of financial tools, its huge financial resources, its abundant information of economy and business, and human networks with foreign countries and international institutions.

It is hardly refutable that the growth of not only the Japanese economy but of other nations, especially of those developing countries, is indispensable for the stabilization and the expansion of the world economy. JBIC considers that it is its organizational goal to work for the development of the nations where the gas and oil projects exist and for the further mutual understanding between the host countries of projects and Japan through the support to the development of the oil and gas industry of these countries. As explained above, JBIC have been offering loans to the projects in Latin America based on this policy.

2) Prospects of JBIC's Future Operations in the Oil and Gas Sector

The below three points are becoming increasingly important when prospect the role of JBIC in the future taking account of the above policy.

First, JBIC will be more open to the private sector. JBIC will try to respond more actively and efficiently to the needs of Japanese private sector in the context of the rapidly changing the natural environment around the oil and gas industry. It includes the worldwide movement of restructuring energy industries, price fluctuations of natural resources such as oil, economic trend and deregulation of power industries in Latin America or Asia. This drastic change in the oil and gas industry will create new demands by the private sector that were not required before. JBIC believes that it is required to provide timely and appropriate supports and thereby it will continuously take best efforts to provide best financial services to our clients. The closer relationship and cooperation between private sector and JBIC should be established by exchanging views and information with private companies.

Second, JBIC's operations will be more diversified in terms of region. Japanese companies have spread their commercial activities more widely all over the world, and this is witnessed in the oil and gas industry. Japanese companies have been trying to participate more actively in oil and gas field development projects in various regions such as Latin America, South-East Asia (recovering from economic setback in the past few years), the Middle East and countries in transition. JBIC can help to reduce various risks which Japanese private companies will face in the areas that are unfamiliar with them, by its financial and consulting services. The wider Japanese corporate operating area is, the larger the expected role of JBIC will be.

Third, JBIC will pay more attention to environmental aspects of its operations. The development of oil and gas fields is necessarily followed by the possibility of negative impacts on environment. JBIC checks possible environmental impacts of each JBIC financed project by environmental monitoring system. Besides, in response to the international environmental policy of the Government of Japan, JBIC is now considering what it is expected to do or can do for a multinational approach to environmental protection such as support for Energy Service Company (ESCO), Prototype Carbon Fund planned by the World Bank and so on.

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