

INTERVIEW

Project Financing for Offshore Wind Farm Project in Taiwan

Supporting One of World's Largest Offshore Wind Farm Projects

Interview with Deputy Director ITO Yuki and TAMURA Masayuki,
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The Japan Bank for International Cooperation (JBIC) signed in September 2023 loan agreements for project financing that collectively amounted to approximately JPY101.2 billion with Hai Long 2 Offshore Wind Power Co., Ltd. and Hai Long 3 Offshore Wind Power Co., Ltd. (collectively Hai Long) of Taiwan, which have received investments from multiple entities, including Mitsui & Co., Ltd. (Mitsui), for an offshore wind farm project in Taiwan. The loans are co-financed with private financial institutions and others, bringing total co-financing to approximately TWD117.1 billion. JBIC also provided a guarantee of approximately TWD4.7 billion for a Taiwan dollar denominated onshore loan by private financial institutions. In addition to JBIC's guarantee, Nippon Export and Investment Insurance (NEXI) and export credit agencies from Europe and Australia provided insurance or guarantees. In October, JBIC also financed through equity participation the funds necessary for the development and operation of the project.

Largest Offshore Wind Farm in Asia

In this project, Hai Long will build, own, and operate a 1,022 MW offshore wind farm located 45 to 70 km off the coast of Changhua County, Taiwan. The electricity generated by the project will be sold to the state-owned Taiwan Power Company and private consumers for 20 to 30 years. In addition to Mitsui, the Canadian company Northland Power Inc, which operates wind power generation businesses in mainly Europe and the Americas, has invested in Hai Long.

Remarking on the significance of the project, Deputy Director ITO Yuki said: "Offshore wind farms have been actively developed in Europe. JBIC has provided support for projects in Britain and France. However, in Asia, Hai Long is the first large-scale offshore wind farm project for JBIC.

Taiwan relies on thermal power, which comprises about 80% of its energy mix, while the ratio of renewable energy remains at about 6%. In March 2022, Taiwan announced Taiwan's Pathway to Net-Zero Emissions in 2050, aiming to increase the proportion of renewable energy in its power supply to 60-70% by 2050. Through the reduction of greenhouse gas (GHG) emissions by complying with this policy, JBIC will contribute toward preserving the global environment with the funding while supporting the overseas business of a Japanese company."

Structuring Project Filled with "Firsts"

Concrete discussions started from 2021, when the electricity sales agreements were concluded in principle between Hai Long and buyers (off-takers of electricity).

"We found it difficult to conduct an offshore wind farm project in Taiwan. To set up 73 units of 14 MW turbines, for example, it is necessary to properly control processes by specialized companies, including securing a fleet of construction ships and constructing and installing fundamental structures. However, Taiwan is not as experienced as the leading European countries in this field. In addition, Hai Long is required to procure part of the necessary materials from inside Taiwan (a local content requirement) to help develop domestic industries. We had to contemplate the construction period and costs based on these factors.

When it comes to financing, foreign export credit agencies, including JBIC, were required to provide guarantees for Taiwan dollar denominated onshore loans by local private financial institutions. Since it was the first time for us to provide a guarantee for an onshore loan in an infrastructure project, we needed to consider numerous factors. We managed to meet the

client's demand by generating some ideas," said ITO, explaining how difficult it was to structure the project.

TAMURA Masayuki remarked, "Obviously, Northland Power, one of the sponsors of Hai Long, has a wealth of experience and knowledge, and the EPC contractors are highly skilled in each area. Also, the construction site is in a good location in terms of wind conditions. However, construction may be hindered due to the complicated seabed conditions and rough winter weather. So after discussing the construction risks with experts, using the investigation results of previous projects in the same sea area, we started the negotiations on the terms of loans."

Accelerating Negotiations through Meetings

The contract negotiation took a long time as Hai Long was a large-scale project with the co-financing amount exceeding the equivalent of JPY500 billion, which was supported by seven export credit agencies, including JBIC and NEXI, from six countries around the world.

"In October 2022, a meeting was held in Singapore with the participation of related parties, including sponsors and lenders. This was the first opportunity for us to discuss concrete issues face to face. Subsequently, we repeatedly held meetings in person or online and made progress in the negotiations. We visited Taiwan many times to confirm issues, such as Taiwan's policy on renewable energy expansion, the concept of local content requirements, and the support system in the event of problems," TAMURA said.

Finally, the loan and guarantee agreements were concluded in September 2023. In the project, construction components are currently being manufactured at a rapid pace. The Hai Long 2 wind farm (518 MW) is planned to be completed by the end of 2025 and the Hai Long 3 (504 MW) by the end of 2026.

Supporting New Projects in Asia

The Hai Long project draws attention at Taiwan and Asian countries as a large-scale offshore wind farm project in the region. Going forward, there may be more projects that involve Japanese companies.

"For me, it was my first experience of structuring a project. I am relieved to have successfully concluded the agreements for JBIC's first offshore wind farm project in Asia. In addition, a new project has been planned in the area off the west coast of Taiwan. South Vietnam is also promising, with many companies showing their great interest in this business. I would like to make use of the experience I gained from this project," said TAMURA, expressing his ambitions.

Deputy Director ITO also talked about future initiatives: "In the Infrastructure System Overseas Promotion Strategy 2025, the Japanese government, in support of the transition to carbon neutrality and decarbonization, established a policy of providing support for quality energy and electricity infrastructure that harnesses sophisticated technologies to reduce the burden on the environment in a way that is compatible with the energy policies of host countries. In Asia, many ASEAN countries, as well as Taiwan, have launched energy policies for decarbonization that actively promote initiatives, ranging from the expansion of renewable energy to transitions to energy sources with less GHG emissions. JBIC will support projects that contribute toward maintaining and improving the international competitiveness of Japanese industry with various financial methodologies while considering host countries' energy policies and situations."