SPOT LIGHT

Supporting the shipping business of four LNG tankers and responding flexibly to the changing LNG business

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In September 2015, JBIC signed two loan agreements with a special purpose company, owned 50% by CHUBU Electric Power Co., Inc. (Chubu Electric) and 50% by Nippon Yusen Kabushiki Kaisha (NYK LINE). On the same day, JBIC also signed two loan agreements with a special purpose company owned 50% by Chubu Electric and 50% by Mitsui O.S.K. Lines, Ltd. These four loans are project finance basis and will finance for the shipping business of each LNG tanker, mainly to be used to transport LNG from the US Freeport LNG Project in which Chubu Electric is also one of main sponsors.

Contributing to diversification of the supply sources and prices of LNG

Suzuki: The Freeport LNG Project will construct natural gas liquefaction facilities (First train) in Freeport, Texas in the US and produce LNG from shale gas and conventional gas produced in the US. Its project company is FLNG Liquefaction, LLC (FLIQ), a special purpose company owned by Chubu Electric, Osaka Gas and Freeport LNG Expansion, L.P. JBIC signed a project finance basis loan agreement totaling up to 2.6 billion US dollars (JBIC portion) with FLIQ in October 2014.

Since the Great East Japan Earthquake, it is important for Japan to secure stable supplies of natural gas and reduce energy costs. The project enables Chubu Electric and Osaka Gas to purchase all the LNG produced by FLIQ in the first train by the US gas market index price, which is different from the existing oil index linked LNG pricing in Asia. The stable supply of LNG shipped from the US contributes to the diversification of LNG supply sources and pricing formula.

This project to support LNG shipping business by four LNG tankers will ensure the long-term stable supply of LNG as a fuel for generating power and reducing energy costs through cooperation between utility companies and shipping companies. While it is important to respond precisely to fluctuations of power demand and LNG prices to satisfy both these needs, this cooperation will facilitate new types of marketing business including shipping business, responding to fluctuations in power demand and fuel prices.

For the developments of the LNG value chain business

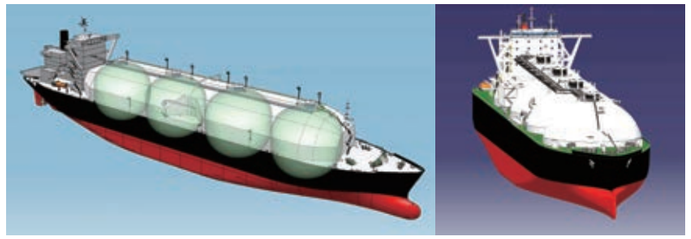
Suzuki: While we received a preliminary request for financing for this project in February 2015, actual negotiation accelerated in July after the progress of negotiations has made, between Chubu Electric and Tokyo Electric Power Co., for the comprehensive alliance in the value chain from the upstream of fuel and transportation, to the downstream of power generation. We then had to finalize the negotiations of the project finance for four projects within several months from July, reviewing the status of the project in view of the liberalization process of the power sector. Although JBIC has much experience in project financing for LNG tankers, that expected schedule was challenging for us.

Koda: I was very happy to be assigned to this important project even it was my first year in JBIC. While this assignment was very challenging, I could proceed with the negotiations and documentation together with other departments in JBIC following the guidance of my senior colleagues. I analyzed technical issues such as the technology of LNG tankers etc. in order to develop the negotiations with the sponsors. There are nuanced differences among the four transactions: each of them has its own specifications, price and date of completion as well as the details of the loan contract. I was under enormous pressure because I had to incorporate these differences among the four projects into each contract under a tight schedule for the finance close, but I learned a lot from this experience. It was a huge relief when the agreement was signed without any trouble.

Suzuki: In the LNG business, we traditionally have focused on how to bring LNG from overseas, like "line" connecting one location to another. However, managing each line independently causes inefficiencies; it is more efficient to view this LNG project as a portfolio business. Electric power companies could have an option to sell procured LNG to other countries depending on the market. This business will diversify in the future, and JBIC is now at an important stage to consider how we can help Japan to procure resources in line with these new developments of LNG sector.

Koda: It is a challenge for JBIC to consider how we find a balance between creativity in financing and policy execution as a public institution responding to new developments in the LNG business. I would like to tackle with this challenge and solve problems by using the experience I gained from this project.

■ Image of the LNG tanker to be procured by this project financing



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JBIC Today

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Japan Bank for International Cooperation

Special Feature

Ever-changing globalization of manufacturing companies

—Based on JBIC FY2015 Survey: Outlook for Japanese Foreign Direct Investment

Our Global Challenges

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News in Depth

First project financing for methanol and dimethyl ether production plant in the Republic of Trinidad and Tobago

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日本の力を、世界のために。
Supporting Your Global Challenges

Special Feature

Ever-changing globalization of manufacturing companies

—Based on JBIC FY2015 Survey: Outlook for Japanese Foreign Direct Investment

Survey overview

- Survey targets: Manufacturing companies that have three or more overseas affiliates (including at least one production base)
- No. of companies surveys were mailed to: 1,016
- Responses returned: 607 (response rate: 59.7%; 418 companies responded by post, 161 by web and 28 by electronic questionnaire)
- Period of survey: July-September 2015
- Main survey topics:
  - Evaluations of overseas business performance
  - Medium-term overseas business prospects
  - Promising countries or regions for overseas business operations
  - The main themes pertaining to overseas business operations: Management challenges to be addressed, status of overseas M&A and engagement policy, trends in production repatriation from overseas, situation in China and approach to business operations, etc.
- Note: The "overseas business operation" is defined as production, sales, and R&D activities at overseas affiliates, as well as outsourcing of manufacturing and procurement.

In December 2015, the Japan Bank for International Cooperation (JBIC) released the "FY2015 Survey Report on Overseas Business Operations by Japanese Manufacturing Companies". This annual survey has been conducted since 1989 to identify the current trends, challenges and future outlook for overseas business operations by Japanese manufacturing companies, and this year's survey marks the 27th.

In this survey, eight individual themes including "Management Challenges to be Addressed", "Trends in Production Repatriation by Companies with Overseas Business Operations" and "Needs and Issues Regarding Infrastructure in the Asian Region" were added to the main themes, such as "Evaluations of Overseas Business Performance," "Medium-Term Business Prospects," and "Promising Countries or Regions for Overseas Business Operations." In this issue, we present several major findings of the survey.

Overseas business operations at a standstill in the medium term in spite of continuing emphasis

Tomoo Kushibiki
Director of Research Division, Policy and Strategy Office for Financial Operations, Corporate Group

Trend 1
Despite stagnant growth, overseas business operations remain a prime concern

First, we look at the overseas business operations of the Japanese manufacturing industry based on three indexes: overseas production ratio, overseas sales ratio, and the degree of satisfaction with overseas sales and profits.

The overseas production ratio was 35.1% (0.1 point decrease from the previous year) and the overseas sales ratio was 37.9% (0.4 point increase over the previous year) in FY2014. Although both ratios have been rising since FY2011, their growths showed signs of slowing down in FY2014. However, the medium-term overseas production ratio (for FY2018) is estimated to be close to 40.0% at 39.6%, and the overseas sales ratio in FY2015 is expected to be 38.9% (1.0 increase over the previous year), reflecting the continued focus on overseas business operations in the future.

Trend 2
All-industry average of the degree of satisfaction with net sales and profits decreases slightly

The degree of satisfaction with the FY2014 performance was 2.66 (0.05 point decrease from the previous year) for sales and 2.62 (0.03 point decrease from the previous year) for profits as an all-industry average on the five-level evaluation – (5) Satisfactory, (4) Somewhat satisfactory, (3) Can't say either way (as originally planned), (2) Somewhat unsatisfactory, and (1) Unsatisfactory – recording a slight decrease from the previous year.

As Figure 1 shows, the degree of satisfaction with profits was lower in the four surveyed countries in Asia (Indonesia, Thailand, China and India) than the overall average. Indonesia and Thailand, in particular, suffered from a decreasing trend, likely affected by ASEAN's stagnant economy.

On the other hand, in the Inter-American region, the degree of satisfaction in North America exceeded the overall average backed by the strong economy, and in Mexico, thanks mainly to the flourishing automobile industry. In Europe and Russia, satisfaction decreased dramatically in Russia, affected by economic sanctions and falling price of crude oil, while it exceeded the overall average in Central and East European countries and the 15 EU countries where sales were successful.

Trend 3
Overseas operations in the medium term remain level

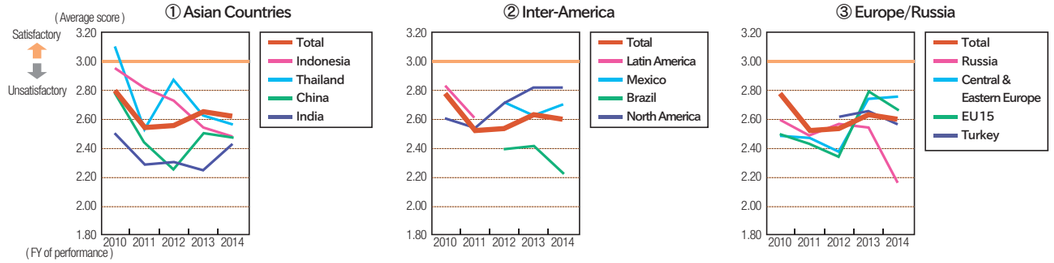
To the question "Medium-term prospects (next 3 years or so) for overseas operations," 478 companies, 80.5% of all 594 responding companies, answered that they intend to "strengthen/expand," a 0.4 point decrease from the previous year. Although the ratio remains above 80.0%, almost the same as in the previous survey, a slight downward trend has prevailed since the 2011 survey and seems to remain the same. Nevertheless, the ratio of mid-tier enterprises and small and medium-sized enterprises (SMEs) who showed the intention to "strengthen/expand" their overseas operations has been increasing gradually from 72.5% of the 2012 survey, and reached 75.2% in this survey.

Figure 2 shows the outlook of the "Medium-term prospects (next 3 years or so) for overseas operations by region." In China, the ratio of companies that intend to "strengthen/expand" has been decreasing since peaking at 73.0% in the 2011 survey, and fell by 4.3 points from 52.4% of the previous survey, finally dropping below 50.0%.

In addition, the ratio of companies positive about strengthening and expanding business in five ASEAN countries decreased slightly from 57.4% of the previous survey to 56.1%, possibly due to the delayed economic recovery in the ASEAN region. The intention to "strengthen/expand" the overseas operations remains strong in other emerging regions: Rest of Asia and Oceania (67.7%), Latin America (64.1%), the Middle East (62.0%) and Africa (59.0%). Mexico (71.4%) leads in Latin America, while India (72.8%) and Vietnam (72.4%) lead the "Rest of Asia and Oceania."

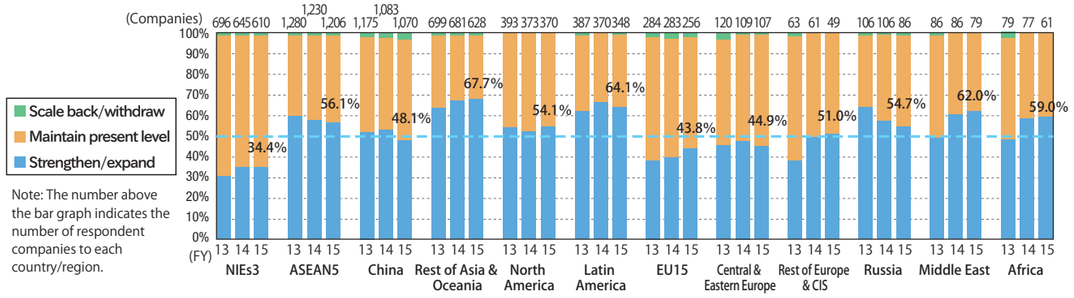
In respect of domestic business, the response ratio of "strengthen/expand" has been on the upward trend in the "Medium-term prospects (next 3 years or so) for domestic operations" since the 2012 survey. In this year's survey, 29.6% (2.0 point increase over the previous year) selected "strengthen/expand," and, among mid-tier enterprises and SMEs, 31.6% selected the same, marking an increase of 8.1 points. This upward trend in the attitude to strengthen and expand the domestic business can partly be attributed to the recent domestic economy and the exchange rate.

■ Figure 1: Evaluation of Degree of Satisfaction with Profits by Region



(Note) : ② Inter-America: Individual aggregations for Mexico and Brazil have been separated from Latin America since FY2012 results.
③ Europe/Russia: Aggregation for Turkey has been added since FY2012 results.

■ Figure 2: Medium-term Prospects for Overseas Operations (by Region)



Trend 4

India ranks top among promising countries for second consecutive year

Next, we asked the responding companies to name up to five most promising countries/regions for overseas business operations in the medium term. See Figure 5 on page 5 for the results.

India, whose growth potential was highly evaluated, took the first place again as in the previous year. It gained 40.4% of the votes (previously 45.9%), the only country to gain more than 40.0%. However, Indonesia and China were close seconds with 38.8%.

The country that is attracting particular attention is Mexico, even though it ranked the sixth as in the previous survey. While all of the top five countries saw fewer companies citing them as promising, Mexico kept almost the same number of companies (101 companies), and its percentage share increased to 23.6% from the previous 20.2% . Its high popularity is attributed to its increasing prospects particularly in the automobile industry. Though the number of companies citing the Philippines was the same (50 companies) as in the previous survey, the percentage share increased from the previous 10.0% to 11.5%, positioning the Philippines as one of the top 10 countries.

Looking at the top 20 countries on the list, Asian countries have been increasing their presence as promising countries/regions.

Trend 5

China ranks top among locations from which companies repatriate production to Japan

Lastly, we introduce two of the individual themes set for this survey.

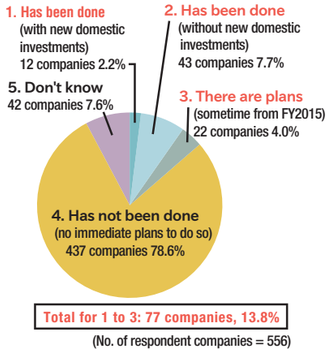
First is the "Management Challenges to be Addressed" for long-term growth (Figure 3). The challenge regarded as the most important is "2. Expand current businesses qualitatively and quantitatively" in the business policies section (71.0%), receiving a far higher ratio than any other challenges. As the second most important challenge, "5. Develop products that are strongly competitive (high-market-share product in niche market)" was identified in the business operations section (52.2%). Thus the two highest-ranking challenges were dominated by issues which have been long-recognized by the manufacturing industry. The third place goes to "13. Develop individuals who are capable of managing overseas bases" in the business management section (45.3%). However, the ratio among mid-tier enterprises and SMEs was 52.9%; namely it was selected by more than half the responding SMEs.

Next, regarding the "Status of Production Repatriated from Overseas" which means transferring a part of overseas production back to Japan (Figure 4), 77 companies (13.8%) out of 556 responding companies answered either "has been done" or "there are plans to do so" during the period of yen depreciation between 2013 and 2014. China is dominant as the country from which production is repatriated, accounting for 51 companies (68.0%) out of 75 responding companies, leaving other countries far behind.

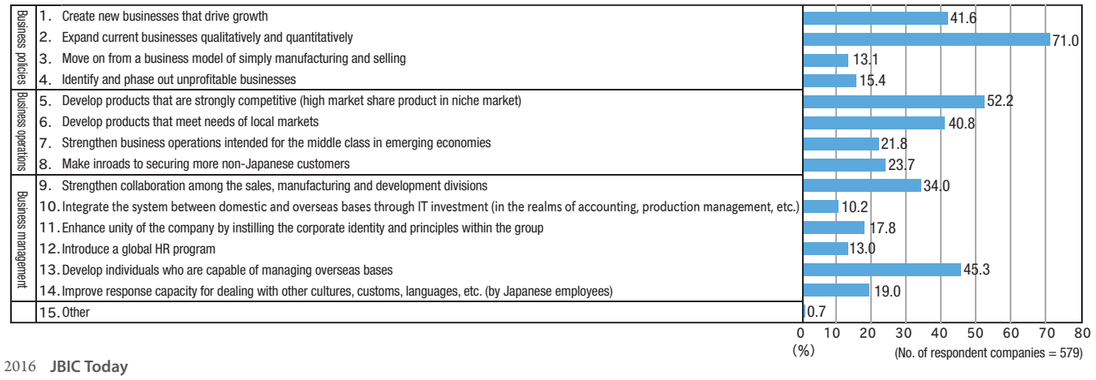
The top reason for repatriation was "due to improvement of export competitiveness via yen depreciation" (49.3%), followed by "due to an increase in labor wages at the overseas base" (25.3%).

As reasons for not repatriating, the top two were "due to having established a division system of labor between Japan and other countries" (54.7%) and "for the purpose of local production for local consumption" (38.4%).

■ Figure 4: Status of Production Repatriated from Overseas



■ Figure 3: Management Challenges to be Addressed



Trends of promising countries in the medium term

India and China were ranked the top two "Promising Countries in the Medium Term." We present the appeal of the promising destinations for business expansion, as well as their issues, recent trends and future expectations.

■ Figure 5: Promising Countries/Regions for Overseas Business over the Medium Term

Ranking FY2015	←	FY2014	Country/Region (Total)	No. of companies FY2015 433	No. of companies FY2014 499	Percentage share (%) FY2015	Percentage share (%) FY2014
1	—	1	India	175	229	40.4	45.9
2	—	2	Indonesia	168	228	38.8	45.7
2	▲	3	China	168	218	38.8	43.7
4	—	4	Thailand	133	176	30.7	35.3
5	—	5	Vietnam	119	155	27.5	31.1
6	—	6	Mexico	102	101	23.6	20.2
7	▲	8	USA	72	66	16.6	13.2
8	▲	11	Philippines	50	50	11.5	10.0
9	▼	7	Brazil	48	83	11.1	16.6
10	—	10	Myanmar	34	55	7.9	11.0
11	▲	12	Malaysia	27	46	6.2	9.2
12	▼	9	Russia	24	60	5.5	12.0
13	▲	14	Singapore	20	25	4.6	5.0
14	▼	13	Turkey	17	26	3.9	5.2
14	▲	15	South Korea	17	20	3.9	4.0
16	▲	17	Taiwan	16	19	3.7	3.8
17	▼	15	Cambodia	14	20	3.2	4.0
17	▲	18	Germany	14	9	3.2	1.8
19	—	19	Saudi Arabia	7	7	1.6	1.4
20	▲	25	Bangladesh	6	6	1.4	1.2
20	▲	32	Laos	6	3	1.4	0.6
20	▲	32	UK	6	3	1.4	0.6

No.1: India *India*

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Anticipating economic growth by improving business environment

A total of 1,229 Japanese companies have expanded into India (source: JETRO's survey as of October 2015), and the number has been increasing gradually every year. In JBIC's survey, India was ranked top for two consecutive years (by percentage share among promising countries in the medium term), indicating high expectations from Japanese companies.

The top three reasons for India's high popularity are "Future growth potential of the local market (88.9%)," "Inexpensive source of labor (32.7%)," and "Current size of local market (31.0%)." As these reasons show, what makes India attractive is its great demand and abundant labor. Besides the huge demand created by the population of approximately 1.3 billion, India offers a long-term demographic dividend whereby the changing demographics have a positive influence on economic growth thanks to the increasing working-age population.

India, however, has many issues, such as "Underdeveloped infrastructure (49.4%)," "Unclear implementation of the legal system (38.9%)" and "Complicated tax system (30.2%)," and the delay in solving these issues can be regarded as the reason why Japanese companies have only made a "gradual" expansion despite high expectations. Among these issues, the Modi administration prioritized the development of infrastructure, and diversifying the means of financing is crucial to achieve its goal. Meanwhile, the ministers in the administration are working on introducing foreign capital and asking each state to invite investment from foreign companies. In fact, leaders of each state frequently visit Japan to encourage Japanese companies to invest in India, such as by holding investment seminars.

In an interview with Rajiv Kumar, India's well-known economist, that JBIC's representative office in New Delhi held last November, he said, "Japan is as important a friend as the US, and I feel friendship for Japan. However, although we have had many good talks to enhance the Japan-India relationship, this has not led to enough actual business opportunities. We strongly hope to achieve good results, including more Japanese companies entering India."

India's economic growth is expected to accelerate from 7.3% to 7.8% between 2015 and 2016 (see note), and this will prompt a further increase in financing demand, including demand for local currency-denominated financing from local Japanese-affiliated companies in India. In response, JBIC provided its first loan in Indian Rupees in August 2015. Through dialogues with the Indian government, JBIC will continue helping Japanese companies to expand into India, not only in manufacturing but also in the infrastructure sector.

Note: Figures sourced from World Bank Global Economic Prospects (released on January 6, 2016)

Future of countries with stable growth

No.2: China *China*

Lin Huang
Professor of Global Marketing
Graduate School of Business
Administration Kobe University

From the "world's factory" to the "world's market"

Although China ranked second, the top-ranked reason for being a promising country was the "Current size of local market (67.9%)," replacing the "Future growth potential of local market (59.9%)". We interviewed Professor Lin Huang of the Graduate School of Business Administration of Kobe University, who is an expert in global marketing and strategies of Japanese, American and European companies for the Chinese market, and talked about China's changing status in the global market and the strategies needed for investing in China.

Ongoing adjustments of production bases on a global scale

The collapse of Lehman Brothers in 2008 marked a turning point in the global economy. Since then, China changed significantly from the "world's factory" to the "world's market." Over the period of five years from 2008, the Chinese government focused on investment in infrastructure and real estate, totaling 4 trillion yen, and has changed its economic development strategy from the traditional export-oriented growth to consumption-oriented growth. The latter requires higher national income, but this means higher labor costs for corporate management. In addition, the Chinese yuan appreciated by nearly 40% against the Japanese yen after 2008, driving up the required cost for Japanese companies operating in China of importing raw materials and equipment from Japan. For these reasons, China's competitiveness as a production base for the global market declined, and an increasing number of Japanese companies started to adjust their existing production bases in China.

However, it is important to analyze China by industry. The industries that are transferring their production bases to countries where costs are lower than in China (so-called "migrant birds") are labor-intensive industries like sewn products, shoes and toys manufacturing. Thus, the adjustment of production base does not apply to all industries.

Arena of global competition

On the other hand, China, where both the wealthy and the middle classes are expanding, has huge potential as a market. Making the best use of this changing market structure, many companies are already focusing on production and sales in China: in this survey, 51.1% of companies with business operations in China responded that they are producing locally in China in order to sell mainly in the Chinese market.

The survey also revealed that the main reason why China is promising is the "Current size of local market." It is interesting to note that the reasons have become similar to those for the US (Figure 6). This indicates that the responding companies regard China not as a production base but as a market in front of you. As China has become an arena for global competition, what is needed to develop the market there? An original business strategy and commitment to the Chinese market are decisive factors to be successful in the Chinese market. That is, it has become important to differentiate from other companies by such means as developing products and establishing brands tailored to the Chinese market where many companies are competing with each other.

China faces various changes, such as an employment shift from manufacturing to the service industry and demographic aging, in addition to rising incomes thanks to economic growth. As lifestyles change, there is growing demand for higher value-added general consumable products such as clothes and food, and services in the food service, education and healthcare (health, medicine and nursing) industries.

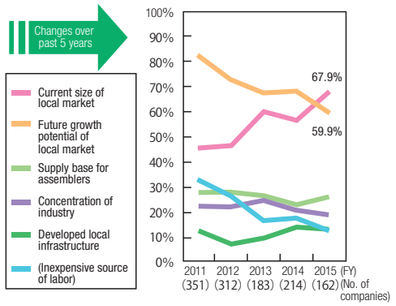
Japanese companies must analyze the local market by industry and by type of business, differentiate themselves from local companies, as well as multinational rivals, and increase their investment in China strategically.

■ Figure 6: Main Reasons that make China and the US Promising Markets

China

Reasons

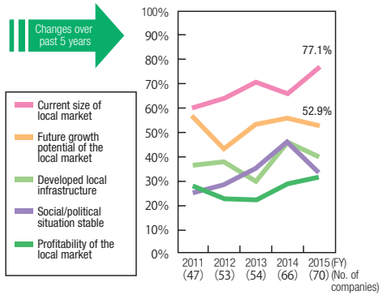
	(Total no. of respondent companies: 162)	No. of companies	Ratio
1	Current size of local market	110	67.9%
2	Future growth potential of local market	97	59.9%
3	Supply base for assemblers	42	25.9%
4	Concentration of industry	30	18.5%
5	Developed local infrastructure	22	13.6%



USA

Reasons

	(Total no. of respondent companies: 70)	No. of companies	Ratio
1	Current size of local market	54	77.1%
2	Future growth potential of local market	37	52.9%
3	Developed local infrastructure	28	40.0%
4	Social/political situation stable	23	32.9%
5	Profitability of local market	22	31.4%



Mexico *Mexico*

Takeshi Tada
Chief Representative
in Mexico City

Expectations for new growth driven by participation of large companies

Mexico, despite remaining at sixth this year, ranks first among regions other than Asia. Its percentage share exceeded that of last year, indicating that its potential is rising despite remaining at the same rank. The country is also ranked fifth by popularity among SMEs, and first by industry (automobiles).

These results are evidence that the votes from the automobile sector, in particular from mid-tier and small and medium-sized parts suppliers, greatly affected the ranking. Mexico's vehicle production was 3.22 million units in 2014, making it the seventh largest vehicle producing country, and it is expected to build more than 5 million vehicles in 2020. Since 2011, Japanese auto makers have been increasing their presence in Mexico. Mazda has announced plans to construct a new plant in Mexico, and Honda and Nissan followed. In April 2015, Toyota announced its plan to construct a new plant in the country as well.

Supporting the reasons why Mexico is promising as shown by this survey, the construction of new plants by Japanese auto assembly makers gives parts suppliers expectations for market growth. Mexico is also establishing its status as a production base for export to third countries, with its geographical advantage of sharing a border with the US, the world's biggest market.

On the other hand, the medium-term concern is the improvement of related infrastructure. At present, 80% of finished vehicles are transported to the US overland by railway. However, land transportation is already saturated. Vehicles that cannot be exported by railway are transported to port by railway and then exported on special ships, but this approach cannot keep up with demand. According to the person in charge of exporting finished vehicles, currently, (1) freight cars do not come to the plant, (2) vehicles cannot be unloaded because the port yard is full, and (3) special ships cannot enter the port because the berths are full. To overcome these issues, the Secretary of Communications and Transportations of Mexico has been planning to improve the railways and port facilities, but the government has had to halt or downscale various projects because revenues are falling due to the recent slump in crude oil prices. Under the current circumstances, it is not clear whether related infrastructure can be improved on time. Any delays will adversely affect Mexico's appeal as a promising country for investment, so the Mexican government is now making efforts to improve the infrastructure facilities.

The Philippines *The Philippines*

Yuka Inoue
Researcher
Representative Office
in Manila

Abundant labor population and enhanced policy to stimulate the manufacturing industry

The Philippines had until recently suffered a stagnant economy compared with other ASEAN countries and a long period of low direct investment. However, its real GDP grew by 6.6% on a year-on-year basis in 2012 and the country has since been achieving steady economic growth among ASEAN countries. The driving force of this growth is remittances in foreign currency from abroad by migrant workers who account for 10% of its total population, as well as business process outsourcing (BPO) industry epitomized by call centers. However, the growth of the manufacturing industry has remained weak.

In view of the present situation, the Filipino government is promoting specific support by launching a policy to stimulate the manufacturing industry and is drawing up a road map by industry. In particular, the Comprehensive Automotive Resurgence Strategy (CARS) will assist three car models with a total production of more than 200,000 units for a period of six years with a subsidy of up to 27 billion pesos (approximately 66 billion yen) in total.

The Philippines has a local content ratio of about 20% in car production and relies mostly on imports from ASEAN countries and China. As compared with other ASEAN countries, the supporting industry in the Philippines remains underdeveloped. This auto industry promotion policy is expected to increase the local content ratio, attract investment from abroad, create employment opportunities, and consequently transfer intellectual property to the Philippines. The lack of a domestic supporting industry means a lack of rival companies, making the Philippines a place where big opportunities lie for Japanese companies.

On the other hand, there are several issues including: (1) The ratio of foreign investment is basically capped at 40% by the constitution and thus foreign capital through a joint venture with a local company is required, (2) Complicated procedures for obtaining approval for the construction of a plant for the domestic market in an area other than the special economic zone and the risk involved of changing regulations, and (3) Influence of the inflow of cheap products due to the elimination of tariffs as a result of the ASEAN economic integration.

The Filipino government is scheduled to draw up the same promotion policy for manufacturing industries other than automakers, and the future development of the domestic industry is expected to lead to both overseas investment and economic development.

Providing safe Japanese confectioneries worldwide

Launching candy manufacturing and sales in Vietnam with the dedication of a long-established company

Founded in 1877, SUZUKI EIKODO CO., LTD. (Suzuki Eikodo) is a long-established small and medium-sized enterprise (SME) well known for "ZELIKO", a box of candies with a prize inside. The company focuses on the wholesaling of confectioneries (candy, chocolate, jelly, etc.), while also designing products, manufacturing and taking orders as an OEM under license from major confectionery makers. It is the leading manufacturer of products designed for amusement facilities and parks, including prizes for arcade games. As it approaches its 140th anniversary next year, Suzuki Eikodo is actively carrying out a growth strategy based on the promotion of M&A in Japan as well as strengthening its business overseas. The company was the first Japanese confectionery manufacturer to expand into Vietnam in December 2014, making the first move to stay ahead of the game.

Three challenges of a small company

"The castle town of Ogaki was famous for manufacturing Japanese confectioneries, and we too started out by making confectioneries. We began manufacturing caramels in the 1910s, which was the only product we made until 2002," said President Suzuki, looking back on the company's long history and tradition.

The candy manufacturer reached a turning point in 2002. After working for a trading company for 12 years, President Suzuki joined Suzuki Eikodo, which had, at the time, only five employees and annual sales of 140 million yen. He carried out three reforms – the first was to develop new products. He signed contracts with major amusement companies and started manufacturing confectionery for crane game prizes in game arcades. The company has since captured the biggest market share in this field, and its annual sales have risen to the current 3 billion yen.

The second reform was the overseas expansion. Suzuki Eikodo established its overseas subsidiary in China in 2011, and started exporting and selling Japanese confectionery at Japanese-affiliated convenience chain stores in Shanghai. "Japanese confectionery became an explosive hit thanks to the weak Japanese yen, booming popularity for Japanese products in the Chinese market, and the burgeoning middle class. Our company became the largest exporter of Japanese confectionery, and our annual sales reached 2.5 billion yen within five years," said President Suzuki.

The third reform was strengthening the company's manufacturing department. To reduce its dependence on the amusement business which was suffering due to the slow growth of domestic economy, it improved and expanded its private-label products for convenience stores and 100-yen shops. In 2008, the company acquired Eagle Confectionery Co., Ltd., a manufacturer of chocolates, jellies and cookies, and in 2015, Chambord Co., Ltd., a long-established company manufacturing and selling baked confectionery, and organized them as affiliates. The manufacturing department's annual sales have now risen to 2 billion yen.

As a result of these three reforms, Suzuki Eikodo's annual sales have grown to 7.5 billion yen, making it the leading company in two of its three business fields in Japan.

Opening ceremony of the Vietnamese plant

Candies manufactured and sold in Vietnam

Bringing "Cool Japan" to the Vietnamese confectionery market

The two mainstays of Suzuki Eikodo's growth strategy are M&A in Japan and strengthening of its overseas business. "M&A is the only way to grow in the domestic market as demand is not expected to increase. This is why we brought the companies we purchased into our group to grow together. Overseas, however, the 'Cool Japan' boom in emerging countries with their growing populations offers a big opportunity for Japanese companies. As a Japanese confectionery manufacturer, we plan to be among the first to expand overseas and capture a substantial market share," said President Suzuki.

In line with its strategy, Suzuki Eikodo established EIKODO VIETNAM CO., LTD. (EKD) as its candy production and sales base in Vietnam. "As the successor of the family business, my mission is to keep growing the manufacturing business, which is our main business. In order to do this, I selected Vietnam to acquire the largest share in the niche market of candies. Although Thailand and Indonesia are also promising, we have little chance of competing successfully in those two countries against major companies. In Vietnam, confectionery shipments are estimated at 70 billion yen, of which candies account for about 700 million yen. The shipments are much smaller than those in Japan, but we have high expectations for the Vietnamese market because of the greater number of children."

In expanding to Vietnam, Suzuki Eikodo used JBIC's scheme for financing the manufacturing and sales business of EKD.

"Because we are not allowed to purchase land in Vietnam, we used a 50-year lease contract. However, leased property cannot be used as collateral, which makes it very hard to borrow money in Vietnam. But JBIC's financing system enabled us to collect funds without any difficulty. Without it, our business expansion would have been much slower."

On November 4, 2015, the company held the opening ceremony of the Eikodo Vietnam Plant, and began shipping products at the end of December. It first sold the products to independent grocery stores and in the wholesale market in Vietnam, and then began selling to Japanese-affiliated supermarkets and convenience stores from March 2016. "We want to provide safe Japanese confectionery worldwide – safety and quality first, cost second," said President Suzuki. Today, too, their candies are delivered from the new plant, with the dedication of a long-established company.

Yuzuru Suzuki
President
SUZUKI EIKODO CO., LTD.

Name	SUZUKI EIKODO CO., LTD.
Established	1877
Incorporated	1933
Capital	50 million yen
President	Yuzuru Suzuki
Business lines	Manufacturing, confectionery wholesaling, toy imports
Headquarters	50 Tawara-machi, Ogaki-shi, Gifu Prefecture 503-0876, Japan
Plants	No. 2 plant, Yoro distribution center, Tokyo office, Iga plant, Vietnam plant

Relationship with JBIC

In February 2015, JBIC signed a loan agreement totaling up to USD1.75 million (JBIC portion) with EIKODO VIETNAM CO., LTD. (EKD), a Vietnamese subsidiary of SUZUKI EIKODO CO., LTD. The loan is cofinanced with The Juroku Bank, Ltd., THE OGAKI KYORITSU BANK, LTD., THE SHIGA BANK, LTD. and other financial institutions. It is intended to finance EKD for the business of manufacturing and selling candies.

First project financing for methanol and dimethyl ether production plant in the Republic of Trinidad and Tobago

Project Financing for Methanol and Dimethyl Ether Production Plant in the Republic of Trinidad and Tobago

Contributing to Strengthening Relationships with Resource-rich Countries and Securing Energy Resources for Japan

The Japan Bank for International Cooperation (JBIC; Governor, CEO: Hiroshi Watanabe) signed a loan agreement on September 2, in project financing, totaling up to USD485.1 million (JBIC portion) with Caribbean Gas Chemical Limited (CGCL), a company in the Republic of Trinidad and Tobago (Trinidad and Tobago). This loan is JBIC's first project financing provided to a project in Trinidad and Tobago and is cofinanced with The Bank of Tokyo-Mitsubishi UFJ, Ltd., bringing the overall cofinancing amount to USD693 million.

CGCL is a joint venture established by Mitsubishi Gas Chemical Company, Inc. (MGC), Mitsubishi Corporation (MC) and Mitsubishi Heavy Industries, Ltd. with Trinidad and Tobago's state-owned company The National Gas Company of Trinidad and Tobago Limited and Massy Holdings Limited. In this project, CGCL plans to produce one million tons of methanol per annum, as well as dimethyl ether (DME) using part of the methanol produced at the Union Industrial Estate in the La Brea area in southern Trinidad. MGC and MC will off-take the majority of the methanol produced and sell it to various countries including Japan.

Methanol is mainly produced from natural gas and is used as a raw material in a wide range of chemical products such as adhesive agents and synthetic resins, in addition to being used as a raw material for DME, gasoline additives and fuel for fuel cells. It is important for Japan to diversify its methanol importation sources to reduce its procurement risk, as Japan depends entirely on imported methanol.

This project will lead to the expansion and diversification of overseas methanol production bases invested in by Japanese companies, and it is thereby expected to contribute to securing resources and the stable supply of energy resources to Japan.

The government of Trinidad and Tobago plans to promote downstream businesses, including methanol and DME, in order to diversify the use of natural gas. This project is consistent with such policy and will contribute to strengthening Japan's relations with Trinidad and Tobago, which is one of the leading natural gas producers in the Atlantic region.

* Press release of JBIC, September 3, 2015

Conducted in an island country in the Caribbean Sea far away from Japan, this project is mostly a "Japanese-owned" project with 70% of the total investment made by three Japanese companies: Mitsubishi Gas Chemical Company, Inc., Mitsubishi Corporation and Mitsubishi Heavy Industries, Ltd. Japan's annual demand for methanol, which is used as a fuel, as well as a raw material for basic chemical products, is about 1.7 million tons. Japan depends entirely on import to meet its demand for methanol, of which nearly 90% comes from the top three countries. Because it is crucial for Japan to diversify its sources to ensure a stable supply of methanol, this is an immensely significant project in which Japanese companies are directly investing in the production and sale of methanol.

An article related to this project was published in the morning edition of The Nikkei on September 2, 2015.

—What kinds of chemical products are methanol and dimethyl ether?

▸Ito Methanol is mainly produced from natural gas and is used as a raw material for a wide range of chemical products, such as adhesives agents and synthetic resins, as well as gasoline additives and fuel for fuel cells. Dimethyl ether, which is produced from methanol, is used as an aerosol agent in spray cans. Recently, it is also attracting attention as a next-generation clean energy as a substitute for liquefied petroleum gas (LPG) and diesel fuel.

—It is not well known that Trinidad and Tobago is rich in natural resources.

▸Ito With its large gas fields, Trinidad and Tobago is one of the world's leading producers of natural gas and one of the world's top 10 exporters of liquefied natural gas. Currently, the government of Trinidad and Tobago is actively promoting downstream businesses to diversify the use of natural gas and increase its added value, and is therefore operating many plants that produce methanol and ammonia domestically. This project is consistent with such policy, and the government of Trinidad and Tobago has high expectations for it.

In the summer of 2014, Prime Ministry Shinzo Abe visited Trinidad and Tobago, becoming the first Japanese prime minister to do so. At the summit meeting, the prime minister of Trinidad and Tobago expressed his expectations for the project. We believe that the participation of a Japanese policy-based financial institution like JBIC helps to strengthen relations between the two governments.

—What difficulties did you face in organizing the project financing?

▸Ito We received a request for project financing at the end of 2013. We have provided project financing to methanol plants in Venezuela and Brunei, but never to Trinidad and Tobago. In addition, the government of Trinidad and Tobago had no experience in such project finance, so we had to explain how project finance works from scratch. Concrete negotiations started around the summer of 2014.

In project financing, stability of the project is essential. In the petrochemical industry, in particular, it is indispensable to secure the supply chain from raw materials to finished products. In other words, a stable supply of gas to the plant is needed to produce methanol, earn profits, and repay the loan. Therefore, the key issue in organizing project financing for this project was how the lender could ensure a stable supply of natural gas. The lenders, sponsors and the government of Trinidad and Tobago discussed various possibilities. We went to Trinidad and Tobago several times and held persistent negotiations, and finally succeeded in drawing up a scheme that was acceptable to all the parties involved. Moreover, we needed to figure out a way to convince them to use the English law, which is one of the standard governing laws in project financing and international financing, because Trinidad and Tobago strongly wished to use its domestic law as the governing law of the contract. In such ways, we solved difficult problems one by one and finally reached an agreement on a rough outline of the financing around July 2015.

We then negotiated the detailed wording of the agreement, but a national election in the country was scheduled for September 7, 2015. The government insisted on signing the contract before the election because of a possible change of cabinet members and delays in administrative work due to the handover. Everyone involved worked hard to do what was necessary to agree on the contract contents, which led to the formal signing of the contract on September 2, 2015 before the election.

—Will this project help Japanese companies expand to Trinidad and Tobago in the future?

▸Hiramoto Trinidad and Tobago has a high credit rating and good access to Western countries besides being an English-speaking country and having large reserves of natural gas. This excellent business environment offers high potential for projects in which Japanese companies can be involved. As Japan's policy-based financial institution, we will continue to support projects involving Japanese companies in Trinidad and Tobago in the future.

● Masahiro Ito

Deputy Director
Division 1
Oil and Gas Finance Department
Energy and Natural Resources Finance Group

● Hideki Hiramoto

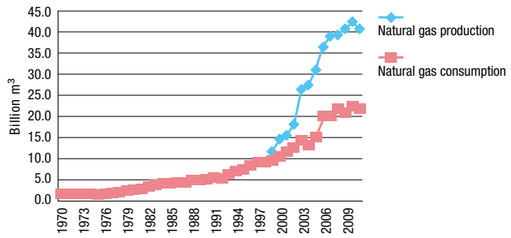
Deputy Director
Division 1
Oil and Gas Finance Department
Energy and Natural Resources Finance Group

■ Ratios of industrial added value to GDP (141 countries)

Rank	Country or region	Ratio of industrial added value to GDP	Deviation	Evaluation
1	Puerto Rico	93.108%	98.6	S
2	Brunei Darussalam	71.080%	81.9	S
3	Gabon	64.021%	76.6	S
4	Azerbaijan	63.052%	75.9	S
5	Saudi Arabia	60.619%	74.1	S
6	UAE	60.488%	74.0	S
7	Angola	59.057%	72.9	S
8	Trinidad and Tobago	57.397%	71.6	S
9	Algeria	48.514%	64.9	A

Source: Compiled from ratios of industrial added value to GDP 2012 released by the World Bank

■ Natural gas production and consumption of Trinidad and Tobago



Source: Compiled from BP Statistical Review of World Energy June 2012