

INTERVIEW

Project Financing for LNG Project in Indonesia

Supporting an LNG Project Led by Japanese Companies in which Three Asian Countries are Collaborating

Interview with Deputy Director Satoshi Ikehara and Deputy Director Kojiro Nakao, Division 2, Oil and Gas Finance Department, Energy and Natural Resources Finance Group

In November 2014, JBIC signed a loan agreement, in project financing, totaling up to about USD763 million (JBIC portion) with PT. Donggi-Senoro LNG (Donggi-Senoro) in Indonesia, a company invested in by Mitsubishi Corporation (the largest shareholder at 44.9%), Korea Gas Corporation (Korean Gas), PT. Pertamina (Persero), the state oil company of Indonesia, and PT. Medco Energi Internasional Tbk, an Indonesian company. In this project, Donggi-Senoro will construct and operate a liquefied natural gas (LNG) plant in Sulawesi Island and sell over 60% of the LNG produced there to Japanese electric power companies.



Deputy Director Ikehara



Deputy Director Nakao

Indonesia, formerly the Largest LNG Exporter to Japan

Sulawesi Island is a “K” shaped island north-east of Java Island where Jakarta, the capital of Indonesia, is located. A LNG plant which is the first joint project by Indonesia, Japan and Korea, is about to commence operation in the center of the eastern coast of Sulawesi Island. The project involves the construction and operation of the plant by Donggi-Senoro, with 2 million tons of LNG being produced annually from natural gas received from two small and medium-sized gas fields in Sulawesi Island.

“JBIC has been financially supporting Indonesia’s LNG development. Natural gas is an important resource used for power generation and city gas, and especially after The Great East-Japan Earthquake, the ratio of natural gas utilized for power generation in Japan has increased rapidly to over 40%. Until the early 2000s, Indonesia was the largest exporter of LNG to Japan, providing over 40% of total Japanese LNG imports, but this had decreased to 7.2% in 2013, the 5th import share by country, as the government of Indonesia gave priority to domestic consumption to foster domestic industries. Under these circumstances, this project is very important in helping to secure a stable supply of natural gas to Japan.” Ikehara explains the background.

Responding to Business Model of Upstream and Midstream Separation

JBIC received a request for the formulation of project financing in March 2011 when the project structure became concrete.

“Generally speaking, an LNG development project consists of a value chain of upstream gas field development, midstream liquefaction, and downstream transportation and sales. The uniqueness of this project is that the direct loan is only being made to the midstream project, as upstream and midstream are separated. It was necessary to discuss and reflect risk mitigation clauses in the agreement upon evaluation of upstream risk which is not directly subject of the loan.” Ikehara explains.

In this project, the plant operation will be led by a Japanese company as well as constructed by a Japanese company with a track record of building plants, and there will be no major issues as Japanese electric companies and Korean Gas will be off-taking the product downstream. The point was to obtain the support of a sponsor of the upstream gas field development to secure a stable long-term supply of natural gas.

“Four companies which invested in Donggi-Senoro are also involved in the upstream gas fields that will be feeding natural gas, but the upstream is operated by other companies. The management of the upstream and midstream is separated. In this case, where JBIC provides the loan to the midstream LNG project on a project financing base, it was necessary to include a risk control structure in the loan agreement, assuming the case of



gas shortage from upstream. The negotiations were difficult and the documentation became very complicated since this is the first LNG project in Indonesia to adopt the separate upstream and midstream development model. Furthermore, Indonesia’s political risk became a very important point to consider, as the project extends for a long term.” Nakao looks back.

“In February 2010, JBIC started the framework of policy dialogue with the government of Indonesia for comprehensive discussion of priority areas and various issues of individual projects with high priority that JBIC supports. Since then, JBIC and the Indonesian government held a policy dialogue every year and have built a close relationship through providing long-term support to LNG development. Through this relationship with the Indonesian government, JBIC is expected to play a role in reducing the political risk.” Ikehara says.

“It took a long time for the consultations with the sponsor side and the negotiations with the Indonesian government, but JBIC was finally able to realize the signing of the loan agreement in November 2014 after tenacious coordination between the sponsor and lender by Donggi-Senoro, agents and lawyers.” Nakao looks back.

Looking Forward

“Another unique aspect of this project is that this is an “all-Asia” project managed by Indonesia, Japan and Korea, without the participation of experienced international majors although they often lead in oil and gas development projects. While easy-to-develop oil and gas fields disappearing globally, a wider variety of financing is expected with an increasing number of projects that are harder to develop and commercialize with small and medium scale, deep water, unconventional and with high political risk. In this project, the unique aspect is the separation of upstream and midstream. In the future, JBIC will respond to such challenging projects in which Japanese companies participate.” Ikehara explains.

“This was my first LNG project financing experience, and I would like to continue my work on other project financing, making use of this experience in the future.” Nakao adds.

Donggi-Senoro LNG plant is expected to commence operation and send its first shipment to Japan in 2015.

Project Financing for Donggi-Senoro LNG Project

JBIC signed in November 2014 a loan agreement totaling up to about USD763 million (JBIC portion) with PT. Donggi-Senoro LNG (Donggi-Senoro), an Indonesian company invested in by Mitsubishi Corporation, Korea Gas Corporation, PT. Pertamina (Persero), the state oil company of Indonesia, and PT. Medco Energi Internasional Tbk., an Indonesian company. The loan is cofinanced with private financial institutions, including The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, and Korea Exim Bank (KEXIM), with Nippon Export and Investment Insurance (NEXI) providing insurance and KEXIM guaranteeing part of the portion cofinanced by private financial institutions.

(Reference)

Loan for Upstream Senoro-Toili Natural Gas Field Development Project

JBIC signed two loan agreements totaling up to USD58.8 million and USD254.9 million (both denote JBIC portions), respectively, with Mitsubishi Corporation to finance necessary funds for the development of the upstream Senoro-Toili natural gas field that will feed the Donggi-Senoro LNG project. The loans were cofinanced by private financial institutions.