

INTERVIEW

Supporting Expansion of Integrated Oil Refinery and Petrochemical Plant in Saudi Arabia

Providing Project Financing Following Phase I

Interview with then Deputy Director Yoshihiro Uematsu, Yuma Kobayashi and Takumi Maekawa, Division 2, Corporate Finance Department, Industry Finance Group



Deputy Director Uematsu



Mr. Kobayashi



Mr. Maekawa

Project Financing for the Expansion of the Rabigh Integrated Oil Refinery and Petrochemical Plant Phase II

In March 2015, JBIC signed a loan agreement totaling up to USD1,998 million (JBIC portion) with PETRO Rabigh, a Saudi Arabian company, in project financing, for the expansion of the Rabigh Integrated Oil Refinery and Petrochemical Plant (Rabigh Phase II Project), in the Rabigh district on the west coast of the Kingdom of Saudi Arabia. This loan is cofinanced with private financial institutions, including Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited, and The Norinchukin Bank, and also Public Investment Fund (PIF), a public institution of Saudi Arabia (reaching an overall cofinancing amount of USD5,168 million).

In this project, PETRO Rabigh, a joint stock company in which the primary shareholders are Sumitomo Chemical Company, Limited (Sumitomo Chemical), and Saudi Arabian Oil Company (Saudi Aramco), is expanding the existing Integrated Oil Refinery and Petrochemical Plant (Rabigh Phase I Project) and is manufacturing high value-added petrochemical products, whose delivery and sales are performed by Sumitomo Chemical and Saudi Aramco, in principle.

In March 2006, JBIC also signed a loan agreement in project financing amounting to USD2,500 million with PETRO Rabigh for the Phase I Project.

Further Expansion of the One of the World's Largest Petrochemical Plants

The Rabigh Integrated Oil Refinery and Petrochemical Plant is one of the world's largest plants built by PETRO Rabigh, a joint stock company whose the primary shareholders are Sumitomo Chemical Company, Limited (Sumitomo Chemical) and Saudi Arabian Oil Company (Saudi Aramco), situated in the Rabigh district on the west coast of Saudi Arabia. In 2006, JBIC provided a project financing loan amounting to USD2,500 million (JBIC portion) to PETRO Rabigh, and in May 2010, the plant (Rabigh Phase I Project) commenced its operation.

"Saudi Arabia is the largest supplier of crude oil to Japan, comprising approximately 30% of Japan's total imports. In order to strengthen our country's relationship with oil supplying countries such as Saudi Arabia, the Japanese government has been promoting foreign diplomacy to develop comprehensive and mutually beneficial bilateral relations that extend beyond simple resource transactions. Also, this project is in line with Saudi Arabia's national policy of diversifying its petrochemical industry by inviting foreign capital, and in turn will help to free the Saudi Arabian economy from oil dependency and generate domestic employment. The Rabigh project is a pioneering and iconic project that will lead to the strengthening of the multifaceted relations between Japan and Saudi Arabia," Deputy Director Uematsu explained regarding the background of the project.

He added, "This time, Phase II is aimed at manufacturing high value-added petrochemical products upon the expansion of the plant. Although this expansion was originally anticipated, the details were only announced in the spring of 2012 when Phase I was completed, and JBIC received a request for the concrete project financing formulation. JBIC proactively cooperated with the project, which led to the strengthening of relations between the two countries and the supporting of Japanese companies, despite many difficult issues."

"For Phase I, JBIC provided the largest project financing amount (USD2,500 million) as the petrochemical project. In order to provide further project financing for Phase II, in addition to that for Phase I which has not yet been fully repaid, the biggest issue was the structuring of an appropriate security package. Although there are the same cases in IPP projects, this was the first case for a petrochemical plant with a variable business environment. Phase I still had many issues including initial troubles regarding its stable operation, and there were significant issues such as the system integration of Phases I and II, the securement of stable and long-term supply of raw materials, and the sales prospects of the products," recalled Deputy Director Uematsu, and Kobayashi, who had worked on building the framework of basic conditions about finance documents.

Deputy Director Uematsu and Kobayashi read the business plan carefully, referring to the opinions of experts such as technical consultant, proceeded with the negotiations with bank syndicates and investors, taking business trips to Saudi Arabia and having direct hearings with PETRO Rabigh and Saudi Aramco, and worked on the structure of "a strong security package."

JBIC signed, in March 2015, a loan agreement totaling up to USD1,998 million (JBIC portion) with Rabigh Refining & Petrochemical Company (PETRO Rabigh), a Saudi Arabian company, in project financing, for the expansion of the Rabigh Integrated Oil Refinery and Petrochemical Plant (Rabigh Phase II Project). The overall cofinancing amount reached USD5,168 million.

The loan is intended to support the expansion of the existing Integrated Oil Refinery and Petrochemical Plant and the manufacture and sales of high value-added petrochemical products by PETRO Rabigh.



Aiming to Contribute to a National Project and Supporting the Friendship between Japan and Saudi Arabia

Maekawa took over from Kobayashi and joined the project at the documentation stage.

"The most important task was to confirm the operational framework. We worked on finalizing the contracts, considering countermeasures against all the possible problems and confirming the investors' commitments concerning the progress. We examined a wide variety of considerations including the market outlook of petrochemical products, as well as the product sales structure, and reflected them in the contracts."

After such tough negotiations, in March 2015, the project financing loan agreement was finally signed for Phase II.

"This was my first project finance deal, and I felt a great responsibility in taking a charge of such a large project as this - a national project of Saudi Arabia. In fact, I am very happy with the successful completion of this project, despite the series of very tough negotiations it required," Maekawa said. Kobayashi also added, "The project provided me with very useful experience for participating in the important stage of formulating the basic framework of Phase II."

Taking Advantage of Experience in Project Upsizing

In recent years, ultra-large-scale project financing projects in excess of USD10 billion are increasing in line with project upsizing. For this project, the role of the public financial institution was very important due to not only the large size of the loan amount, but also the geopolitical risk unique to the Middle East region. This loan format, which provides additional project financing based on the existing project financing, is rare and complex in structure, especially in the petrochemical sector, and the project financing formulation was challenging.

"This will contribute to the diversification of Saudi Arabia's industries and generate employment, and at the same time, it's expected to maximize the profitability of Japanese companies by making use of the company's cost competitiveness and economies of scale. There are many other large national projects planned in Saudi Arabia, and JBIC will continue to support Japanese companies' participation in such projects, taking advantage of its experience and track record gained through this project," Deputy Director Uematsu commented regarding the future.



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