

INTERVIEW

Project Finance for Copper Mine Expansion Project in Chile

Supporting Japan's Long-term and Stable Procurement of Copper Resources

Interview with **SASAKI Kota**,
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(Photo) Centinela copper mine (source: website of Marubeni Corporation) — A new mining site will be developed adjacent to this mine, with the construction of facilities such as concentrator plants.

The Japan Bank for International Cooperation (JBIC) signed in March 2024 a loan agreement with Chilean corporation Minera Centinela (Centinela), which is invested in by Marubeni Corporation (Marubeni). JBIC will provide project financing amounting up to USD950 million (JBIC portion) for an expansion project of the Centinela copper mine. The loan is co-financed by Export Development Canada, Export-Import Bank of Korea, KfW IPEX-Bank, and several private financial institutions including Sumitomo Mitsui Banking Corporation. The total co-financing amount is USD2,500 million.

Supporting Development of New Mining Site

Demand for copper has been increasing globally as an indispensable metal for electric vehicles as well as renewable energy facilities and equipment. This trend is also predicted to accelerate due to increasing demand from AI and data centers. On the other hand, there are concerns about medium- to long-term copper supply shortages because an increasing number of new sites are developed in higher elevations or more remote areas, and the ore grade in existing mines is decreasing. Since Japan relies solely on imports for copper concentrates, securing a long-term, stable supply of copper resources is an urgent challenge. Based on such situations, the government of Japan released the Strategic Energy Plan in October 2021. The plan set the goal of achieving at least 80% self-sufficiency by 2030 for base metals, including copper, and established the policies to strengthen support for Japanese refineries to reduce the procurement risk of ores and to build resilient supply chains. This loan is provided for a project in which Centinela, an investee of Antofagasta plc (Antofagasta) of the UK and Marubeni, will develop a new mining area at the Centinela mine in Chile, constructing and operating concentrator plants and associated facilities. With this expansion, the mine is expected to add 140,000 tons of copper production per year, entering the top 15 copper mines in the world.

Leveraging JBIC's Loan to Secure Offtake of Copper Concentrate for Japanese Companies

It all started in early 2020 when Marubeni approached JBIC regarding a project finance (PF) loan. JBIC had provided a loan in 2009 for the development project of the Esperanza copper mine (a predecessor of the Centinela copper mine), in which Marubeni participated. JBIC started considering this expansion project seriously in July 2022, believing that providing continued support would help secure the long-term and stable supply of copper deposits. Since the late 1990s, Antofagasta and Marubeni have been working together not only at the Centinela mine but also at the Los Pelambres and Antucoya copper mines. JBIC has provided PF loans to all of them.

Antofagasta is an important partner for Japan in terms of securing stable supply of copper resources. JBIC has built a favorable relationship with it through high-level exchanges. Meanwhile, the sales to Japan of copper concentrate produced from the current operation at the Centinela mining site have been declining in recent years. Additionally, the increased output from this expansion project was not initially intended for offtake by Japanese companies.

"The global supply and demand for copper is tightening. As a result, competition for copper concentrate supply sources is becoming increasingly intense. Against this backdrop, we had to

structure an attractive financing arrangement for a resource provider by taking risks more aggressively and use it as leverage to secure offtake for Japanese smelters. Additionally, having highly creditworthy Japanese companies as off-takers enhances the stability of the project's cash flow. We tenaciously approached Antofagasta for almost one year, including executive-level meetings. As a result, we achieved a long-term offtake agreement for Japanese companies," SASAKI explains.

The negotiation went smoothly from the start, since JBIC has a long history of providing PF loans for Chilean copper mine development projects and track records of collaboration with the foreign public financial institutions participating in this project.

"I have experience in project financing for a solar power generation project and a wind farm project. However, this was my first resource project. There are significant differences in risk profiles of PF projects between the power sector and the natural resource sector. While the former is expected to generate stable cash flow, the latter requires proper risk allocation due to its broader operational risks, including price risk. Therefore, in the natural resource sector, sponsors take on risks by investing relatively large amount of funds. Also, in Chilean copper mine projects, it is common to make the contractual constraints more flexible compared to those in other sectors, respecting the creditworthiness of proven sponsors. Recognizing the backgrounds as above and specific factors, such as the Centinela mining project being a brownfield development with cash flow from the existing operation, and the changing external environment surrounding copper, we tried to check whether the financing conditions were reasonable. We did this from scratch, evaluating each condition individually, rather than just following the conditions of past projects."

In September 2023, SASAKI accompanied Governor HAYASHI, inspecting the existing site and the new development site of the Centinela mine. The mine achieves environmentally friendly and sustainable copper production by relying entirely on renewable energy for electricity and utilizing seawater for operational water. Additionally, safety and productivity are actively enhanced through measures such as the introduction of Japanese autonomous haulage dump trucks. It also obtained the Copper Mark certification (a framework established by the International Copper Association to demonstrate the industry's responsible production and contribution to the SDGs) in July 2021. Observing the operation of the existing site firsthand, including their environmental considerations, and gaining a deeper understanding of their technologies were helpful in conducting due diligence," SASAKI remarks.

By October, contract negotiations and due diligence were in the final stages, which resulted in the signing of the loan agreement in March 2024. SASAKI recalls that time: "Since this contract will serve as a precedent for similar future deals, we meticulously adjusted the detailed financing terms to the very end without any compromises. Until just a few days before the scheduled signing date, we engaged in direct negotiations with Antofagasta's CFO and Finance Director. There was even a moment when we asked them to provide additional information necessary for the review, and promptly acted on it. During that time, we tried to respond reasonably and sincerely from their perspective, and to communicate the background and purpose of our requests with transparency. Thanks to such efforts, we were able to find a mutually acceptable compromise in the end, even though the negotiations were at the last minute with the deadline rapidly approaching."

SASAKI, who also belongs to the Energy Transformation Strategy Office, hopes to leverage this experience to support hydrogen-related projects as well.