

# Learning the Way of Business in Arab World – Ethos of Insha’Allah

Sheikh Zayed Grand Mosque in Abu Dhabi

Understanding the unique culture of the Arab world is one of the keys to successful business with the Arabs. Mr. Kuwahara from JBIC’s Representative Office in Dubai introduces the secrets of building relationships in the Arab business world.

Ryo Kuwahara  
Representative in Dubai



Arabs have many customs based on the Islamic beliefs, including daily prayers and Ramadan. The customs that foreigners like myself struggle with the most when trying to do business with Arabs is that it is extremely difficult to set appointments with them, far more than typical Japanese would expect. It is of course understandable that it takes a while for ministers and executives of government agencies to fix their schedules because they lead busy lives. But in the case of Arabs, it is not uncommon that neither their secretaries nor they themselves know their schedules until the very last minute. When one wants to make appointments with Arabs, he or she may have to be very persistent in approaching them, using any means one can think of – phone, email, mobile SMS, social media, mutual acquaintances, etc.

Even if appointments are successfully made, they are sometimes postponed on short notice, or guests are greeted by deputies when they arrive at the meeting place. When we have business trips to the Middle East, we always have to make sure to have some leeway in the itinerary given the possibility of not meeting the person we flew to meet.

A phrase “Insha’Allah” is frequently heard when having conversations with Arabic people. When reminding them of appointments, the phrase, “Insha’Allah” is almost always given as an answer. This translates as “if God wills,” but what they mean in this situation is, “only God knows whether this promise will be fulfilled” – an ambiguous phrase which may leave foreigners puzzled whether to take it

positively or negatively. There is even a phrase to imply the difficulty of doing business in the Arab world – Arab’s IBM: I for Insha’Allah, B for “Bukra” (Tomorrow), and M for “Malesh” (Never mind).

This leads some people to complain that Arabs are uncandid, and, being a little impatient myself, I have to admit I sometimes feel the same. But likewise, I noticed that Japanese also have a culture that favors ambiguous phrases – “I will give it consideration” or “we will try our best” – as an indirect message implying “No.” By reflecting on one culture, we can put the other cultures into perspective. Insha’Allah is probably somewhat similar to the phrases Japanese use in the way that they are rooted in the local society and beliefs.

For example, the difficulty of making appointments could be understood by taking into account the Arabic culture that puts a premium on face-to-face conversations with visitors. Originally desert-inhabiting Bedouins, Arabs value harmony and communication within their tribe. They have the custom of meeting in *majlis* (assembly) to have *shura* (consultation), in which decisions are made while listening to opinions of others, as advised in the Quran. Coupled with the teachings of Islam that encourage hospitality to pilgrims, that is, travelers, Arabs delay their response to appointment requests until the last minute to avoid declining the visits. It may be this combination of the Arab culture and customs that is creating the impression of hesitation to commit to appointments.

Last-minute change of time for appoint-

ments and deputies is also understandable taking into account the Arabian social structure. Most of the Arab countries are under imperial rule or are centrally-governed, so calls from royalty or the president on other seniors inevitably becomes the top priority for most Arabic people, regardless of prior engagements. Nevertheless, Arabs still wish to make the most of the meetings with visitors who made the journey, so they request to change the appointment time on the day or send their deputies to meet with the visitors. Such quirks of fate seem to be all interpreted as “Insha’Allah” – what God wills.

It goes without saying that whenever one intends to do business with someone from an Arabic area or any other culture, one needs to have a flexible mindset and not necessarily expect them to follow one’s business culture. In oil producing countries of the Middle East, I believe that one of the keys to successful Arab businesses is to understand the ethos of Insha’Allah.



Night view of Burj Al Arab Hotel

# JBIC Today

Japan Bank for International Cooperation

Special Feature

## Towards New Relations between Japanese Companies and Middle Eastern Oil Nations

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SPOTLIGHT

### Learning the Way of Business in Arab World – Ethos of Insha’Allah



An aerial photograph of a modern city skyline, featuring several prominent skyscrapers and a dense urban landscape. The text is overlaid on the image in a large, white, serif font with a black outline.

# Towards New Relations between Japanese Companies and Middle Eastern Oil Nations

Oil prices hit a historic high of USD145 per barrel in July 2008 and then plunged to USD33 in December of the same year due to the financial crisis. Despite some recoveries, they remained around USD50 per barrel as of the spring of 2017 and have been greatly affecting the finances of oil-producing countries in the Middle East. Against the backdrop of low oil prices, oil-producing countries have started turning to new policies for developing a country, assuming that the current level of oil prices becomes “the new normal”. In particular, countries in the Middle East, which are actively trying to break away from their dependence on oil by diversifying their industries, have high expectations for foreign countries including Japan to create business opportunities and bring in technological and financial capabilities. Will the changing environment and growing expectations for cooperation from Japan bring new business opportunities?



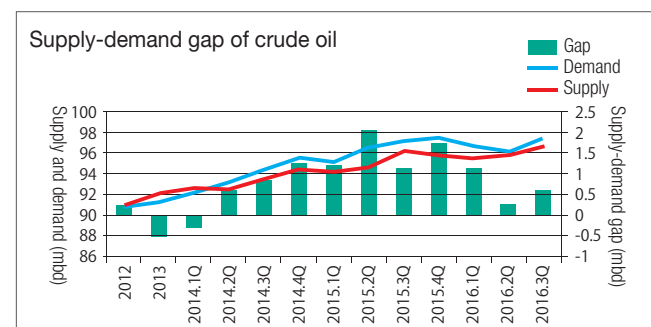
**Naoki Tamaki**  
Chief Representative  
in Dubai

## Impact of low oil prices on financial standing of oil-producing countries in the Middle East

—How are the oil-producing countries in the Middle East being affected by stagnant oil prices?

**Tamaki** Each country is suffering from the deteriorating financial condition. Oil prices have been stagnant since the end of 2014 because of the slowing world economy and supply-demand gap caused by the glut, although oil prices recovered to the current level thanks to an agreement on production

cuts reached by Russia and the Organization of Petroleum Exporting Countries (OPEC) in November 2016. Prices have remained around USD50 as of the spring of 2017, in line with the Trump administration's policy of promoting the development of shale oil. Informed sources give various predictions for the trend of oil prices, but many oil-producing countries foresee oil prices gradually rising amid the slow shift to electric vehicles and increasing demand for petrochemical



Source: Compiled by JBIC Representative Office in Dubai from the sources of IEA and EIA

products. However, they all seem to agree that oil prices are unlikely to return to the USD100 level enjoyed by oil-producing countries in the past. In fact, most member countries of the

Gulf Cooperation Council (GCC)<sup>Note</sup> now use lower oil prices than in previous years when drawing up their budgets. Lower oil prices mean lower revenue in each country, which cannot be sufficiently offset by reducing expenditure.

—What measures and policies are oil-producing countries in the Middle East taking to balance their finances?

**Tamaki** Taking the current situation as an opportunity for reform, they have started to introduce a value added tax (VAT) and to cut subsidies to increase revenues. Moreover, GCC countries except Bahrain started to issue government bonds in 2016 by utilizing the room for borrowing. They appear determined to adjust to the new normal, if necessary, by drawing down the assets of government funds.

(Note) The six GCC countries are Saudi Arabia, Bahrain, Kuwait, Qatar, United Arab Emirates (UAE), and Oman.

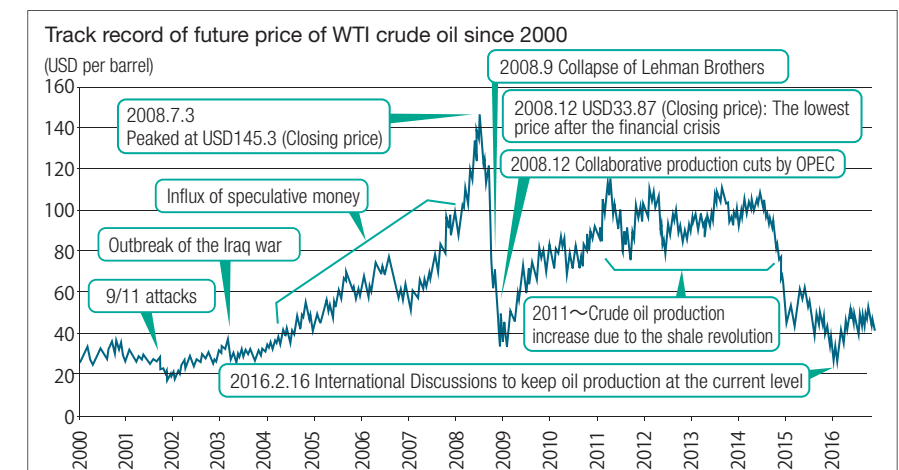
## Drastic change of policy to reduce dependence on oil

—Please give a general picture of the situation in the Middle East.

**Tamaki** Iran has been increasing its global presence since the easing and elimination of sanctions as a result of the nuclear deal. However, Saudi Arabia severed diplomatic relations with Iran, supposedly to show its strong stance toward Iran, which is increasing its presence, to the Saudi Arabian people. If the confrontation between the two countries worsens and the Strait of Hormuz is blocked, Japan would suffer as energy exports to Japan would stop. However, the Strait is unlikely to be blocked because it would also damage economic activity in Iran and GCC countries including Saudi Arabia.

—How about the politics and economies of other GCC countries?

**Tamaki** The GCC countries enjoy high income, but they are still developing in terms of industry and require further infrastructure development and more investment. The countries follow Dubai as a role model for nation-building and are drawing up visions to diversify their economies and reduce dependence on oil. They are planning to invest in fundamental fields for nation-building such as education and medical services, and to focus on renewable energies



Source: Compiled by JBIC Representative Office in Dubai from the sources of IEA and EIA

such as photovoltaic power using their geographical characteristics. In particular, they are planning to increase GDP by focusing on downstream industries like oil refining and petrochemicals besides upstream industries. These visions, led by the kings, are unopposed by the people and are unlikely to be canceled because these industries are vital for fundamental infrastructure and for supporting people's daily lives.

Among these visions, “Saudi Vision 2030”, which is the medium-term national vision of Saudi Arabia, is attracting attention in Japan. Assuming the new norm of oil prices remaining low for some time, the vision aims to depart from being an oil-dependent economy by 2030 and to diver-

sify the economy by investing actively in manufacturing and logistics. Taking the opportunity of King Salman's visit to Japan in March 2017, Saudi-Japan Vision 2030, which calls on Japan to cooperate actively with Saudi Arabia, was published, offering many business opportunities to Japanese companies.

—Do you see any changes in infrastructure projects amid low oil prices?

**Tamaki** The financing proposals are requested more frequently in the tendering stage of engineering, procurement and construction (EPC). Oil-producing countries wish to carry out projects such as infrastruc-



ture development not with government funds but through public-private partnerships (PPP) where private companies and financing is mobilized for the provision of public services. The greater number of PPP projects offered, the more opportunities there will be for Japanese companies to

participate in such projects. To take advantage of these opportunities, we will actively support projects in which Japanese companies participate by providing know-how and helping them build structures using our financing expertise.

## Expected contribution of Japanese technology to Middle Eastern oil nations

### —What fields are promising for private companies in the future?

**Tamaki** Electricity and water infrastructure are the area that have good business opportunities for private companies. It is impossible to substantially diversify a country's industry without these well-organized infrastructures. We believe that Middle Eastern countries including GCC have high expectations for Japanese technology. However, because companies from other countries participate in tenders and some have strong business links in the Middle East, it is more important for Middle East and GCC to see the ability to supply electricity and water at low rates using state-of-the-art efficient plants and competitive financing. Oil-producing countries in the Middle East are all keen to diversify industry by promoting the construction of oil refinery plants and expanding manufacturing and sales of petrochemical products in the oil industry, and then diversifying into manufacturing industries like the auto industry in the future.

### —Highly skilled professionals are vital for industrial diversification. Are there any fields in which Japanese companies can contribute to human resource development?

**Tamaki** Qatar, for example, enjoys a high GDP on purchasing power parity of 130,000 dollars, which is about three times that of Japan, and it is currently focusing on education and medical services in addition to information technology. However, it lacks highly skilled professionals in such fields domestically and is currently recruiting human resources and technologies from various western countries.

Oil-producing countries in the Middle East including Qatar are strongly motivated

to improve their countries and acquire excellent technologies using foreign capital. They open their doors widely to foreign capital and offer many opportunities for working with them on human resource development. Now is the time to establish mutually beneficial bilateral relations with them in diverse fields including politics, economy, culture, and human exchange in addition to technical cooperation.

The “Saudi-Japan Vision 2030” released on the occasion of the King Salman's visit to Japan in March 2017 describes a policy of providing technical cooperation in electricity, sharing experience in the medical field, and dispatching professionals in the education sector. I hope these will promote creation of enabling environment for Japanese business deployment in Saudi Arabia.

### —How will JBIC become involved in the Middle East in the future?

**Tamaki** Out of JBIC's total commitment of JPY2.4 trillion (about USD 21.2 billion) for fiscal 2015, approximately JPY400 billion (about USD 3.5 billion), nearly 20%, is for the Middle East. Projects for the Middle East are typically very large, and oil & gas, power generation and desalination are the three largest sectors in terms of cumulative commitments. We support Japanese companies utilizing our extensive networks, our capabilities to provide information and our leverage with international key-players as a policy-based financial institution. With the transformation and diversification of the industries of oil-producing countries in the Middle East, we wish to help Japanese companies actively develop new opportunities, such as expanding exports and establishing manufacturing and business bases in the Middle East, while expanding financing to the manufacturing industry.

## Visions of the Middle Eastern countries and major JBIC-supported projects

### Kuwait

#### National vision

##### Kuwait Vision 2035

▶ Aiming to strengthen the democratic system as well as implementing such economic policies as improving infrastructure and the business environment, privatizing state-owned companies and increasing revenues from the non-petroleum business.

#### JBIC-supported projects

• Az-Zour North Power and Desalination Project



### Bahrain

#### National vision

##### The Bahrain Economic Vision 2030

▶ Aiming to create a private-sector-led economy based on sustainability, competitive edge and impartiality.

#### JBIC-supported projects

• Al Hidd Independent Water and Power Producer Project



### UAE

#### National vision

##### The UAE Vision 2021

▶ National strategy aiming to make the UAE one of the most innovative countries in the world.  
▶ Focusing on renewable energy, transportation, education, healthcare, technology, water and the space industry.

### Abu Dhabi

##### The Abu Dhabi Economic Vision 2030

▶ Promoting the diversification of industry and aiming to reduce the share of the oil and gas sectors in GDP to 36% by 2030.  
▶ Aiming to achieve annual economic growth of more than 7.5% to increase its GDP by more than five times, to USD400 billion, from 2008 to 2030.

### Dubai

##### Dubai Plan 2021/2030

▶ The economic development strategy focuses on the economy and finance sectors drawn up on the basis of the UAE Vision 2021.

#### JBIC-supported projects

• Loan for Renewal of an Oil Field Interest in Abu Dhabi  
• Investment in an Integrated Water Management Company Headquartered in Dubai  
• Loan for Abu Dhabi National Oil Company (ADNOC)  
• Manufacturing and sales of large-diameter welded steel pipes for oil/gas pipelines in Abu Dhabi  
• Development of new oilfield (Hail) in Abu Dhabi



Investment in an Integrated Water Management Company Headquartered in Dubai

### Qatar

#### National vision

##### Qatar National Vision 2030

▶ Aiming to develop the country to make it a sustainable advanced society by 2030.  
▶ To do this, the mission focuses on modernizing society with emphasis on four main pillars: economic development, social development, human resource development and environmental development, while maintaining traditions.

#### JBIC-supported projects

• Guarantee for Privately Placed Samurai Bonds Issued by Qatar Petroleum  
• Facility D Natural Gas-Fired Power Generation and Desalination Project



Facility D Natural Gas-Fired Power Generation and Desalination Project

### Saudi Arabia

#### National vision

##### Saudi Vision 2030

▶ Plans to depart from being an oil-dependent economy by 2030 and to diversify the economy by developing such sectors as investment, sightseeing, manufacturing and logistics.

#### JBIC-supported projects

• Export of a Supercritical Pressure Thermal Power Generation System Project  
• Expansion Project of Rabigh Integrated Oil Refinery and Petrochemical Plant  
• Manufacturing and Sales Business of Methyl Methacrylate Monomer and Poly Methyl Methacrylate Molding Materials  
• Titanium Sponge Production and Sales Business



Expansion Project of Rabigh Integrated Oil Refinery and Petrochemical Plant

### Oman

#### National vision

##### Oman Vision 2020

▶ Aiming to stabilize the economy and finances, expand the private sector, and to globalize and diversify its economy.

#### JBIC-supported projects

• Al Ghubrah Seawater Desalination Project





# Eyeing business opportunities with the UAE's industrial diversification

Japan has long been working on industrial diversification in these countries, with the United Arab Emirates (UAE) being a good example. The UAE, which took the initiative to reduce its dependence on oil, is developing well-balanced multilayered relations with Japan in such industries as infrastructure and manufacturing.

Noting the implications for other countries, we focus on the UAE's pioneering efforts for industrial diversification, business development by Japanese companies in the fields of energy resources, infrastructure and manufacturing, and how JBIC is supporting their efforts.

## National visions materializing in each emirate

Japan depends on imports for nearly all crude oil, with the UAE accounting for about 25% of total imports, second only to Saudi Arabia. Characteristically, it grants concession rights in oil fields to foreign companies, which is unusual for Middle Eastern oil-producing countries. The UAE is a very important partner for Japan beyond simply exporting oil to Japan.

The two emirates, Abu Dhabi and Dubai, jointly lead the economy of the UAE. The reserves of oil and gas in the UAE are mostly located in Abu Dhabi, but it formulated the "Economic Vision 2030" as early as in 2008 in pursuit of economic growth without dependency on oil exports through industrial diversification, and is now working hard to build such an economy. On the other hand, Dubai, which is not blessed with large reserves of oil and gas, has been focusing on improving vital infrastructure for economic activities including airports, ports and roads since the country was founded in 1971, in order to construct an economy independent of oil. Today, Dubai International Airport is one of the world's leading hub airports for international airlines, and the country is prospering as one of the leading financial centers in the Middle East.

## Constructing multilayered relations with the UAE

JBIC supports the endeavors of Japanese companies to construct multilayered relations between Japan and the UAE, and helps them to participate in projects that



Signing ceremony with Abu Dhabi National Oil Company (ADNOC)

help Japan to secure oil resources and the UAE's policy to diversify industry.

In August 2016, for example, JBIC provided a loan for the development of a new oilfield (Hail oilfield) off the coast of Abu Dhabi in which Abu Dhabi Oil Co., Ltd., which is wholly owned by Japanese companies, had acquired the concession rights. Because nearly all of the oil produced in the Hail oilfield (20,000 barrels per day) will be shipped to Japan, it will greatly contribute to Japanese efforts to secure oil resources. In addition, JBIC has extended four loans to Abu Dhabi National Oil Co., Ltd. (ADNOC) (JBIC's cumulative portion is USD8.4 billion) since 2007 to assist the stable import of crude oil. The loan to ADNOC is intended to support Japanese companies in renewing the concession rights in offshore oilfields held by Japanese companies and their efforts to acquire concession rights through good relations with the UAE, and thus help Japan to procure stable supplies of crude oil.

On the other hand, JBIC has been supporting the efforts of Japanese companies to participate in electricity infrastructure projects especially since the mid-2000s in response to growing electricity needs in line with rapid economic growth in Abu Dhabi. For example, in the Shuweihat S3 Natural Gas-Fired Combined Thermal Power Generation Project, Sumitomo Corporation, together with Abu Dhabi Water and Electricity Authority, etc., constructed and is operating a natural gas-fired combined thermal power generation plant with an output of about 1,600 MW and sells the generated power to Abu Dhabi Water and Electricity Company. JBIC has been supporting projects involving Sumitomo Corporation by providing project financing of up to USD400 million to the companies carrying out this project.

Meanwhile, in the manufacturing industry, the advanced manufacturing technologies of Japanese companies that have entered Abu Dhabi are warmly welcomed. For example, JFE Steel and Marubeni Itochu Steel established a



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Oil and Gas Finance Department  
Energy and Natural Resources  
Finance Group

joint venture company with a local company in Abu Dhabi, which is scheduled to manufacture and sell large-diameter welded steel pipes for oil/gas pipelines with a production capacity of up to 240 thousand tons per year. In February 2016 JBIC provided a loan to this joint venture company to assist the project (see the interview on page 7).

## UAE's new approach for building the "most innovative country"

Lately, there have been growing efforts to strengthen non-oil sectors in the UAE. To attract foreign capital, the country has set up free zones, permitted the establishment of companies wholly-owned by foreign direct investment, and approved corporate tax and income tax reduction or exemptions. It is also focusing on renewable energy, with a good example being Masdar City. The electricity used for air-conditioners and lighting in the city comes from renewable energy such as solar and solar thermal energy, etc., thus making good use of the long hours of sunlight. They have also already started working on completely eliminating carbon dioxide emissions.

As described above, the UAE is ambitiously diversifying its industries, and offers immense opportunities to Japanese companies. JBIC will continue helping Japanese companies to enter the market through new projects that meet the UAE's needs, while maintaining and strengthening relations with the UAE from the viewpoint of securing oil resources. At the same time, because other Middle Eastern oil-producing countries including Saudi Arabia are expected to promote industrial diversification as a policy in the future, JBIC backs up Japanese companies and helps them capture business opportunities in various industries and sectors through policy financing; the case of the UAE is a good example of this.

## Interview

# Establishing manufacturing and sales business of large-diameter welded steel pipes for oil/gas pipelines in Abu Dhabi, UAE

More and more Japanese companies are expanding business locally in the UAE, which is diversifying its industries. JFE Steel Corporation and Marubeni-Itochu Steel Inc. established a joint venture company, Al Gharbia Pipe Company LLC (AGPC), with Abu Dhabi's investment firm, General Holding Corporation PJSC/SENAAT (SENAAT), and will manufacture and sell large-diameter welded steel pipes for oil/gas pipelines in Abu Dhabi, with main operations scheduled to start in October 2018. In February 2016, JBIC signed a loan agreement totaling up to USD111 million with AGPC. Because development and production of oil and natural gas is expected to remain strong in the future in the Gulf countries, demand for high-quality steel pipes for pipelines is also expected to remain strong. We interviewed a General Manager of JFE Steel Corporation which started local production of high-quality steel pipes in the Middle East for the first time and a General Manager of Marubeni-Itochu Steel Inc. which is in charge of this project, who elaborated on the challenges and prospects for business development in Abu Dhabi.

## Bringing it local: manufacturing of high-quality high-strength steel pipes expected to remain in high demand

► Please describe the background of establishing JFE Steel's first production base in the Middle East.

**Mr.Anezaki** Demand for steel pipes for oil/gas pipelines has been solid in the Middle East, and large steelmakers from Europe and Japan enjoy a major share of production. In recent years, however, new steel manufacturers in India and China have improved their technologies to a level comparable with Japan in some product fields. Because India is geographically closer to the Middle East than Japan and can ship steel pipes at a lower cost, it has a cost advantage. Therefore, in order to increase cost competitiveness we decided to do bending work in Abu Dhabi utilizing high-quality steel plates produced in Japan to manufacture finished products. We consider that our production base in Abu Dhabi will become a bridgehead for exporting steel pipes to Gulf countries like Saudi Arabia and Kuwait.

► Please describe the importance of the Middle East for Marubeni-Itochu Steel.

**Mr.Kaneko** The Middle East is a very important region for trading houses, and we have held a large share in this area for over 10 years regarding steel pipes for pipelines. Especially, for high-quality large-diameter welded steel pipes like sour resistance line pipe (hydrogen sulfide crack resistant steel pipe), such as APIX 65-60 grade manufactured and sold by AGPC in this project, Japanese companies and some European companies still have a technological lead including thick plate, raw material for sour resistant pipe. We expect stable, strong demand for this product in the Middle East.

## Trending business model of producing locally and distributing to neighboring countries

► What is the difficulty for stable production of high-quality large-diameter welded steel pipes in Abu Dhabi?

**Mr.Anezaki** It is hot and humid in Abu Dhabi in summer. Because the environment in Abu Dhabi differs from that in Japan, we need to solve several technological problems associated with the manufacturing of materials featured by very sophisticated specifications. We are still working on the solution in collaboration with the research division of JFE Steel. In addition, site workers come from more than 10 countries including India and Pakistan, so it is important to secure the number and quality of workers. We are addressing these issues in cooperation with SENAAAT.

► Oil prices have remained low for a long time. Does this affect the local manufacturing and sales of steel pipes?

**Mr.Kaneko** In Abu Dhabi, the cost of developing oil and natural gas is low, so production is maintained even after oil prices fell. The five-year plan formulated by ADNOC sets a target for oil production at 3.5 million barrels per day by 2018 (Note: OPEC is currently taking measures to curb production). Demand for pipelines is expected to continue growing in the Middle East.

► How are JBIC's support and response evaluated?

**Mr.Kaneko** SENAAAT initially planned to procure funding through project finance. However, because of the attractive proposal for JBIC's investment financing, we were able to expand the scope of negotiations. Although we faced several issues on specific financing conditions, they greatly evaluated the merits of setting up a joint venture with Japanese companies with financing from JBIC. We are very grateful for the support of JBIC.



**Mr. Mitsuru Anezaki**  
General Manager  
Energy Industry Steel Products  
Export Dept.  
JFE Steel Corporation



**Mr. Yoshihisa Kaneko**  
General Manager  
International Trade Dept. I  
Tubular Products Div.  
Marubeni-Itochu Steel Inc.

► From the experience of having started local production ahead of other Japanese companies, please give some advice to Japanese companies planning to expand to countries in the Middle East including Abu Dhabi.

**Mr.Anezaki** In this project, we visited Abu Dhabi several times and talked with local partners. As a result, we found Abu Dhabi is very eager to diversify its industries and is interested in Japanese technology and know-how. Although we have had a few difficulties in negotiations, we can surely proceed with the project by explaining logically and with patience. The Middle East is a very promising market, and we look forward to growing business for processed products of steel plate, not only for pipelines but also for a wider range of industries.

**Mr.Kaneko** We expect that it will increasingly become the mainstream business model to process and manufacture in local plants and ship products to neighboring countries, like what our AGPC will do in Abu Dhabi. This is not limited to steel products. We think that the potentiality of business will grow bigger and broader in other industries, thus creating greater opportunities for Japanese companies.



# “The Daily Pursuit of the newie and the grandeur” Towards the next century

– Stepping Up to the World Arena with our label products

Reaching to the 90th anniversary in this year, Osaka Sealing Printing Co., Ltd. (OSP) is a mid-tier enterprise which is at the forefront of small-lot production and distribution of a wide variety of adhesive labels. The company boosted sales after obtaining a patent in 1961 for inventing stickers which were peeled off from the mount. Afterwards OSP has become the leading company in the adhesive label industry with establishing an integrated production system which includes a material paper production, package planning, design, and printing. For overseas business, OSP paved their way by establishing a material procurement base in New York State (U.S.) in 1995, and has ever since then steadily developed, setting up a sales office in Shanghai (China) in 2003 and a production base in Suzhou (China) in 2006. Then in 2014, the company opened OSP (THAILAND) CO., LTD. as a sales office in Thailand, where a production base, OSP LABEL (THAILAND) CO., LTD., was set up two years later. With its unique ideas, OSP continues to turn consumer needs, ever-changing with time and lifestyle, into business opportunities and is now stepping up into the global market for the next challenge.

### Winning trust from the market with the innovative production process and technology

OSP began broadening its playing field in the 1970s. This coincided with the emergence of hypermarkets, which drastically changed the retail business, where, until then, food and daily products had been sold directly to customers by privately-owned shops. President Mr. Matsuguchi looks back at the time: “private shops used to wrap fish, meat, or vegetables in used papers and hand their products to their customers, but at the hypermarkets where customers freely walk around, products need to be packed

and labeled with their names and prices. This helped the demand for adhesive labels to grow rapidly.”

The demand for the labels was boosted even further by the introduction of the POS (Point-of-sale) cash register system and barcodes for managing sales data. With a radical reform of the production process, OSP developed a system to meet small-lot orders and its own printer and automatic labeling machine, providing the service at a cost that would not be possible for its rivals. This mindset was the key to accelerating the growth. “In recent years, it has become an obligation for retailers to indicate not only the ingredients of processed food

but also where they are made and allergens. This has been a driving force for our growth.” Mr. Matsuguchi says that he sees the aging as well as the declining population in a different, more positive light. “While the population is shrinking, the number of households is growing due to an increase of single-person households and trend toward the nuclear family. More specifically, the increasing number of the elderly, the young who live alone, and working couples leads to more people having meals alone. One product that used to contain 400 grams is now sold at 100 grams per pack, and this has increased the demand for the adhesive labels.”



### Company Profile

Name	Osaka Sealing Printing Co., Ltd.
Established	1927
Incorporated	1954
Capital	324,439,200 yen
Executive Officer	Tadashi Matsuguchi, President
Business lines	Production and distribution of stickers, labels, processed films, and packages Manufacturing and distribution of label printer and automated labeling machines
Headquarters	1-8 Obasecho, Tennoji-ku, Osaka
Sales branches	32 in Japan
Production and R&D bases	13 in Japan: Tochigi (3), Gifu (2), Shiga (2), Osaka (3), Kyushu (3) Group companies: US (New York), three in China (Shanghai, Suzhou, and Qingdao), two in Thailand (Bangkok and Nakhon Pathom)



### Tadashi Matsuguchi

President  
Osaka Sealing Printing Co., Ltd.

### Expanding overseas production base with an eye to develop new prospective markets

OSP’s challenge continues with a keen eye on the future. In 2006, it established OSAKA SEALING PRINTING (SUZHOU) CO., LTD. (China). “The business did not expand as much as we expected in the beginning, but it picked up when the inbound to Japan boomed. Chinese people who visited Japan started to seek Japanese quality, and together with our heightened automation ratio of the production line, this helped us get on track.”

With the rising labor cost and stricter regulations for overseas remittance imposed in China, the company set up OSP LABEL (THAILAND) CO., LTD. in 2016 as an adhesive label production base in Thailand. This aimed to mitigate the risk of overconcentration of their overseas bases in a single country, and to target the promising ASEAN market with 600 million people as a new overseas branch. In fact, many Thai households do not yet have a kitchen and so the demand for perishable ingredients at supermarkets is relatively low. Thus they are planning to start from producing and selling labels for industrial use, and then gradually launch the production of labels for general consumers as the middle class grows. OSP utilized

loans from JBIC for setting up OSP LABEL (THAILAND) CO., LTD. “The loan was introduced to us by a financial institution with whom we already had business. We are extremely grateful that JBIC provided us with competitive, long-term, and stable funds denominated in Thai baht, although it might take us a while for our Thai business to move into the black.”

### Moving forward to the 100th anniversary Towards the fourth industrial revolution

For the past 90 years since its establishment, OSP has been continuously proposing new products that are part of people’s daily lives, and is now expanding its arena abroad.

“Our current consolidated net sales amount to 95.127 billion Japanese yen\*. The net sales from overseas business is still small, but we are aiming to achieve 100 billion yen from domestic and 20 billion yen from overseas business in the medium to long term. In order to achieve this number, we will utilize our branch in Thailand to form partnerships with local printing companies in various Asian countries, such as Malaysia and Vietnam, and solidify our foundation in the Asian market.”

OSP will have its 100th anniversary in 10 years. Towards this milestone, and to

achieve “OSP’s Industry 4.0 (the fourth industrial revolution)”, the company has formed a network for domestic sales branches and factories through IoT. By developing the optimum production efficiency, it aims to create a “Smart Factory,” built on the philosophy of “mass customization” which would flexibly respond to diverse but small-lot needs. “Although we have many products with a domestic market share of 70% or more, technological innovation is progressing minute by minute, and our strengths might sooner or later become depleted. If, for example, there is an invention of a technology that allows direct printing on products and packages, adhesive labels will no longer be needed. We will infinitely challenge to create businesses that meet the next generation’s demand, both in and outside of Japan.”

The insatiable curiosity and challenging spirit of Mr. Matsuguchi continue to create new ideas and big innovations, proposing original “methods to print information” with a keen eye on our needs one step ahead of time.

\*As of January 2017 (consolidated)

### Relationship with JBIC

In September 2016, JBIC signed a loan agreement amounting to 63 million Thai baht (JBIC portion) with OSP LABEL (THAILAND) CO., LTD., a Thai subsidiary of OSP’s holding company, OSP HOLDINGS CO., LTD. The loan was co-financed with Resona Bank, Limited, and intended to provide the necessary funds for sticker and label production and distribution by OSP LABEL (THAILAND) CO., LTD. and will be used to install new factory equipment.





# Assisting Iraq's Autonomous Economic Growth by Financing Export of Substation Facilities

~First Project under JBIC's *Special Operations*

The economy of the Republic of Iraq (Iraq) has been exhausted due to a series of civil wars and other instabilities, and its growth is currently bottlenecked by the damaged and degraded infrastructure. Significant improvement of power supply, in particular, is placed as one of the high-priority issues for the Iraqi government. Amid such conditions, JBIC decided to provide a new loan to Iraq for the first time in 31 years as the very first under the *Special Operations*, which commenced on October 1, 2016, through a partial amendment of the JBIC Act enforced in the same year. This loan is greatly significant in that it financially supports the self-sufficient growth of Iraq, while complementing private-sector finance. It is expected not only to lead to opportunities for exporting Japanese products, but also to strengthening of relations between Japan and Iraq, the world's fifth-largest oil reserve holder. JBIC's staff members in charge of this project share with us the behind-the-scene stories on the loan and its significance, as well as the future outlook of Iraq.

An article related to this project was published in the evening edition of The Nikkei on March 30, 2017.

—Please share with us the background of this project and the steps you took to finalize the loan.

►Kida The loan was motivated by the Japan-Iraq Joint Statement which was announced when the former Prime Minister of Iraq, H.E. Mr. Nouri Kamil al-Maliki, paid an official visit to Japan in November 2011. The statement declared to promote a new phase in the bilateral economic relationship, shifting from support centered on the post-Iraq war reconstruction to promoting Iraq's self-reliant economic development, bearing in mind the imminent withdrawal of U.S. armed forces. Since then, several finance scheme conferences have been held among governments and government agencies of the two nations, in which the export loan, which provides the requisite funds for the Iraqi government to purchase Japanese-made facilities, had been chosen as the support framework.

►Morimoto In Iraq, the current supply from existing power plants is limited to 12GW against the demand of 16GW to 18GW. Thus improvement of power supply, including power distribution, is an urgent task for the Iraqi government. Amid such circumstances, the government chose among several candidate projects the substation facilities construction project that was proposed by Toyota Tsusho Corporation (Toyota Tsusho), and requested to carry it out under the export loan framework. Toyota Tsusho has had a track record of delivering power-related facilities continu-

ously to Iraq since before the Iran-Iraq War which began in 1980. We understand that such long-term track record of exporting facilities, along with the fact that the Iraqi Ministry of Electricity highly praises the efficiency of Japanese-made equipment, is the reason for the project to be chosen by country. Since then, JBIC and the Iraqi government had been holding discussions on the loan, but as the safety issues made it difficult for us to go to the country frequently, we held meetings in Jordan as well as teleconferences between Japan and Iraq to negotiate over the loan agreement. Also with the assistance from the Japanese government and the Japanese Embassy in Iraq, we managed to reach the signing of the loan agreement.

—How much improvement is this project expected to bring to the Iraqi power situation?

►Morimoto In Iraq, the summer temperature can rise as high as 40 to 50 degrees Celsius, so air conditioners and the power for them are absolutely necessary. But the country regularly has blackouts that last 7 to 8 hours a day and the Iraqi people seem to be frustrated with this situation. To address this issue, the Iraqi government will manufacture substation equipment from TOSHIBA CORPORATION and mobile substation equipment from MEIDENSHA CORPORATION, and develop substations which would lower the power pressure in order to transmit electricity to

Baghdad and surrounding areas of Basra, a major city in the south. This is expected to bring more stabilized power supply. According to Toyota Tsusho, approximately 1.3 million households will have better power supply when all of the substations are completed, which is scheduled to be in 2021.

—Please tell us how this project became the first to be financed under the *Special Operations*.

►Kida The *Special Operations* were established to enable JBIC to finance overseas infrastructure projects by expanding its risk-taking ability, in order to further promote Japanese companies' overseas infrastructure businesses. Given its correspondence with this objective, this project became the first to be financed under the Operations. We believe that this project is significantly meaningful for the Iraqi government, as it goes one step ahead of the ODA (official development assistance) into loans based on commercial terms.

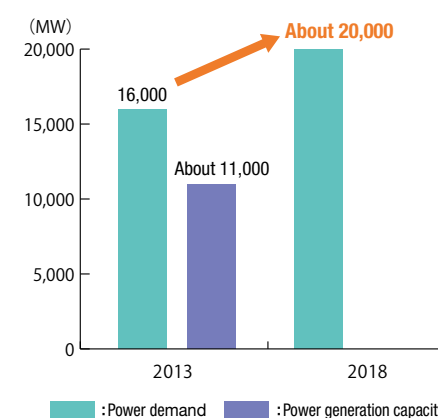
—In what business are the *Special Operations* expected to be utilized?

►Kida This has broadened the possibilities for JBIC to support the infrastructure projects in countries and regions which had been difficult for Japanese companies to participate. We are hoping that by providing financial support together with private financial institutions to projects in countries and regions which had been restricted due to risks relatively new to JBIC, it will broaden the field for Japanese companies to expand their activities.

►Morimoto The *Special Operations* support projects which have not been considered under the ordinary operations, so in order to smoothly carry them out, it is vital that JBIC utilizes its position as a government financial institution so as to cooperate with international financial institutions and export credit agencies in other countries. In this project, we have used our global network, cooperated with NEXI, and conducted analyses of Iraqi political and economic climate through consultations with IMF, the World Bank, and European and American export credit agencies. We will continue such effort to smoothly implement *Special Operations*.

## Power demand in Iraq

The Iraqi power demand is projected to exceed 20,000MW in 2018.



Source: Created from "Feasibility Study for Add-On Project for Gas Turbine Power Station in South Region of Iraq" (February 2016) by Ministry of Economy, Trade and Industry (METI)

## Areas in Iraq where the project's substations are scheduled to be constructed (highlighted in green)



## Buyer's Credit for Government of Iraq

Supporting Export of Substation Facilities by Japanese Companies

The Japan Bank for International Cooperation (JBIC; Governor: Akira Kondoh) signed on March 27 loan agreements on buyer's credit (export loan) totaling up to approximately JPY10.3 billion and USD193 million (JBIC portion), respectively, with the Government of the Republic of Iraq (Iraq). The loans are cofinanced with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (lead arranger) and Sumitomo Mitsui Banking Corporation, bringing the total cofinancing amount to approximately JPY17.3 billion and USD322 million. Nippon Export and Investment Insurance (NEXI) provides insurance for the portion cofinanced by these two Japanese commercial banks.

These loans are intended to finance the purchase of a set of substation facilities from Toyota Tsusho Corporation by the Ministry of Electricity of Iraq in order to carry out construction of the substations in 16 domestic sites. TOSHIBA CORPORATION will manufacture 400/132kV substation equipment for 4 sites, while MEIDENSHA CORPORATION manufactures 132/33kV mobile substation equipment for 12 sites. Toyota Tsusho Corporation assumes engineering, procurement and construction of the equipment.

The Iraqi power sector currently remains at approximately 12GW of supply capacity, whereas a capacity of around 16GW to 18GW is in need. In order to increase the capacity and meet the demand, the government of Iraq is planning to improve and develop facilities for power generation, transmission, and transformation. Under such circumstances, these loans will help promote Iraq's independent reconstruction through enhancement and stabilization of power supply by introducing high-quality infrastructure, and at the same time contribute to maintaining and strengthening the international competitiveness of Japanese industries. Furthermore, the project's initiatives have been developed under an agreement between Japanese and Iraqi governments, and thus it is expected to build stronger relationship between the two countries.

As Japan's policy-based financial institution, JBIC will continue to support Japanese companies' export of infrastructure facilities, as well as their overseas business deployment, by drawing on its various financial facilities and schemes for structuring projects and performing its risk-assuming function.

\* Press release of JBIC, March 30, 2017



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