JBIC Today

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Special Feature

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History of Japan's LNG development and JBIC's Support

Through their participation in upstream gas field developments and LNG plant construction projects over the last 50 years, Japanese companies have, with JBIC as a supporting partner, achieved a stable long-term supply of LNG for Japan.

Yamal LNG Project
- A project in the Yamal Peninsula, Russia (annual production capacity: 16.5 million tons/3 trains)
- The purpose of the project is to sell LNG to Asia and Europe through the Northern Sea Route. JBIC provided export credit project financing for the construction of the LNG Plant developed by Japanese engineering companies (December 2016).

Sakhalin II LNG Project
- A project in Sakhalin, Russia (annual production capacity: 9.6 million tons/2 trains)
- The first LNG project in Russia. This project contributes to diversifying the sources of LNG supply for Japan, which had previously relied heavily on suppliers from South East Asia.
- JBIC provided project financing loans to support this project (June 2008).

Qatargas LNG Project
- A project in Ras Laffan Industrial City, Qatar, consisting of four projects (annual production capacity: 41.1 million tons/7 trains in total).
- Including other projects, Qatar has a total LNG production capacity of 77 million tons, which makes it among the largest LNG producers in the world.
- JBIC fully supported the construction of the LNG value chain, and related infrastructure, in Qatar (since March 1994).

Wheatstone LNG Project
- A project in the State of Western Australia, Australia (annual production capacity: 8.3 million tons/2 trains)
- Following the Great East Japan Earthquake, JBIC supported this project by providing both loans and equity investments with the aim of establishing a stable LNG procurement arrangement for Japan (July 2012).

Ichthys LNG Project
- A project in Darwin, Northern Territory, Australia (annual production capacity: 8.2 million tons/2 trains)
- The first large-scale LNG project led by a Japanese company acting as the project operator. JBIC supported this project by provision of its largest ever project financing loans (December 2012).

Malaysia LNG Project
- A project in Sarawak State, Malaysia, consisting of four projects (annual production capacity: 27.8 million tons/3 trains in total)
- Japanese companies are involved in these projects in various capacities from upstream to downstream. JBIC provided a wide range of financial support to these projects (since April 1980).

Brunei LNG Project
- A project in Brunei (annual production capacity: 7 million tons/5 trains).
- The first LNG investment made by Japanese companies.
- JBIC’s first loan to an LNG project (August 1970).

Indonesia LNG Project
- A project in East Kalimantan State, Indonesia, consisting of two projects (annual production capacity: 28.7 million tons/14 trains)
- The first LNG project in Indonesia. The Indonesian national oil company led this project alongside Japanese companies who participated through a joint venture company.
- JBIC provided a wide range of financial support to these projects (since June 1974).

PNG LNG Project
- A project in Papua New Guinea (annual production capacity: 6.6 million tons/2 trains)
- The first LNG investment made by Japanese companies.
- JBIC provided project financing loans to support this project (December 2009).

Cameron LNG Project/Freeport LNG Project
- Projects in Louisiana, United States (annual production capacity: 12 million tons/3 trains) and in Texas (annual production capacity: 4.64 million tons/1 train)
- These are the first projects to provide for committed long term LNG offtake to Japan from the continental United States. These projects contribute to diversifying the sources of LNG supply for Japan.
- JBIC provided project financing loans to support these projects (August & October 2014).

Contributing to Japan’s Energy Security
Japan first imported LNG in 1969. 50 years ago, LNG stands for “liquefied natural gas”, which is natural gas cooled down to its liquid form at 162 ºC. LNG is a clean energy source that contains almost no harmful substances or pollutants, such as sulfur oxide, and produces lower CO₂ emissions during combustion than oil or coal. LNG has now established itself as one of Japan’s primary energy sources.

However, back in the “oil heyday” of 1969, there were few countries that used LNG as an energy source. Furthermore, to introduce LNG into a country, it was first necessary to spend several tens of billions of yen on the construction of specialized LNG vessels and receiving terminals and, in addition, the construction of an LNG plant in a country that produces natural gas would cost approximately 1 trillion yen at the time.

Nevertheless, from the perspective of energy security, securing an alternate energy source to oil and coal was a very important mission for Japan, which was facing increasing energy requirements following a period of high economic growth but lacked domestic energy resources to meet such demand.

JBIC (formerly, the Export-Import Bank of Japan) has been supporting LNG projects since its involvement in the Brunei LNG project in 1970. That was a project to develop LNG infrastructure in Brunei, including construction of the LNG plant and the piers for docking the LNG vessels.

Following the Brunei LNG project, JBIC broadened the scope of its support not only to cover upstream projects in the LNG value chain, such as gas field development and construction of LNG plants, but also to the development of downstream infrastructure for mass transportation, such as by providing loans for the procurement of LNG vessels.

Meanwhile, in 1986, in response to the increasing financing requirements for large-scale LNG projects, JBIC provided its first project finance loan to the North Western Shelf LNG project located in Western Australia.

Since then, JBIC has continued to provide financing to support projects that contribute to the stable long-term supply of LNG to Japan. Such projects include the Ichthys LNG Project in Australia—the first large-scale LNG project involving a Japanese operator—and the Cameron LNG and Freeport LNG Projects, which produce LNG from U.S. shale gas for export back to Japan.

In light of the advances in LNG technology, the 50th anniversary of the commencement of LNG imports to Japan, the LNG business has entered a time of change. This can be seen in the shift in focus to the development of integrated gas value chains including power plants and related facilities, and the flexibility now being demonstrated by LNG sales and purchase agreements. In line with such changes, the role that JBIC is expected to play in the LNG market is also changing.
Japan has a significant presence in the LNG (liquefied natural gas) market as the world’s largest buyer, with imports of over 80 million tons of LNG annually. However, 50 years have passed since Japan first began to import LNG and the LNG market is facing dramatic changes.

This article considers what actions should be taken by Japanese companies, and how JBIC’s missions should respond, in relation to this changing LNG market.

Since Japan began importing LNG in 1969, it has driven the LNG market as a major consumer. Their LNG demand has increased its output of LNG at a pace that will overtake Qatar, the largest LNG exporter in the world. In addition, the shale-gas production that was developed in the United States in the late 2000s has now started to come on-stream and exports of such shale-gas derived LNG are increasing. Finally, LNG plants in the Arctic Ocean, which were technically difficult to develop, have now commenced their operations and we are seeing increased endeavors to develop LNG in regions that have not previously had LNG production facilities, such as Mozambique in Africa.

First of all, there is the issue of global warming. Amid increasing global focus on CO2 reduction, natural gas is gaining more attention as a clean energy resource because it produces less greenhouse gases than oil and coal. In particular, China has been promoting a shift from coal to natural gas in response to its serious air pollution issues and, as early as the beginning of the 2020’s, is expected to overtake Japan as the world’s largest LNG importer.

Even countries that produce their own natural gas such as the Philippines, Bangladesh and Vietnam have started to increase their demand for imported LNG due to declines in their domestic LNG output. As an energy source that is seen to support rapid economic growth, there is an increasing demand for natural gas, particularly in Asia. This has led to a further growth in LNG projects in the past few years. It is also noteworthy that LNG supply sources are becoming more diversified. By reinforcing its LNG production facilities, Australia (Japan’s largest LNG export partner) has increased its output of LNG at a pace that will overtake Qatar, the largest LNG exporter in the world. In addition, the shale-gas production that was developed in the United States in the late 2000s has now started to come on-stream and exports of such shale-gas derived LNG are increasing. Finally, LNG plants in the Arctic Ocean, which were technically difficult to develop, have now commenced their operations and we are seeing increased endeavors to develop LNG in regions that have not previously had LNG production facilities, such as Mozambique in Africa.

In emerging countries in Asia, LNG demand is expanding but they do not have a well-developed infrastructure to support the full gas value chain, such as LNG receiving terminals for receiving and regasifying the imported LNG, power generation facilities to utilize the gas stored in those terminals and infrastructure networks to deliver gas and power to the end-users. Utilizing technology and know-how across the gas value chain that has been cultivated over the last 50 years, Japanese companies can actively participate in the development of the entire gas value chain, from gas exploration, LNG liquefaction facilities (production), transportation, receiving terminals, all the way to end-user gas supply. This not only helps Japan to maintain its presence in the LNG market to secure supply of natural resources, but also creates more business opportunities for Japanese companies to utilize their competitive advantages.

Finding a way forward with the new LNG business

Looking at Japan, annual LNG imports peaked at 89 million tons in 2014, but the volume has remained flat at just over 80 million tons, or has been slightly decreasing, since then. As Japan’s population is expected to decrease in future, it does not seem likely that Japan’s LNG demand would grow in the same manner as it did in the past. Conversely, in anticipation of an increased global demand for LNG, oil majors have been expanding their LNG businesses more than ever and Asian companies, particularly Chinese companies, have been pursuing more LNG than ever. If this situation continues, Japan could lose the LNG market position that it has built up over the last 50 years, which may raise concerns about the stability of the supply of LNG to Japan.

Accordingly, it is extremely important for Japanese companies to proactively participate in new LNG businesses, mainly in Asia where the demand is surging, in order to maintain Japan’s presence in the LNG market.

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Securing Stable Energy Supply and Creating International LNG Market!

JERA’s efforts towards expanding the LNG Market

—50 years have passed since Japan started importing LNG. What is the current situation of the LNG market surrounding Japan, the largest LNG importer in the world?
Mr. Kani: In the past 10 years, LNG demand has increased by 20% in Japan, but the demand in the overall Asian market has climbed by over 100%. Japan’s presence has relatively declined in the global LNG market, but LNG is still a vital energy source in Japan’s energy policy.

I would also like to emphasize that LNG is compatible with renewable energy. For example, solar power generation rapidly loses its output after sunset. On the other hand, thermal power generation using LNG can adjust its output as if you were turning the switch of a gas stove, so we can complement the output of intermittent renewable energy. Obviously, thermal power generation using LNG is important considering the energy mix target by fiscal year 2030 set by the Japanese government.

—What should Japan do now to expand the LNG market?
Mr. Kani: Given the possibility that short-term and medium-long-term LNG demand may fluctuate greatly, it is important to procure LNG more flexibly. In other words, we need to create an LNG market where buyers can purchase LNG at the appropriate price when they need it. We must also improve industry’s practices that restrict the destination of shipments of LNG.

It is also important to boost the demand of LNG itself. To this end, we are working on Gas-to-Power projects.

—Could you share JERA’s initiatives to expand the LNG market including participation in Gas-to-Power projects?
Mr. Kani: “Gas-to-Power” refers to a project for an integrated development ranging from LNG procurement to the construction of LNG receiving terminals and gas-fired power plants. As large-scale development entails technical hurdles, this project is not so simple. However, we believe we can support this integrated LNG development project based on our solid experience in Japan, and would like to embark on Gas-to-Power projects in foreign countries.

In addition to Gas-to-Power projects, we are also committed to investing in overseas infrastructure business. For example, we have invested in a local power producer in Bangladesh. Moreover, we have decided to participate in separate new gas-fired power generation projects in Bangladesh. We would like to expand these activities into other Asian countries.

—What is important when promoting Gas-to-Power projects?
Mr. Kani: Large investment is necessary for developing Gas-to-Power projects. Even large companies such as major resource companies have difficulty in implementing these projects single-handedly. Therefore, joint development with other companies from both within and outside of Japan is important.

In order to collaborate with major overseas companies, we plan to speed up decision-making and enhance our organizational diversity such as through gender, age and nationality.

—What are your expectations for JBC?
Mr. Kani: In the past, I have worked with JBC in launching an LNG transportation business. At that time, as we had no experience in implementing the LNG transportation business under project financing, JBIC helped us develop a financing scheme in line with our needs. We except JBIC to continue to further support the LNG value chain business by utilizing its accumulated networks with emerging countries, while taking into account the needs of Japanese companies.

Building LNG Value Chains in Emerging Countries to Cover the Whole Process from Procurement to Fund Collection

Creating a stable supply mechanism in South Asia with a view of 20-40 years of growth in the LNG market

—What do you think of the current LNG market and its future development?
Mr. Nishizawa: LNG transaction volume has increased during the past 50 years, reaching close to 350 million tons per annum. We expect the volume will double to about 700 million tons in the next 20 years. Some people see LNG just as a bridge fuel towards renewable energy and cast doubt on the drastic growth of the LNG demand. However, both solar power generation and wind power generation have the problem of intermittency. This problem cannot be solved without a drastic technological innovation such as storage batteries. Still, it is currently difficult to foresee that such remarkable progress will occur immediately. In addition, according to one provisional calculation, as much as $5 trillion of investment is required for covering the entire US electricity demand solely by renewable energy. Taking these situations into account, we foresee that LNG demand will grow for over 20 years from now.

—What strategies is Mitsubishi Corporation drawing amid the robust increase of LNG demand?
Mr. Nishizawa: We are focusing on three points: (1) mitigating environmental impacts; (2) securing competitive LNG; (3) achieving stable supply of LNG. Particularly, in terms of mitigating environmental impacts, LNG is relatively environmentally-friendly among fossil fuels, but still emit about 3 tons of CO2 per 1 ton of LNG in the whole value chain from gas development to liquefaction, transportation, and power generation. I think corporations involved in the LNG business should take on responsibility for reducing such negative impact on environment by utilizing CCS (Carbon Capture and Storage) and CCU (Carbon Capture and Utilization) for capturing CO2 emissions.

In light of these aspects, our major strategy is to achieve a stable supply of LNG to the Japanese market and then cultivate overseas demand. To be specific, we are focusing on not only China but also South Asia where the demand is expected to surge. Bangladesh and Pakistan have been natural gas producing and consuming countries, and have developed infrastructure including pipeline networks. Therefore, this makes it easier to reduce business risks and necessary investment in those countries. Meanwhile, a mechanism where investors can recover their investment is necessary to invest. For example, in the most downstream part of an LNG value chain, we need to securely establish a mechanism to collect gas charges or electricity charges for gas power generation in foreign currencies. If this mechanism is not properly established, investors will not be assured of a return on investment. We are aiming to establish a mechanism for stable and long-term supply of LNG to South Asia by creating a series of systems ranging from receiving terminals to regasification, transportation, gas sales, up to recovery of invested capital.

—What are your expectations for JBIC?
Mr. Nishizawa: First of all, in developing projects in emerging countries, we expect JBIC to play a major role in creating a mechanism to collect sales proceeds. Additionally, amid the trend toward decarbonization, more advanced measures to reduce CO2 emissions are required for LNG projects. We would highly appreciate it if JBIC could support not only LNG projects but also a wide range of businesses including the CCUS (Carbon Capture, Utilization and Storage) business.
"Omotenashi" (Japanese hospitality and service) to strengthen bonds with customers is the key to our overseas expansion

— NAKAZAWA CO., LTD.

Having started as a small watch repair shop in a town, NAKAZAWA CO., LTD opened 95 shops in Japan and now expands its operation to China, Vietnam and Cambodia. What is the secret of its growth?

NAKAZAWA Michimori
President & CEO

"Omotenashi", the Japanese spirit of hospitality and service highly appreciated around the world, is the key to the global expansion of Nakazawa's retail business. The company, a retailer of watches, eyeglasses and jewelry, was established by NAKAZAWA Michimori in 1952 as a small watch repair shop in a tiny space of a four and a half tatami (straw) mat room. Today, it has grown to a successful group of companies that operate in China (2 stores), Vietnam (5 stores) and Cambodia (2 stores), as well as in Japan where it has 95 stores.

What served as the catalyst of this growth is the power of imagination that turned a crisis situation into an opportunity.

In the 1990's, mobile phones rapidly became popular, which decreased the sales of watches. Under these increasingly difficult circumstances, NAKAZAWA Michimori, who was to succeed his father as the company’s President & CEO in 2000, found a new business opportunity in selling “gift watches”, which is a new concept that encourages customers to purchase a watch for someone other than just themselves.

Casual watches targeted at a broad range of customers

"Everyone in the company was involved in exchanging their ideas to find a way to restore the custom of wearing watches on the wrist after they had been replaced by mobile phones. As a result, we reached a hypothesis that there must be customers who will think of giving a watch as a gift when they see the bare wrists of their loved ones. But, of course, high-end watches would limit the potential customer base. We wanted to help a wider range of customers deepen their personal ties by giving a watch as a gift. For this reason, we chose to focus on retailing casual watches at between JPY10,000 and 30,0000.

Nakazawa also invited NISHIWAKI Ichiro, an interior designer, to completely redesign its retail space into a more stylish space that would appeal to the sophisticated younger generation by removing its existing unrefined image of a “watchmaker's workshop”. In addition, they carefully chose the design of wrapping paper and shopping bags, in order to provide added value to the gift merchandise.

At the same time, they made their efforts to pass on and further enhance the technical know-how and skills necessary to repair watches, which has been a legacy of their company since its establishment. They employed certified watch repair technicians in all shops to ensure precision in maintenance service.

With these two strategies, they pioneered the new market of casual gift watches, while harking to their spirit of "Omotenashi".

Moreover, they created a completely new style of retail store called “Time Station NEO”. This led them to start business with Azon Co., Ltd. which also paved the way for their overseas expansion.

It all started when an Azon employee saw one of our stores in Tokyo and asked us to open one in one of their shopping malls. From then on, we opened our stores in Azon’s shopping malls across the country, which helped push up our sales. When Azon decided to expand abroad with the desire to serve customers in the spirit of the Japanese "Omotenashi", they again asked us to open our stores in their shopping malls overseas.

Nakazawa remains resolute in overseas expansion amid despair among retailers

Azon had apparently approached some 20 to 30 prospective retailers in addition to Nakazawa, when deciding to expand abroad. However, when the Azon Mall Tan Phu Celadon opened in Ho Chi Minh, Vietnam in 2014, there were only one handful of stores from Japan.

"The hurdle for overseas expansion was much higher than expected. To start with, we needed to establish a local subsidiary. A major bank told us we would need about JPY210 million for initial investment and working capital, which is a huge overhead for a small and medium-sized company. However, we wanted to try our best to work with Azon which had made a make-or-break decision in expanding their business to abroad. We consulted with our local bank, the Shiga Bank. They explained to us about how to set up a local subsidiary at minimum cost and provided us a loan to expand to overseas markets.

The next challenge was the training of local staff. It was extremely difficult to teach the art of Japanese customer service to local staff members who do not know even the simplest greeting words said by Japanese shop assistants, such as "arayojamae (welcome)" or "arigatogozaimashita (thank you)".

"We made a tenacious effort to teach local staff members the Japanese style of service. We tried many ways through a trial and error approach, such as inviting them to Japan so that they could experience "Omotenashi" up close. Although we also have stores in China and Cambodia, each country has different business mind-sets and practices and therefore, we needed great effort to find the right training method for each country." However, what Nakazawa learned from this experience is now being fed back into their efforts to capture demand from foreign visitors to Japan. As Nakazawa continues: "At present we have 45 Chinese staff members who practice the Japanese "Omotenashi" service. I suppose that if Chinese visitors to Japan receive Japanese service in their mother tongue, they would feel more comfortable. Sales to visitors from foreign countries have reached 7% of our total domestic sales."

Nakazawa plans to further expand their overseas store base. For the new stores they opened in Vietnam and Cambodia, they utilized JBIC’s cross-border loans, our subsidiaries can borrow funds locally and directly. We believe that this not only reduces costs compared to borrowing from local banks, but also encourages the independence of the local subsidiaries. I hope we may be able to utilize JBIC’s facilities for future expansion."
New credit line for environmental preservation in Vietnam

Vietnam is in the middle of developing its power sources to respond to increasing power demand due to the nation’s economic growth. On the other hand, there is a steady increase in awareness of the environment. Faced with the need to mitigate the impact of climate change, the Vietnamese government announced the expanded use of renewable energy in its revised Power Development Plan VII adopted in 2016.

In such circumstances, JBIC proposed a credit line to be set up for Vietcombank (VCB) under the framework of its newly established “Global Facility to Promote Quality Infrastructure Investment for Environmental Preservation and Sustainable Growth” (QI-ESG). QI-ESG is a financing facility that aims to support infrastructure projects contributing to global environmental preservation.

VCB showed interest in the outset of a proposal, but with little experience in doing business with foreign financial institutions, as well as a lack of familiarity with international financial practices, their approach was often greatly at odds with ours. Meanwhile, we had to show them that there were contractual terms and conditions we could not concede on in order to provide finance within the framework of JBIC’s facility for QI-ESG.

The only way for us to overcome these crucial differences and reach an agreement was through continuous dialogues and building of trust. We visited Vietnam five times for face-to-face discussions and held meetings with them at least 15 times, including over the phone, to exchange views. It was not uncommon for a single session to last half a day or more.

After one year of such tough negotiations, we were finally able to agree upon a credit line totaling USD200 million. My sense of achievement at that time was enormous and I was delighted to have been able to contribute to environmental preservation in Vietnam, as well as greater business expansion by Japanese enterprises.

JBIC is working on a variety of projects around the world. Young staff members report on the significance of the latest projects and the role of JBIC.

Project Frontline

Loan to the freight railway business for achieving stable logistics in Brazil

Brazil is one of the world’s largest trade surplus countries for agricultural products, having a significant presence in the global agricultural market. Moreover, Brazil is the world’s leading producer and exporter of mineral resources including iron ore, copper ore, and bauxite.

However, Brazil’s transportation infrastructure has not been established sufficiently and the country depends heavily on truck transportation. In 2018, truck drivers launched a large-scale strike demanding a reduction in fuel prices. As this strike demonstrates, unstable logistics network and rising costs become problems. To address these problems, a departure from heavy reliance on truck transportation, in other words, a modal shift is a critical issue for Brazil.

Under these circumstances, we received a request of a loan to the freight railway business operated by a Brazilian corporation VLI S.A., which is jointly invested in by Mitsui & Co., Ltd. and a Brazilian corporation Vale S.A. VLI provides combined and integrated transportation services through Brazil’s railway networks and harbors. Vale, which is the world’s leading mineral resource supplier and also the largest stakeholder in VLI, has built favorable relationships with Japanese companies over a long period of time.

We initiated a full-scale consideration for providing a loan to VLI from around summer of 2018 and proceeded with drafting of a loan agreement and the negotiation process. However, this negotiation was far from easy. As this was our first time to do business with VLI, we made a tenacious effort to propose and explain JBIC-specific contractual terms and conditions to be included in a loan agreement until they understood its necessity. During negotiations, I strived to understand the true needs hidden behind the messages from VLI, while bringing my legal experience and knowledge gained from when I was in the legal department to promote their understanding towards JBIC’s financing terms and conditions within their organization.

With the support of JBIC’s representative office in Rio de Janeiro, my boss and colleagues, we finally concluded this negotiation one year later and held a signing ceremony with the attendance of the executives of both companies.

We believe this project contributes not only to stable logistics network and cost reductions through the establishment of logistics

Project finance for long-term, stable procurement of copper concentrates

Copper is essential resource used by various industries for production of electric cables, electronic equipment, automobiles and construction materials, etc. As demand for copper is expected to rise globally, competition for acquiring interests in high-quality copper mines continues to intensify. Japan relies solely on imports for copper concentrates. As demand for copper is expected to rise globally, competition for acquiring interests in high-quality copper mine continues to intensify. Japan relies solely on imports for copper concentrates.

Against this backdrop, in December 2018, Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation decided to acquire a partial stake in Quebrada Blanca Copper Mine in Chile from Teck Resources Limited (Canada) and invest in the development of this copper mine. In response to their request of a loan, JBIC started a full-scale consideration of funding the project in the form of project financing.

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infrastructure that underpins the Brazilian economy, but also to the overseas expansion of Japanese companies and enhancing relationships with Vale.

YONEMURA Takashi
Division 1
Minerals and Metals Finance Department
Energy and Natural Resources Finance Group
(Head)
“This project made me realize that JBIC actively helps Japanese companies expand overseas and contributes to the national resource policy of Japan.”

New credit line for environmental preservation in Vietnam

Vietnam is in the middle of developing its power sources to respond to increasing power demand due to the nation’s economic growth. On the other hand, there is a steady increase in awareness of the environment. Faced with the need to mitigate the impact of climate change, the Vietnamese government announced the expanded use of renewable energy in its revised Power Development Plan VII adopted in 2016.

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YAGURA Kohei
Division 1
New Energy and Power Finance Department II
Infrastructure and Environment Finance Group
(Head)
“I wish to utilize my experience being involved with the project from the proposal phase through to the signing of a credit line agreement, when working for other projects in the future.”
日本の力を、世界のために。
Supporting Your Global Challenges

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