The Role of Export Credits in NPP Financing

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NEXI: Nippon Export and Investment Insurance
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I. What is Trade and Investment Insurance?

1. Trade and Investment Insurance

- Trade and investment insurance covers risks involved in overseas transactions such as export, import, investment and financing, for which private insurance is not able to provide cover.

- Most countries have state-owned institutions that provide trade and investment insurance to support the international business activities of domestic companies.

- Approximately 10% of world trade and investment are covered by this insurance.
2. Risks covered – Political risks and commercial risks

Risks covered by trade and investment insurance are divided into two categories

**Political Risks**

- Exchange restriction/prohibition, import restriction/prohibition
- War, civil war, revolution
- Discriminatory high customs duties, dock strikes, terrorism
- Natural disasters, SARS, etc.

**Commercial Risks**

- Unilateral cancellation of export contract with a foreign government
- Bankruptcy of the other party
- Incidents similar to bankruptcy of the other party
- Default on the obligations for three months or longer by the other party
Ⅱ. Profile of NEXI

1. Organizational Overview

- Name: Nippon Export and Investment Insurance ("NEXI")
- Competent Minister: The Minister of Economy, Trade and Industry ("METI")
- Date of Establishment: April 1st, 2001
- Capital: JPY 104.4 billion (fully contributed by the Japanese Government)
- Number of Employees: 143 (as of April 2013)
- Overseas Offices: Paris, New York, and Singapore
- URL: http://www.nexi.go.jp/en/
2. Strategic Area

As Japan’s national ECA, NEXI is enhancing risk taking in the areas of the Government’s policy priority. Our priority includes:

(1) Promoting Japan’s export of infrastructure/system
  - Supporting export of infrastructure such as power plant, railroad system and water supply system is our top priorities.

(2) Securing stable supply of natural resources and energy
  - With specially developed facility (Loan/Investment Insurance for Natural Resources and Energy), NEXI is vigorously undertaking the development/off-take projects of energy and natural resources such as metals, minerals, oil and gas.

(3) Supporting establishing environmentally sustainable society
  - NEXI is supportively underwriting projects related to renewable energy, energy conservation and reducing green house gas emission.
Ⅱ. Profile of NEXI (cont.)

2. Strategic Area (Nuclear Power Export)

Exporting Japanese advanced/leading-edge technology of nuclear power is a centerpiece of “Japan’s New Growth Strategy”

“The government actively supports exports of our advanced low carbon technology, such as high-efficiency power generation, nuclear power, next generation car and smart community, so that we can contributes to reduction of GHG emission”
(Ref. “Infrastructure Export Strategy”, May 17th 2013)

“The government will achieve the order target of infrastructure systems, approx. 30 trillion yen by 2020 proclaimed in “Infrastructure Export Strategy” by beefing up safety measures for Japanese expatriates and Japanese companies, etc. and making the most of Japan’s “advantageous technologies and know-how” in order to actively take into world’s huge demand of infrastructure.
(Ref. “Japan Revitalization Strategy”, June 14th 2013)
II. Profile of NEXI (cont.)

3. Main insurance products and performance

(1) Main insurance products
   (i) Insurance for Export: Export Credit Insurance
   (ii) Insurance for Loans:
       • Buyer's Credit Insurance (Loans tied to export contracts)
       • Overseas Untied Loan Insurance (Loans to support JPN companies overseas biz)
   (iii) Insurance for Investment: Overseas Investment Insurance

(2) Performance (as of the end of FY 2012)
   (i) Outstanding Commitment by type of transaction

<table>
<thead>
<tr>
<th>Type of transaction</th>
<th>Outstanding (bil of JPY)</th>
<th>Share(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance for export</td>
<td>8,194</td>
<td>63.5%</td>
</tr>
<tr>
<td>Insurance for loans</td>
<td>3,273</td>
<td>25.3%</td>
</tr>
<tr>
<td>Insurance for investment</td>
<td>1,117</td>
<td>8.6%</td>
</tr>
<tr>
<td>Others(Reinsurance)</td>
<td>330</td>
<td>2.6%</td>
</tr>
<tr>
<td>Total</td>
<td>12,914</td>
<td>100%</td>
</tr>
</tbody>
</table>
3. Main insurance products and performance

1) Export Credit Insurance
   - Insurance for export and construction, etc

2) Buyer’s Credit Insurance
   - Insurance for export-tied loan

Diagram:
- Japanese Exporter
- Foreign Importer
- JBIC
- Syndicated Loan
- Export Contract
- Foreign Buyer
- Unable to Export
- Unable to Collect Receivables
- Unable to Repay
- Insurance Cover
II. Profile of NEXI (cont.)

3. Main insurance products and performance
   3) Overseas Investment Insurance, 4) Overseas Untied Loan Insurance

3) Overseas Investment Insurance
   - Insurance for Equity Investment
     - Japanese Company
     - Insurance Cover
     - Equity Investment
     - Foreign Company
       - Unable to Remit Dividend
       - Discontinued Business

4) Overseas Untied Loan Insurance
   - Insurance for un-tied Loan
     - "Japan Interest" required
     - Japanese Company, Banks etc
     - Loan/ Purchase of Bonds
     - Unable to Repay
     - Foreign Company
III. Basic concept of OECD Export Credit Arrangement

1. General Rule in the OECD Export Credit Arrangement

(1) Purpose
- To provide a framework for the orderly use of officially supported export credits
- To foster a level playing field for official support in order to encourage competition among exporters based on quality and price of goods and services

(2) Scope of Application
- Apply to all official support for export of goods and/or services which have a repayment term of two years or more

(3) Status
- A “Gentlemen’s Agreement” among the Participants

(4) Participants
- OECD members
Ⅲ. Basic concept of OECD Export Credit Arrangement (cont.)

2. Financial Terms and Conditions

(1) Main Body and Sector Understanding on Export Credits for Nuclear Power Plant (NSU)

- **Down payment**: more than 15%
- **Local cost**: supported by ECAs up to 30%
- **Minimum premium rate**: formula of calculation prescribed.
- **Maximum repayment terms**
  - 10 yrs (for OECD countries, 8.5yrs)
  - power plant: 12yrs → **NSU: 18 years**
- **Minimum Interest rate**
  - 1% (=100 bsp) on the funding cost (government bond)
  → **NSU: 100 to 130 bp**
According to the model, the following parameters determine premium applied.

- Country risk category (Low risk countries (“0”) – High risk countries (“7”): see the next page)
- Buyer’s risk category (CC0 to CC5 depending on risk mitigation measures, such as host government guarantee)
- Horizon of cover (6-7 yrs for construction and 18 yrs for repayment for NPP)
- Percentage of cover (95-100%)
- Repayment profile (“Tail-heavy” type of repayment be charged higher premium.)
2. Financial Terms and Condition

(3) Country Category

- Category 0: Canada, Estonia, Finland, France, Japan, UK, USA etc.
- Category 1: Czech, Korea, Slovakia etc
- Category 2: China, Poland, Saudi-Arabia, UAE etc
- Category 3: India, Russia, Lithuania etc.
- Category 4: Bulgaria, Hungary, Latvia, Romania, Turkey etc.
- Category 5: Jordan, Kazakhstan, Vietnam etc.
- Category 6: Albania, Serbia, Montenegro etc.
- Category 7: Belarus, Iran, Pakistan etc.
IV. Major considerations on NPP: ECA perspective

- Nuclear Policy of Host Gov.
  To avoid delay & cancellation
  - Stable nuclear policy
  - Stable social acceptance

- Well designed financial structure
  To reduce financial risk & cost
  - Host Gov. support
    (e.g. guarantee to sponsors, lenders)
  - Credible sponsor and exporter
  - Sound electricity market
    (price, demand)

- Funding
  - Capital market access of lenders

- Environment and safety standard
  - Reasonable regulation
  - Sound nuclear damage control regime
Thank you

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