

JOGMEC Guarantee – Stimulus Plan for Importing US Shale Gas

In May 2013, the US Department of Energy ("DOE") granted the application for the export by LNG facilities of LNG to non-free trade agreement countries. In June 2013, the Japan Oil, Gas and Metals National Corporation ("JOGMEC") announced measures to enhance financial support for the procurement of low-cost LNG by expanding its liability guarantees for low-cost energy projects. Under the revised liability scheme, the new liability guarantee cap (which has been raised to 75%) and the liability guarantee fee rate (lowered by 0.1%) will be applicable to such low-cost energy projects.

Introduction

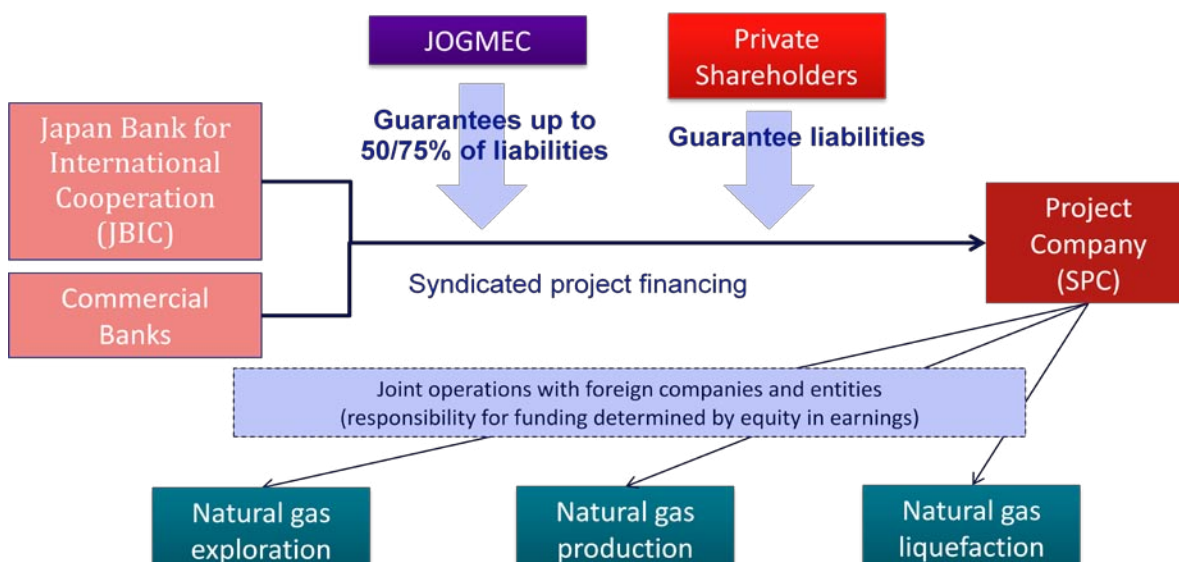
For the first time in 31 years, the Japanese Government suffered a trade deficit in 2011, primarily as a result of increased costs of importing energy resources since the East Japan Great Earthquake of March 2011. It therefore became essential for the Japanese economy that energy costs be reduced. In February 2013, the Japanese Government began considering the enhancement of financial support for the procurement of low-cost LNG by expanding the liability guarantees provided by JOGMEC for low-cost energy projects.

On 17 May 2013, the DOE granted the joint application by Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC of a long-term, multi-contract authorisation to export LNG to non-free trade agreement nations including Japan. As a result of the DOE's approval, it is expected that Osaka Gas Co., Ltd. and Chubu Electric Power Co., Inc., which executed binding liquefaction tolling agreements with FLNG Liquefaction, LLC in July 2012, will start LNG exports to Japan as early as 2017.

Given the above, on 19 June 2013, JOGMEC announced its measures to enhance financial support for the procurement of low-cost LNG by expanding its liability guarantees for low-cost energy projects.

Details of LNG procurement projects to reduce LNG import prices

The outline of JOGMEC's liability guarantee scheme is as follows:



In order to reduce the import price of LNG, the following measures shall be applied to the natural gas exploration and liquefaction businesses:

- the liability guarantee cap shall be raised to 75%; and
- the rate of the liability guarantee fee shall be lowered by 0.1%. Note that the minimum rate shall remain at 0.4%.

Application Criteria

The following criteria will need to be satisfied:

1. The project shall be comprised of businesses which sell LNG under a sale and purchase agreement with companies incorporated in Japan for a period of 10 years or more. Further, the relevant percentage/rate of reduction (the "**Price Reduction Rate**") applicable to the latest average LNG import price (the "**Standard Price**") quoted in the expected sales price shall be above a certain rate (the "**Standard Reduction Rate**").

(a) Standard Price

The Standard Price refers to the average LNG import price calculated on the basis of trade statistics from January to December of the previous year.

(b) Expected sales price

Expected sales price refers to the price based on the average of the oil and gas index (which is used in devising price formulae for the relevant projects) from January to December of the previous year (i.e. the same period referred to in sub-paragraph (i) above with regard to the calculation of the Standard Price).

(c) Price Reduction Ratio

$1 - (\text{Expected sales price}) / (\text{Standard Price})$

(d) Standard Reduction Ratio

The Standard Reduction Ratio for the following fiscal year shall be determined at the end of each fiscal year by considering items such as the Standard Price and international LNG, oil and natural gas price trends. In the event that the sales volume of a project for Japanese companies is anticipated to be above a certain level, the Standard Reduction Ratio will be lowered by an amount determined by the sales volume.

The Standard Reduction Ratio for the fiscal year 2013 is 20%. However, if the sales volume of a project exceeds one (1) million tons per year, the Standard Reduction Ratio will be lowered by 2% per one (1) million tons, provided that, if the sales volume exceeds six (6) million tons, the Standard Reduction Ratio will be 10% across the board. The Standard Reduction Ratio corresponds to the sales volume of a project as follows:

- Not more than one (1) million tons: 20%
- More than one (1) million tons but not more than six (6) million tons: $20\% - 2\% \times (\text{Annual sales volume} - \text{one (1) million tons}) / \text{one (1) million tons}$
- More than six (6) million tons: 10%

2. The internationally-accepted gas index price shall be included in the sales price formula, provided under the sale and purchase agreement for LNG.

Conclusion

Given difficulties related to nuclear power plants, it is crucial for the Japanese Government to secure sustainable energy sources. In that context, it is expected that import of US shale gas will greatly improve Japan's energy security and investment by private companies into US shale gas will be stimulated by JOGMEC's liability guarantee scheme.

Where Japanese legal concepts have been expressed in the English language, the concepts concerned may not be identical to the concepts described by the equivalent English terminology as they may be interpreted under the laws of other jurisdictions.

Contacts

If you would like to know more about the subjects covered in this publication or our services, please contact:



Kenji Miyagawa
Counsel

T: +(81 3) 5561 6629
E: kenji.miyagawa
@cliffordchance.com



Maiko Adachi
Associate

T: +(81 3) 5561 6322
E: maiko.adachi
@cliffordchance.com



Junya Ishii
Associate

T: +(81 3) 5561 6313
E: junya.ishii
@cliffordchance.com

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Clifford Chance, Akasaka Tameike Tower, 7th Floor, 2-17-7 Akasaka, Minato-ku, Tokyo 107-0052, Japan

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