

OPIC Highlights

Office of External Affairs • 1100 New York Avenue, NW • Washington, DC 20527 • 202-336-8400 • www.opic.gov

OPIC IN THE OIL & GAS SECTOR

OPIC Supports Oil & Gas Sector Projects Worldwide

OPIC's current and historical portfolio of projects in the oil and gas sector is substantial and indicative of the agency's commitment to supporting projects of this type:

- * OPIC currently supports 21 contracts for oil and gas sector projects in Algeria, Argentina, Colombia, Republic of Congo, Cote d'Ivoire, Kazakhstan, Russia, Trinidad & Tobago, Venezuela and Yemen with more than \$983 million in political risk insurance exposure.
- * OPIC is currently providing approximately \$695 million in financing to seven oil and gas projects in Argentina, Papua New Guinea, Russia and Venezuela.
- * Historically, OPIC has supported 143 oil and gas sector projects in various countries with approximately \$6.9 billion in political risk insurance exposure.
- * OPIC has historically provided more than \$1.6 billion in financing to 26 oil and gas sector projects in regions including Latin America, Africa, Asia, the New Independent States and the Middle East.

OPIC Provides Tailored Insurance Products for Oil and Gas Projects

OPIC offers a special insurance contract for oil and gas exploration and production ("E&P") projects specifically tailored to cover production sharing agreements as well as other forms of agreements such as concession agreements or tax/royalty agreements. OPIC can provide coverage for all phases of an E&P project, from seismic data acquisition and analysis, through exploration, development and production and can protect against the following risks that are particularly relevant for E&P projects:

*** Total Expropriation, Including Total or Creeping Expropriation.**

Action by the host country government that amounts to a breach of international law or an abrogation, repudiation, impairment or breach of the project agreement, including material changes to the fiscal terms unilaterally imposed by the host country government. Action by the host country government which effectively denies the investor of the fundamental rights in the project, including preventing the investor or the operator from controlling or operating the project, receiving payments from the project, or selling their interest in the project.

*** Partial Expropriation or Confiscation of Tangible Assets.**

Action by the host country government that amounts to a confiscation or expropriation assets, including "covered property" used or produced in connection with the project (such as drilling rigs, oil field equipment, produced petroleum or oil wells).

*** Losses of Tangible Assets due to Political Violence.**

Losses of covered property due to politically motivated acts, including declared or undeclared war, hostile action by national or international forces, civil war, revolution, insurrection, civil strife, terrorism or sabotage.

*** Interference with Operations due to Political Violence.**

Forced abandonment of the project if it becomes impossible or unreasonably hazardous to carry on the operation of the project due to political violence.

*** Sale of Production in Country for "National Emergency".**

Many project agreements require sales of production in the host country in the event of a "national emergency" and assume there will be sufficient hard currency available under such circumstances. OPIC provides coverage against the risk that the project is unable to convert and transfer local currency.

*** Revoked Rights to Hard Currency Accounts.**

Many project agreements provide for the right to receive and maintain hard currency proceeds from the sale of production in offshore accounts. OPIC provides coverage against the risk that such rights are rescinded and subsequently the project is unable to convert and transfer local currency.

OPIC Political Risk Insurance is Available for Various Types of Projects and Forms of Investment

Upstream, Downstream and All Around the Stream

With OPIC as a partner, U.S. companies have been able to overcome the political risk hurdles and make successful investments in various oil and gas or energy industry projects. OPIC can provide insurance for investments in upstream, midstream, downstream or even integrated energy projects. OPIC has experience with underwriting virtually every kind of oil and gas industry project, including onshore and offshore exploration and development/production upstream projects, stranded gas development projects, pipeline and storage projects, NGL, LNG, LPG, methanol, petrochemical, refining, distribution, transportation and retail gasoline station projects.

Contractors

OPIC help protect the assets and certain exposures of a contractor, such as a construction and engineering firm or an oil field drilling and service contractors who provide goods and services to a project, or a firm which provides management services or technical assistance to a project. If the contract is with a government entity, such as the national oil company or ministry of energy OPIC, can provide coverage against the risk that the government buyer wrongfully calls a bid bond, or a performance, advance payment, custom or other guarantee provided by the contractor. OPIC also provides a special form of coverage to protect a contractor against the risk of an unresolved contract dispute with a

government buyer. OPIC can provide insurance against the risk that the contractor might lose tangible assets located in the project country due to confiscation, expropriation, and political violence. Finally, if a contractor plans to sell certain assets in the project country at the end of the contract, OPIC can provide coverage against the risk that the contractor is unable to convert and transfer the local currency proceeds from the sale their assets.

Financial Institutions

OPIC can provide political risk insurance to financial institutions who are providing credit to an oil and gas project, such as project loans made or arranged by banks, cross-border leases, debt-for-equity investments, or commodity price or interest rate swaps. For institutional lenders, currency inconvertibility insurance coverage pays compensation for defaults on scheduled payments that result from deterioration in the ability to convert these payments from local currency to dollars or to transfer dollars outside the host country. In the case of expropriation or political violence, compensation generally is payable if the borrower defaults on a scheduled payment as a direct result of one of these events, and the default lasts three months (or one month in the event of subsequent defaults caused by the same event).

Capital Market Bond Financing

Companies in developing countries or emerging markets with strong underlying credit can pierce the sovereign ceiling and move from sub investment to investment grade rating by insuring their foreign currency denominated bonds against the risk of inconvertibility or against the risk that the host government does not honor an arbitration award. The response to OPIC's capital markets product from the international financial community has been extremely positive. J.P. Morgan, Moody's, Standard & Poor's Structured Finance Group, and Duff & Phelps have all written about OPIC's new product and the enhancements that it is providing to emerging market transactions, Standard & Poor's says that the "OPIC policy provides [a] model for political risk insurance." Moody's says, "the use of OPIC insurance may significantly reduce sovereign risk associated with emerging market bonds and allow the bonds to be rated above the country rating ceiling", and J.P. Morgan says that "OPIC insured bonds offer attractive relative value."

OPIC Executive Vice President and Chief Operating Officer Speaks at U.S. Caspian Finance Seminar

Speaking at the U.S. Caspian Finance Seminar held June 4, 2002, in Baku, Azerbaijan, Ross J. Connelly, OPIC Executive Vice President and Chief Operating Officer, announced that OPIC would consider providing up to \$300 million in political risk insurance support for U.S. equity investors or U.S. financial institutions participating in the Baku-Tbilisi-Ceyhan main oil export pipeline. Describing the energy transportation infrastructure project as 'critical to developing the energy potential of the Caspian region and in enhancing regional economic integration,' Mr. Connelly said that OPIC is willing to consider providing U.S. investors, large and small, with the OPIC finance and insurance support they would need to participate in BTC and the ancillary projects that would be built as a result of the successful implementation of this project.



OPIC is a U.S. government agency that helps U.S. businesses invest overseas, fosters economic development in new and emerging markets, complements the private sector in managing risks associated with foreign direct investment, and supports U.S. foreign policy. Because OPIC charges market-based fees for its products, it operates on a self-sustaining basis at no net cost to taxpayers. Since 1971, OPIC has supported over \$142 billion worth of investments that will generate \$64 billion in U.S. exports and create more than 253,000 American jobs. For general information, contact OPIC InfoLine at (202) 336-8799. For information via the Internet please go to <http://www.opic.gov>. To subscribe to OPICNews, please send an email to us at OPICNEWS@OPIC.gov with 'subscribe' in the subject line.

OPIC's Increases Limits for Oil and Gas Sector Projects

OPIC has increased the amount of support OPIC may offer. OPIC may now offer up to \$250 million of either political risk insurance or financing. The previous limit was \$200 million for insurance or financing each. OPIC has also increased the amount of support it may offer to projects in the oil and gas sector. OPIC may now offer up to \$300 million of either insurance or financing to oil and gas projects with offshore, hard-currency revenues, and up to \$400 million if the project receives a credit evaluation of investment grade or higher from major ratings agencies. Nevertheless, the maximum support OPIC may offer an individual project is \$400 million, either insurance or financing or any combination of both.

OPIC Insures Wide Variety of Oil and Gas Projects

OPIC political risk insurance has supported numerous oil and gas industry projects, including the following:

Russia. OPIC insured Anderman/Smith Overseas' equity investment in a joint venture that was created to develop and upgrade the Chernogorskoye oilfield in Western Siberia.

Kazakhstan. Oil and gas projects create a wide variety of supply and support opportunities for U.S. firms. OPIC insured M-I Drilling Fluids Company of Houston, Texas for its equity investment in a project that built and operated a barite grinding mill in Kazakhstan. The mine produced drilling fluids for local oil producers.

Argentina. New OPIC products can provide liquidity for oil and gas projects in the emerging markets. OPIC's political risk insurance utilized its product for capital markets transactions to provide coverage for a \$175 million bond issuance in the U.S. capital markets by the Argentine natural gas transportation company Transportadora de Gas del Norte. With OPIC's political risk insurance, the transaction received an investment grade rating from Fitch IBCA and Standard & Poors.

Algeria. OPIC provided political risk insurance to cover the Sonatrach-BHP Ohanet Gas Processing Venture in Algeria. The project is the construction, development, production, and operation of the Ohanet gas fields in the southern desert of Algeria. This project is sponsored, in part, by Petrofac Resources International Inc., a small business headquartered in Tyler, Texas.

Brazil. OPIC has committed to provide political risk insurance for potential U.S. investments in the Pescada-Arabaiana oil field in Brazil that has oil reserves of 23 million barrels as well as gas reserves.

Caspian Finance Center Provides Regional Support

The 1999 opening of the U.S. Government's Caspian Finance Center in Turkey began a new chapter in cooperation in support of U.S. businesses in the region. The Export-Import Bank of the United States (Ex-Im Bank), the Overseas Private Investment Corporation (OPIC), and the U.S. Trade and Development Agency (TDA) each sent a senior representative to the office to facilitate development of commercial projects in the Caucasus, Central Asia and Turkey. Working with the U.S. Commercial Service and Department of State, the Center's efforts also focus on supporting U.S. participation in the ancillary infrastructure that will be built as a result of investment in the oil and gas sector, ongoing economic reform, and privatization.

Peter Ballinger, OPIC Director of Investment Development and Economic Development for the Europe/NIS region, and OPIC's representative at the Caspian Finance Center, can be reached at pbballinger@opic.gov.

Caspian Finance Center

110 Atatürk Bulvarı
06100 Kavaklıdere
Ankara, Turkey

Telephone: 90 (312) 466-6081

Facsimile: 90 (312) 466-6082

Internet: www.caspianfinance.com