CASE STUDY: THE GUANGDONG LNG IMPORT TERMINAL AND TRUNKLINE PROJECT

China's first LNG import project, the Guangdong LNG terminal and trunkline project consists of a major import and regasification terminal and gas trunklines and associated facilities for the reticulation of regasified LNG. Due on stream in 2006, the project will deliver clean, efficient gas by pipeline to Hong Kong and throughout the Pearl River Delta for use in city gas networks and power plants.

Lawyers from the Jones Day energy projects team have been intimately involved in every stage of the development and financing of the project. We have a thorough understanding of how the project has progressed and the legal structure and documents required to facilitate the development of the project, all in the context of a newly emerging market and regulatory framework for LNG imports in China.

The first non-recourse deal in China financed purely by Chinese banks while using international financing techniques and standards, the Guangdong LNG import terminal and trunkline project sets a precedent for other infrastructure projects in the region. It has received the following awards:

- “Asia-Pacific Oil & Gas Deal of the Year,” Project Finance, Project Finance International
- “Project Finance Deal of the Year,” International Financial Law Review
- “Best Project Finance Deal for 2004,” FinanceAsia
- “Energy & Resources Deal of the Year - China,” Asian Legal Business
In early 2003, the project steering committee, through the joint executive office, prepared and submitted a feasibility study report on the project to China’s National Development and Reform Commission for the approval of the State Council. The feasibility study report was approved by the State Council in October 2003, enabling the project sponsors to make their final investment decision and for the joint venture company to be established and construction and development of the project to commence.

In addition to the market reports, commercial analyses, and other studies typically required for projects of this nature, the feasibility study report for the project also entailed the preparation, negotiation, and finalization of the following fully termed agreements:

- an LNG sale and purchase agreement for more than 3 MTPA of LNG over 25 years on an FOB basis from the eventually selected LNG supplier, the Australian North West Shelf venture;
• arrangements for the construction of three LNG vessels and charterparty arrangements for the purchased LNG and construction contracts for 213km of onshore gas trunklines and 115km of onshore branch lines to deliver gas to customers;

• construction contracts for marine facilities, a regasification terminal, and storage tanks; and

• gas sale agreements for the sale of regasified LNG to 12 town gas company and power generator customers across Guangdong Province and in Hong Kong.

Lawyers from the Jones Day energy projects team advised on the drafting, negotiation, and finalization of these project documents. We also advised the project sponsors on securing the requisite land use rights and assisted in negotiations with various governmental entities to secure concession terms.

PROJECT FINANCING

Following submission of the feasibility study report, the project sponsors secured the necessary financing arrangements. A non-recourse project financing agreement for more than RMB 5 billion (approximately US$665 million) for the terminal and trunkline was signed on April 30, 2004, between Guangdong Dapeng LNG Company and a consortium of PRC banks.

Lawyers from the Jones Day energy projects team advised the borrowers on the project financing. The scope of work included:

• preparing, negotiating, and finalizing detailed termsheets for loan and working capital facilities and associated agreements;

• assisting in preparing the information memorandum for release to potential lenders;

• negotiation and finalization of the many accounts, financing, and security (both onshore and offshore) agreements that make up the complex project financing structure; and

• liaison with governmental and regulatory entities to ensure all necessary approvals, consents, and registrations were secured effectively and efficiently.

BREAKING GROUND IN AN EMERGING MARKET

The Guangdong LNG import terminal and trunkline project is China's first LNG import project and one of the first major-scale PRC energy projects open to foreign participation. As China's economy expands, the nearly US$1 billion project serves as an administrative template for future LNG development and other critical infrastructure improvements. In particular, the use of non-recourse financing marks a watershed for the Chinese banking sector. The willingness of both the domestic and international parties to import international project structuring and financing techniques and standards was key to executing the deal.

Active in the China market for more than 20 years, Jones Day helped bridge East and West. Our lawyers brought complex western financing techniques to a groundbreaking energy deal, negotiating and drafting in Chinese, balancing Chinese and western sponsor interests. We played an instrumental role in getting all parties to adapt to new financing structures and concepts.

The first LNG deliveries to Guangdong Province and neighboring Hong Kong offer a much-needed supplement to existing fuels and a cleaner-burning alternative to high-emissions coal, the PRC's staple energy source. The sponsors' ability to finance a project of this magnitude on a non-recourse basis from Chinese banks will aid in attracting investment for similar infrastructure projects in China and throughout the wider Asia-Pacific region.
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