MEMORANDUM April 19, 2013

To: Senate Energy and Natural Resources Committee
Attention: Tristan Abbey

Subject: **Overseas Private Investment Corporation: Support for Liquefied Natural Gas-Related Transactions**

This memorandum responds to your request for analysis of insurance and financing provided by the Overseas Private Investment Corporation (OPIC) for investments in liquefied natural gas (LNG)-related projects.[1]

Per your request, this memo focuses on OPIC support for LNG-related transactions. However, it also discusses certain other oil and gas projects of potential interest to your work on U.S. international investment in energy development. The discussion of OPIC support for LNG-related transactions uses data reported by OPIC to your office for the FY2003 – FY2012 time period. Data from other OPIC publications, oil and gas publications, and other databases also served as resources for this memo.

Overview of OPIC[2]

OPIC is an independent U.S. government agency that seeks to promote economic growth in developing and emerging economies by providing investment insurance, project financing, and other services for U.S. businesses in those countries, in support of U.S. foreign policy goals. OPIC is often referred to as the United States' official development finance institution (DFI).[3] Its programs are intended to promote U.S. private equity investment by mitigating risks, such as political risks (including currency inconvertibility, expropriation, political violence, and terrorism), for U.S. firms making qualified investments overseas. OPIC's activities are backed by the full faith and credit of the U.S. government, which adds a degree of stability to projects.

The governing legislation for OPIC is the Foreign Assistance Act of 1961 (P.L.87-195; 22 U.S.C. 2191 et. seq.), as amended. Congress has responsibility for reauthorizing OPIC. Congress most recently renewed OPIC's authority through the Overseas Private Investment Corporation Amendments Act of 2003 (P.L. 108-158), which extended its authority through FY2007. Since then, Congress has continued to extend

[1] Information in this memorandum may be used to respond to other congressional requests or for CRS reports.

[2] See CRS Report 98-567, *The Overseas Private Investment Corporation: Background and Legislative Issues*, by Shayerah Ilias Akhtar.

[3] Many countries combine the activities of export credit agencies (ECAs) with those of development finance institutions (DFIs). In the United States, export financing and investment financing are conducted separately by the U.S. Export-Import Bank (Ex-Im Bank), the official U.S. ECA, and OPIC, respectively.

OPIC's authority to conduct its credit and insurance programs each year through the appropriations process.[4]

Guided by U.S. foreign policy goals and development objectives, OPIC operates in over 150 countries around the world and across a range of economic sectors. Since its inception, OPIC has guaranteed, funded, or insured nearly $200 billion in investments. Congress does not approve individual OPIC transactions, but OPIC-supported projects are governed by congressionally-mandated statutory requirements in OPIC's enabling legislation, as well as general OPIC policy. In order for projects to qualify for OPIC support, they must meet certain requirements, including in the areas of U.S. economic impact; environmental, social, and development impact on the host country (i.e., where the investment is taking place); and worker rights policies and practices of the host country.

Overview of OPIC Support for Oil and Gas Projects[5]

Between FY2003 and FY2012, OPIC committed a total of $1.8 billion for 32 projects in the oil and gas sector, including for projects to support oil and gas exploration, extraction, production, expansion, and distribution.[6] OPIC's oil and gas projects have focused on 18 countries, though distributed across all major regions of OPIC activity. Its support for projects in the oil and gas sector appears to constitute a small share of OPIC's total portfolio. For example, in FY2011, OPIC committed $34.4 million for three projects in the oil and gas sector, which constituted about 1% of OPIC's total new credit and insurance commitments in that year ($2.8 billion for 92 new projects) and a fraction of its overall portfolio for projects ($14.5 billion) in that year. In recent years, OPIC has emphasized supporting projects in "critical natural resources," such as agriculture and water; clean and renewable energy; small and medium-sized enterprise finance; microfinance; housing; and technology.[7]

OPIC's involvement in the oil and gas sector has included support for natural gas-related projects. OPIC-supported investments have been directed to projects that could enhance the domestic capabilities of the host country to produce natural gas or natural gas liquids (propane or butane) for domestic consumption, as well projects that could generate oil and natural gas exports. Although projects involving natural gas constitute a small share of OPIC's overall portfolio, they represent a sizeable share of OPIC's oil and gas projects. According to the data reported by OPIC to your office, between FY2003 and FY2012, OPIC committed support for six new projects related to natural gas, totaling $703.5 million. This represented about 19% of the total number of OPIC's oil and gas projects and about 38% of the total amount of OPIC's commitments to oil and gas projects for that time frame.[8] These natural gas projects were

[4] For example, Sec. 7065(b) of the FY2012 appropriations act (P.L. 112-74; 125 Stat. 1252) stated, "Notwithstanding section 235(a)(2) of the Foreign Assistance Act of 1961[which states the expiration date for OPIC's authority], the authority of subsections (a) through (c) of section 234 of such Act [i.e., investment insurance, investment guarantees, and direct insurance] shall remain in effect through September 30, 2012.

[5] The discussion of OPIC financing for LNG-related transactions uses data reported by OPIC to your office for the FY2003 – FY2012 time period. Those data included oil and gas projects, some of which were related to the development of LNG facilities; other gas projects resulted in increasing supplies of natural gas for domestic consumption or electric generation. Data from other OPIC publications, including the agency's annual reports and congressional budget justifications; oil and gas publications; and other database sources also served as resources. For a discussion of the global LNG market, see CRS Report R42074, *U.S. Natural Gas Exports: New Opportunities, Uncertain Outcomes*, by Michael Ratner, Paul W. Parfomak, and Linda Luther.

[6] No projects were committed in FY2012.

[7] OPIC, FY2013 congressional budget justification.

[8] CRS analysis based on available data.

concentrated in Sub-Saharan Africa and the Middle East, specifically: Benin, Botswana, Ghana, Israel, Nigeria, and Togo.

In addition to the natural gas-related projects reported by OPIC to your office for the FY2003 – FY2012 period, CRS was able to identify certain LNG-related projects which OPIC supported prior to FY2003 (discussed below). Including these projects brings the OPIC-supported projects in the natural gas sector (including LNG) since FY1997 to at least $2.8 billion.[9]

Specific OPIC Loans and Insurance for LNG and Other Oil and Gas Projects

Table 1 includes various LNG (or other oil and gas) projects that received OPIC loans or guarantees (in the form of political risk insurance) since FY1997.[10] These include loans or insurance to support projects in ten countries. OPIC frequently partners with the Export-Import Bank (Ex-Im Bank), the World Bank, and other export credit agencies (ECAs) to provide support to U.S. or foreign corporations that want to invest in developing countries or establish joint ventures with local private or government-owned companies. In some instances, U.S. or foreign banks are willing to finance the entire cost of a project if OPIC will provide political risk insurance. **Table 1** contains a list of the countries, companies, and projects that OPIC participated in since FY1997.

Table 1. OPIC Loans and Insurance for Selected LNG and Other Oil and Gas Projects Since FY1997

Fiscal Year	Country	Company	Project Description	Amount Committed or Insured	Type
			Liquefied Natural Gas Projects		
1997	Trinidad and Tobago	Atlantic LNG Co. LTD	LNG project	$200 million	Insurance
2002	Indonesia	Unocal Corp. (merged with Chevron)	Oil and gas	$350 million	Finance
			Other Gas Liquids Projects		
2002	Guatemala	Texas Overseas Gas Corp.	LPG storage facility	$25 million	Insurance
2004	Nigeria	ExxonMobil Corp.	Offshore natural gas liquids	$325 million	Finance
			Other Oil and Gas Projects		

[9] The total amount of OPIC support for LNG-related projects since FY1997 could be higher. CRS used publicly available information, and the projects identified may not be comprehensive.

[10] We have conducted an extensive search of publicly available OPIC publications, as well as oil and gas publications, and other database sources. However, it is possible that the table does not include every LNG loan or guarantee issued by OPIC.

2004	Botswana	Covalent Energy Corporation	Natural gas development	$8.5 million	Finance
2005	Benin	Steadfast Insurance Company	Natural gas pipeline	$2.5 million	Insurance
2005	Togo	Steadfast Insurance Company	Natural gas pipeline	$2.5 million	Insurance
2005	Ghana	Steadfast Insurance Company	Natural gas pipeline	$45 million	Insurance
2005	Israel	Citibank, N.A.	Offshore natural gas pipeline	$320 million	Insurance
			Other Gas Projects		
2004	Egypt	Apache Corp.	Various oil and gas concessions	$300 million	Insurance
2007	Egypt	Apache Corp.	N/A	$200 million	Insurance
Multiyear	Egypt	Apache Corp.	Various assets	$1,000 million	Insurance

Source: Publicly available OPIC publications, oil and gas publications, and other database sources.

Notes: This table does not include every LNG loan or guarantee issued by OPIC.

Liquefied Gas-Related Projects

Trinidad and Tobago: Atlantic LNG Co. of Trinidad and Tobago LTD. Atlantic LNG was incorporated in 1995. In June 1997, ABN Amro Bank, Barclay's Bank, and Citibank arranged and syndicated a $600 million loan to finance the construction of the Atlantic LNG complex in Trinidad and Tobago. The loan was 80.6% covered by political risk insurance. Ex-Im Bank provided the first tranche of $300 million in project financing in the form of a political risk-only guarantee, OPIC provided the second tranche of $200 million in political risk insurance, with the remaining $120 million uninsured. Bechtel Corp. managed engineering, procurement, and construction of the facility. The project sponsors were Amoco Corp. (United States), BG plc (United Kingdom), Repsol (Spain), Cabot Corp. (United States), and the state-owned National Gas Co. of Trinidad and Tobago. The plant opened in March 1999.[11]

Indonesia: Unocal Corp. (merged with Chevron in 2005). In February 2002, OPIC announced that it would provide $350 million in loans to support two Unocal-sponsored projects in partnership with Pertamina, the Indonesian state-owned oil-and-gas company. The project included deep-water production and drilling platforms, a processing unit, and two pipelines. In 2011, Indonesia was one of the world's top LNG exporters.[12]

[11] *The Oil Daily* September 9, 1997, p. 8; *Petroleum Economist*, June 1997, Vol. 64, p. 112; Ex-Im Bank, "Ex-Im Bank Approves Project Financing for Sales to Latin America and the Caribbean," press release, September 30, 1996, http://www.exim.gov/newsandevents/releases/2006andprior/1996/ex-im-bank-approves-project-financing-for-sales-to-latin-america-and-the-caribbean.cfm.

[12] *Bloomberg BNA International Trade Reporter*, "OPIC to Give Million in Loans For Indonesia's Oil and Gas Projects," 19 ITR 241, February 7, 2002.

Other Gas Liquids Projects

Guatemala: Texas Overseas Gas Corp. In July 2002, OPIC announced that it would provide $25 million in political risk insurance to support the construction of an 18-million gallon liquefied petroleum gas (LPG) storage facility in Guatemala.[13] The facility is intended to serve Guatemala, El Salvador, Honduras, and Nicaragua.[14]

Nigeria: ExxonMobil Corp. In April 2004, OPIC approved $325 million in financing for an off-shore natural gas liquids (NGL) project in Nigeria. The project—a joint venture between ExxonMobil Corp.-subsidiary, Mobil Producing Nigeria Unlimited, and the Nigerian National Petroleum Corporation—included an offshore NGL extraction platform, undersea pipelines, and onshore fractionation and storage facilities.[15]

Other Oil and Gas Projects

Botswana: Covalent Energy Corporation. In 2004, OPIC provided an $8.5 million investment guaranty to Kalahari Gas Corporation, owned in part by Covalent Energy Corporation of Arlington, VA, to finance equipment purchase and the drilling of coal bed methane (CBM) wells to be used for electricity generation.[16]

Benin, Togo, and Ghana: Steadfast Insurance Company. In 2005, OPIC agreed to provide $50 million in re-insurance coverage to Steadfast Insurance Company (a subsidiary of Zurich Financial Services Group), which provided $125 million in political risk coverage to the West African Gas Pipeline Company LTD (WAPCo), a joint venture between public and private sector companies from Nigeria, Benin, Togo and Ghana. The World Bank, through the International Development Association (IDA) provided $50 million in coverage, and the Multilateral Investment Guarantee Agency provided $75 million. The pipeline, completed in 2008, transports natural gas from Nigeria to customers in Benin, Togo, and Ghana.[17]

Israel: Citibank, N.A. In 2005, OPIC agreed to provide $250 million in political risk insurance to back a loan arranged by Citigroup for a 65-mile natural gas pipeline owned by the Israel Electric Corporation.[18]

[13] Liquefied petroleum gas (LPG) is propane or butane.

[14] *Bloomberg BNA International Trade Reporter*, "OPIC to Provide Financing for Guatemalan Project," 19 ITR 1466, August 22, 2002.

[15] Natural-gas liquids (NGL) include propane, butanes and C5+ (which is the commonly-used term for pentanes plus higher molecular weight hydrocarbons). NGL can be converted into LNG. *Bloomberg BNA International Trade Reporter*, "OPIC Supports Large Gas Project in Nigeria," 21 ITR 880, May 20, 2004.

[16] OPIC, "U.S. small business uses OPIC financing for natural gas development in Botswana," *OPIC News*, Vol. 6, No. 6 (July 2004), p. 2.

[17] World Bank, "IDA Provides an Innovative Partial Risk Guarantee in Support of the West African Gas Pipeline Project," *Project Finance and* Guarantees, January 2005; see also West African Gas Pipeline Company LTD (WAPCo) website: http://www.wagpco.com/index.php?option=com_content&view=article&id=46&Itemid=78&lang=en.

[18] OPIC, "Agreements finalize $250 million in OPIC insurance for Israeli pipeline," *OPIC News*, Vol. 8, No.1 (January 2006), p. 1. Data given by OPIC to your office reports the amount for this OPIC commitment as $320 million.

Other Gas Projects

Egypt: Apache Corporation. Apache began operations in Egypt in 1994. On November 4, 2010, Apache completed the acquisition of BP's assets in Egypt's Western Desert for $650 million. In 2012, Egypt accounted for 20% of Apache's worldwide revenues, 20% of its worldwide production, and 10% of year-end 2012 proved reserves. Apache is active in Egypt's sparsely populated Western Desert. Apache and its local partners sell gas to the Egyptian General Petroleum Corporation (EGPC). Oil production is sold to third parties for export or to EGPC.

According to Apache's 2007 annual report, in 2004, Apache entered into a 20-year insurance contract with OPIC, which provides $300 million of political risk insurance for the company's Egyptian operations. This policy insures against: (1) non-payment by EGPC of arbitral awards covering amounts owed Apache on past due invoices; and (2) expropriation of exportable petroleum when actions taken by the Government of Egypt prevent Apache from exporting its share of production. In addition to OPIC risk insurance, the company also purchases multi-year commercial political risk insurance contracts from highly-rated international insurers covering portions of its investments in Egypt. The insurance provides coverage for confiscation, nationalization, and expropriation risks and currency inconvertibility. In 2007, the company purchased an additional multi-year insurance contract with OPIC to provide $200 million of coverage for Egypt in excess of the commercial insurance program.

Political unrest in Egypt reportedly has not affected Apache operations and it continues to receive development lease approvals for drilling. Nevertheless, in its 2012 annual report, Apache notes:

> However, a deterioration in the political, economic, and social conditions or other relevant policies of the Egyptian government, such as changes in laws or regulations, export restrictions, expropriation of our assets or resource nationalization, and/or forced renegotiation or modification of our existing contracts with EGPC could materially and adversely affect our business, financial condition, and results of operations.

In response to the political fluidity in Egypt, Apache purchases additional multi-year political risk insurance from OPIC and other highly rated insurers to cover a portion of its investments in Egypt. In October 2012, the Multilateral Investment Guarantee Agency (MIGA), a World Bank subsidiary, announced that it would provide $150 million in reinsurance to OPIC, thus allowing Apache to maintain the $300 million of OPIC long-term insurance coverage through 2024.[19]

Possible Factors Affecting OPIC's LNG-Related Activities

OPIC financing for LNG-related transactions can vary due to a range of factors, including the demand-driven nature of OPIC financing and insurance and OPIC's policy requirements.

OPIC's Demand-Driven Nature

As a demand-driven agency, OPIC can make financing and insurance available for certain purposes (such as investments in specific geographic areas or economic sectors), but U.S. businesses will only take advantage of OPIC support if they have sufficient commercial interests in doing so and consider financing to be warranted.

[19] This information is based on Apache Corporation, 2012 Annual Report and Form 10-K, February 27, 2013, pp. 7-8; 2007 Annual Report and Form 10-K, February 28, 2008, p. 16.

Under certain circumstances, U.S. businesses may seek OPIC support for overseas LNG projects in developing and emerging economies to provide gas for energy-poor economies. Most LNG is sold on the basis of long-term contracts (often 20-30 years) that are required to finance the liquefaction facilities.[20] LNG transactions entail certain risks because they are often long-term in nature, the outcomes of natural gas development can be uncertain, and projects may be located in developing countries with a potential for expropriation and other uncertainties.[21]

LNG-related projects, such as the development of export terminals (which can run as much as $30 billion),[22] often rely on financing because of high upfront costs and their long-term, capital-intensive characteristics. In some cases, commercial banks may be unwilling or unable to take on the risk of supporting the projects, and U.S. businesses consequently may seek support from OPIC to help mitigate the risks of investing in such projects.

Demand for overall OPIC support also has grown in recent years in light of the international financial crisis that began in 2008 and the ensuing global economic downturn. The financial crisis led to a shortfall in investment financing available from commercial banks, including the availability of long-term project financing. As a result, OPIC has reported a greater demand from U.S. investors for its assistance to fill in the gaps in private sector financing and insurance.

Another element driving demand for OPIC has been the changing international landscape. The growing number of players and volumes of investment financing has resulted in greater and varied competition for U.S. businesses—competition from firms in both developed countries and from rising economic powers as they move up the value chain. To level the playing field, U.S. companies thus may seek OPIC assistance to counter the officially-backed investment support that their competitors receive from their national governments.

OPIC's Policy Requirements for Project Support

In providing support for U.S. private sector investment overseas, OPIC must balance multiple policy objectives, including foreign assistance, development, economic, environmental, and other policy goals. Certain stakeholders cite OPIC's environmental policy, in particular its policy to reduce greenhouse gas emissions (GHG), as a central factor affecting the types of projects that OPIC supports.

OPIC's environmental mandate dates back to 1985 and is incorporated into its authorizing statute.[23] Subsection (n) of Sec. 231 of the Foreign Assistance Act of 1961, as amended, requires OPIC to refuse to insure, reinsure, guarantee, or finance any investment project which the agency determines "will pose an unreasonable or major environmental, health, or safety hazard, or will result in the significant degradation of national parks or similarly-protected areas." OPIC screens all applications to identify the risk of potential adverse environmental impacts and to identify project impacts that could preclude OPIC support on categorical grounds.

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[20] CRS Report R42074, *U.S. Natural Gas Exports: New Opportunities, Uncertain Outcomes*, by Michael Ratner, Paul W. Parfomak, and Linda Luther.

[21] Philip R. Weems and Matt Solo, "Mitigating Expropriation Risk of Natural Gas Projects," King & Spalding, *Energy Newsletter*, July 2012, http://www.kslaw.com/library/newsletters/EnergyNewsletter/2012/July/article1.html.

[22] Prasenjit Bhattacharya, "ONCG Mulls LNG Terminal in Mangalore," *Wall Street Journal*, February 20, 2013.

[23] OPIC Amendments Act of 1985 (P.L. 99-204, 99 Stat. 1669) added subsection (n) to Sec. 231 to the Foreign Assistance Act of 1961 (P.L. 87-195), as amended.

OPIC's current policy to reduce GHG emissions includes: (1) reducing direct GHG emissions associated with OPIC-supported projects through specific targets, i.e., reducing GHG emissions associated with projects and sub-projects in OPIC's portfolio as of June 30, 2008 by at least 30% over a 10-year period (June 30, 2008 – September 30, 2018), and by at least 50% over a 15-year period (June 30, 2008 – September 30, 2023); (2) establishing a total "cap" on GHG emissions for all significant new projects undertaken by OPIC in a given fiscal year; and (3) increasing transparency of GHG emission impacts associated with OPIC-supported projects. This policy is based on a combination of congressionally-mandated statutory requirements in OPIC's enabling legislation, appropriations requirements, OPIC's own internal policies and initiatives, and obligations under legal settlements.

In addition to reducing GHG emissions, OPIC continues to shift its investment support focus to renewable and energy efficiency projects. OPIC's overall commitments to renewable resources grew from $10 million in FY2008 to $1.1 billion in FY2011. OPIC's renewable energy project commitments for FY2011 represented about 40% of OPIC's total new project commitments for that year ($2.8 billion in new market-based financing and political risk insurance commitments).[24] It is worth noting that OPIC traditionally has focused on large-scale, capital-intensive infrastructure projects overseas, and the changing composition of its portfolio marks a shift in its activities.

While OPIC's GHG emissions policy may serve environmental goals and could help to improve the sustainability of the agency's development finance efforts, it nevertheless has drawn criticism from certain stakeholders. From a commercial perspective, many U.S. businesses argue that OPIC's GHG emissions policy constrains their ability to utilize OPIC support. They argue that it places them at a competitive disadvantage relative to foreign firms when competing for international project contracts. Many other countries have DFIs that may not have the same policy restrictions that OPIC has, potentially enabling them to support a broader array of energy-related projects. From the development perspective, some argue that OPIC's GHG emissions reduction policy prevents it from participating in investment projects that are likely to have the largest development impact, an important aspect of OPIC's mission. For example, according to one non-governmental organization, "the OPIC emissions cap effectively prevents it from participating in almost all natural gas-fuelled power projects—and thus directly leaves millions of the global poor in the dark."[25]

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[24] OPIC, "$1.1 Billion in OPIC Commitments Caps Historic Year for Renewable Resources," press release, December 2, 2011, http://www.opic.gov/press-releases/2011/11-billion-opic-commitments-caps-historic-year-renewable-resources.

[25] Todd Moss, *Unleash OPIC: Why Are We Fighting Climate Change on the Back of the World's Poor?*, Center for Global Development, June 20, 2012, http://www.cgdev.org/blog/unleash-opic-why-are-we-fighting-climate-change-back-world%E2%80%99s-poor.