

財団法人比較法研究センター 主催

イラク 投資環境法整備 ～イラク省庁研修生向けセミナー～

立命館アジア太平洋大学
アジア太平洋マネジメント学部教授
鈴木康二

2010年10月15日
於 独立行政法人国際協力機構 大阪国際センター

Part 1

FDI for National Development varieties in form of FDI

SUZUKI, Koji

Professor, Ritsumeikan
Asia Pacific University,

k-suzuki@ctb.ne.jp

Oct.13(Wed.),2010



My seminar course consists of

Theory of FDI

- Green field FDI vs.M&A, analysis of feasibility of FDI(environment,law & regulation, technology level)

Oil, infrastructure

- Case of Successful Japanese FDI, how to introduce FDI to Iraq

Agro-processing,banks

- Case of Successful Japanese FDI, how to introduce FDI to Iraq

In each sector I may explain cases and know how to introduce FDI

- Case of Successful Japanese FDI, how to introduce FDI to Iraq

Lecture, Q&A, discussion

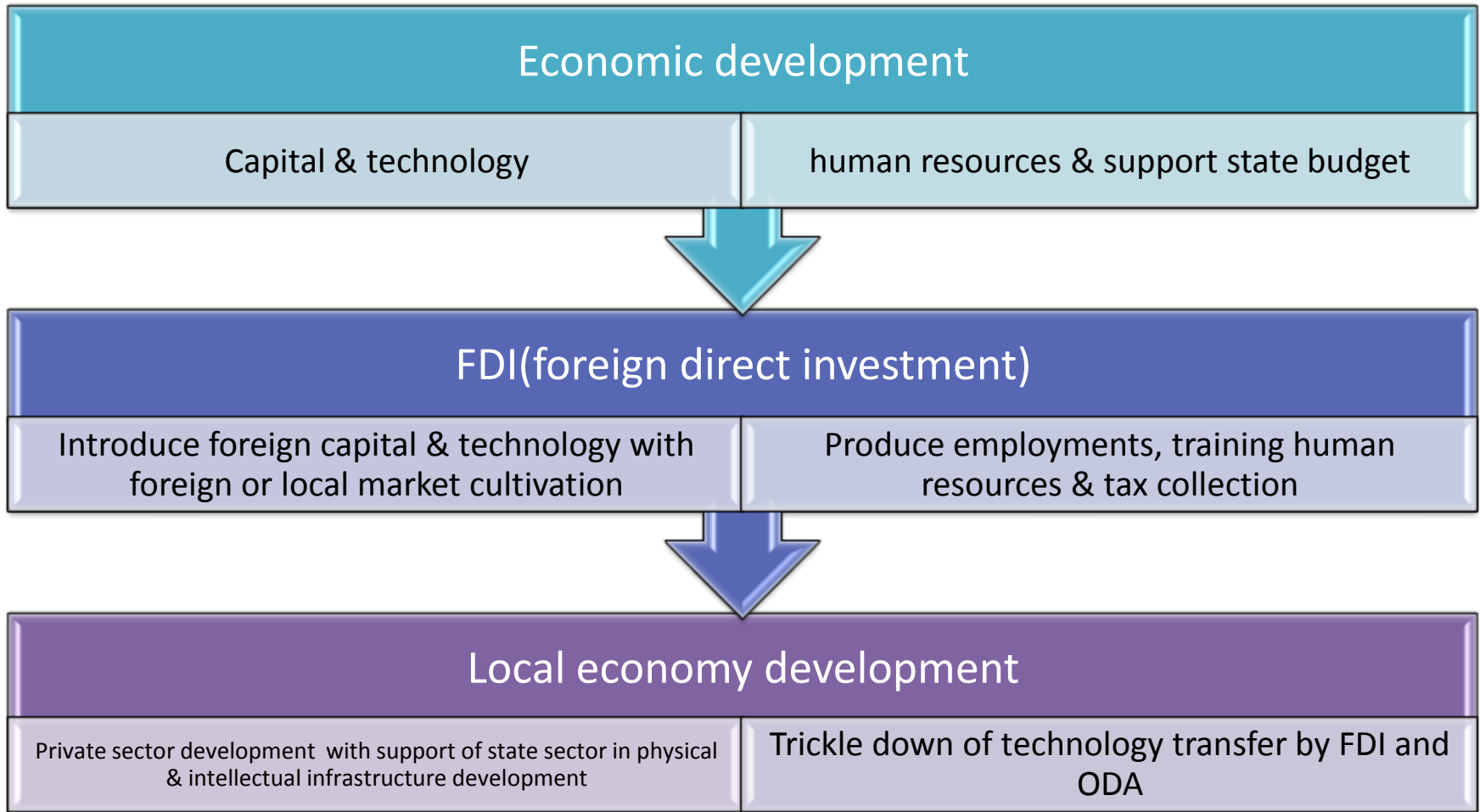
Lecture can be reviewed for FDI sector which you concern.

- Not detailed lecture is made as Iraqi information is not enough. But you may understand that position and motivation of possible FDI investors especially Japanese investors.

Question & Answer(Q&A) can be made from your interests in any time of my lecture, but think of time limitation.

- Discussion can be made on mutual understanding not speech, under empathy initiatives.

I.FDI for national economic development



II. Varieties in form of FDI

JVFDI

100%FDI

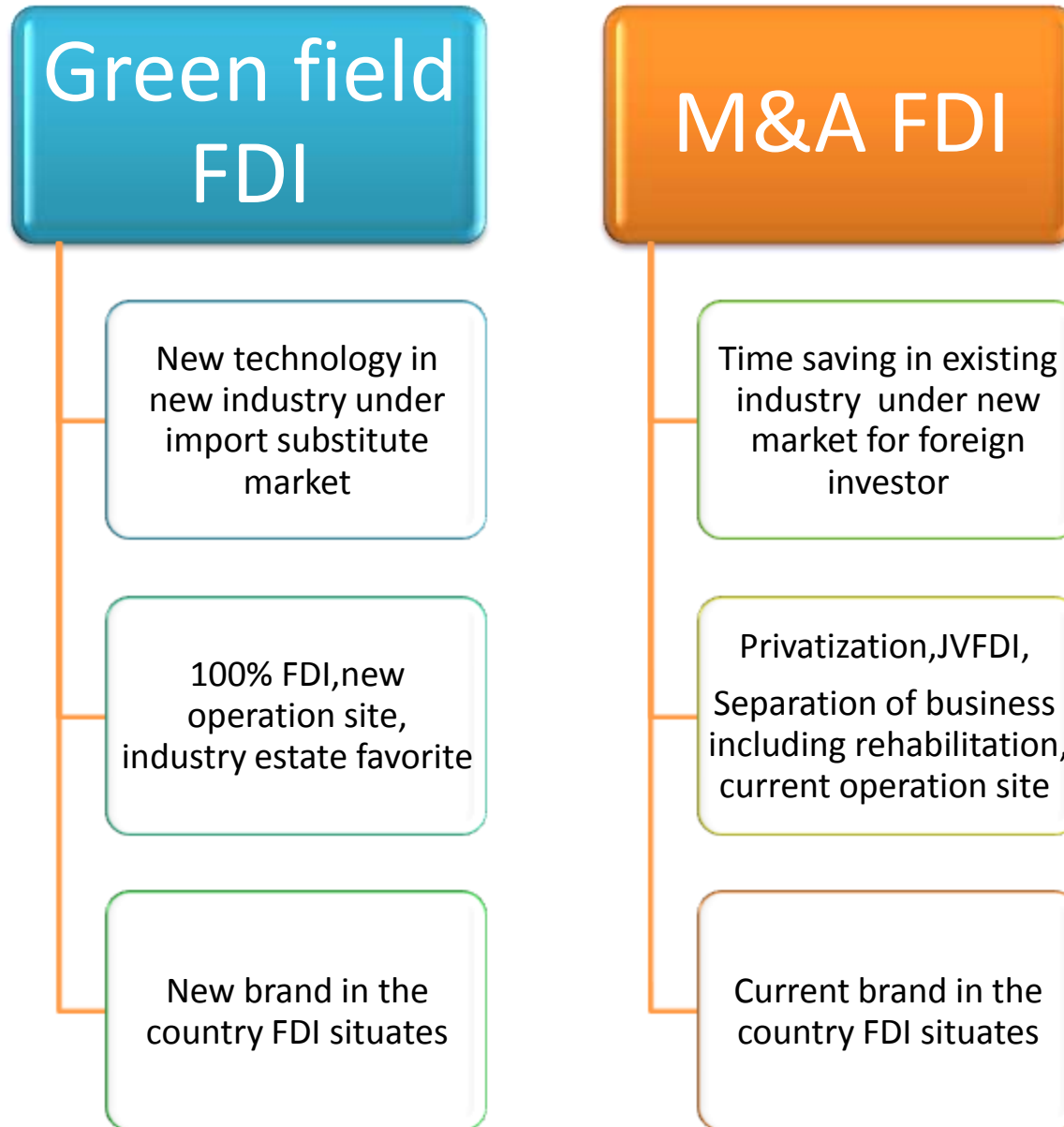
Contractual
JV (production
sharing contract)

Investment by
Venture capital

Merger &
Acquisition (M&A)

Green field
investment

Difference in motivation,Iraq may be requested to privatize SOE to promote M&A FDI.



Green Field Investment & M&A in manufacturing company



- FDI is made under green field investment and M&A(merger & acquisition). In manufacturing FDI, green field investment is preferred, as foreign company wants to manage FDI with its original way, such training local employee, know how, adopted in mother country. And welcoming local government also prefers green field investment with new cash investment with new machines and earns fees of long term land use right.
- But after Asian Financial Crisis 1997, M&A got popular as foreign capital has been welcomed to supply cash to save over debt ridden local manufacturing companies. Foreign manufacturing companies are white knights. In these days local market penetration is important for manufacturing FDI companies to grade up sale promotion in after service and financial support, so foreign manufacturing companies or manufacturing FDI want to take equities of local agent companies by M&A.
- Foreign company's M&A in privatization of SOE in Asia is not popular as due diligence by foreign companies toward SOE showed not to invest. Foreign companies want to avoid to take over ridden liabilities of SOE, and prefer to make green field FDI with SOE which takes minority portion with in kind contributions. This is completely different from M&A in Russia and East European countries in 1990's.

M&A in service Industry

- In service FDI, foreign equity portion has been limited to minority portion. Foreign companies are expected to supply know how to local majority owned companies. If FDI service is a new type, green field FDI is adapted, and FDI service is a traditional type with partly new business adding, M&A may be introduced.
- After 2001, completely new service industries have developed under Government control, M&A has got popular, as local companies got concessions to establish new service companies and with those concessions local companies wanted to introduce technology and capitals from foreign companies.
- One more new type of FDI is M&A of listed companies. If local capital market has not developed, green field investment is preferred, but if TOB of listed companies is acceptable, M&A is a short cut for foreign companies to make strategic alliance with local companies or to access to local market quickly. Foreign venture capital of mezzanine fund also looks at M&A as a strategic investor.

INAX's M&A of Asian Business of American Standard

- In manufacturing FDI in Asia, M&A has been introduced after 2001. In Vietnam, as a pioneer of FDI in sanitary ware, INAX invested with green field investment in Hanoi in 1998.
- In other ASEAN countries and India, INAX invested with M&A of Asian business of American Standard on May 18, 2009 including 10 factories(China 4, Thailand 3, Korea,Indonesia, Vietnam 1).
- Net sales of Asian business of American Standard in 2008 was 180million Euro(\$261mil.). And M&A price was 112million Euro(\$163mil.). American Standard was merged by US investment company based in Luxemburg in 2007 with \$2.2 billion. The investment company might get short of cash flow by the Lehman shock of 2008.
- INAX(JS Group,www.jsgc.co.jp)bought time for its globalisation to compete with TOTO(net sales 53bil. yen).



Green Field Investment of INAX (IS Group)



For Precious Life

- Production FDI, 3 in China(one 49%),3 in Vietnam(one 55%),1 in Taiwan(51%) from 1995
- Investment amt.8.7bil.yen
- (\$870mil) in accumulation
- Net sales 7bil.yen(2008)

M&A of American Standard,Asia

American Standard

Style That Works Better

- Production FDI,4 in China(64%), 2 in Thailand,1 in Indonesia,
- Korea and Vietnam from 1982
- Investment amt.15.1bil.yen(\$163mil)
- Net sales 24.2 bil.yen(\$261mil)

Varieties in form of FDI by industry and possible collateral problems;
Freehold land ownership by FDI is admitted only to FDI for housing development. Manufacturing FDI is difficult to get finance without freehold land mortgage. Government regulation for occupancy mortgage for factory facility, machinery or vehicles is not issued or cleared. This makes difficult for manufacturing FDI to get finance. Is a foreign minority FDI in M&A, Iraqi legal person who can hold free land title? As before the M&A Iraqi legal person may have free hold land ownership.

JVFDI for technology transfer and local market oriented

100%FDI for export oriented, new business or sales subsidiary

Contractual JV (production sharing contract) for oil & mining exploration, hotel or consignment contract

Investment by Venture capital for venture business, IT or environmental FDI in capital shortage project

M&A for big company development and rehabilitation or privatization of SOE (state owned enterprise)

Green field investment for new manufacturing industry or sales subsidiary

Iraqi Free Trade Zones Law No.3,1998 only covers export oriented FDI, but recent export oriented FDI requests to sell to local market also to enjoy economy of volume.

Important tariff exemption is made for imported capital goods which are utilized by all FDI and several months materials to produce.

Easy custom clearance is important for all FDI to avoid red tape.

Industrial estate for green field investment may include free trade zone, as industrial estate agency may have delegated power to control FDI and custom office may be established in industrial estate.

JVFDI for technology transfer and local market oriented

100%FDI for export oriented, new business or sales subsidiary

Contractual JV(production sharing contract) for oil & mining exploration, hotel or consignment contract

Investment by Venture capital for venture business, IT or environmental FDI in capital shortage project

M&A for big company development and rehabilitation or privatization of SOE(state owned enterprise)

Green field investment for new manufacturing industry or sales subsidiary

II.2 Varieties in form of FDI by industry

JVFDI for technology transfer and local market oriented

100%FDI for export oriented, new business or sales subsidiary

Contractual JV (production sharing contract) for oil & mining exploration, hotel or consignment contract

Investment by Venture capital for venture business, IT or environmental FDI in capital shortage project

M&A for big company development and rehabilitation or privatization of SOE (state owned enterprise)

Green field investment for new manufacturing industry or sales subsidiary

II.3. Some instruments for FDI analysis; How to appeal possible foreign investors with regulations; appeal win-win game for possible target

OPA (operation
process analysis);
You can get profit
from FDI!

Cultural value;
understand yourself
and counterpart in
communication

Shape of country;
Role of government
sector with FDI sector
among social sectors

Regulation;
Think other
regulations in addition
to tax incentives (this
seminar)

Investment
environment;
Think competitiveness
to rival country

Comparing in global level for doing business, Iraq belongs to the worst group

- By IFC,World Bank, “Doing Business 2010,Iraq” in comparing regulations among 183 countries, Iraq is Nr.153 in ease of doing business.
- It shows practical data in its Appendices pp.52-72.
- IFC recommends reforms of regulations. IFC evaluates Iraq with no reform by 2010.
- Iran 137,Jordan 100,Oman 65,UAE 33,Saudi Arabia 13,Singapore 1
- Worse factors are as follows;
- Starting Business Nr.175, in 77 days
- Getting Credit Nr.167,in no deep credit information
- Trading across Borders Nr.180,cost of trade \$3900 per container, 10 documents for trade
- Enforcing Contracts Nr.139, 520 days, 51 procedures
- Closing a Business Nr.183, no recovery, no practice for years of closing

Comparing 5 factors for doing business, Iraq belongs to the worst group

- 1.Starting Business Nr.175, in 77 days
- To take trade license 55 days
- “All accounting reports to the Government(including Iraq Uniform Accounting System) shall be made in Arabic with hand writing” can be changed “in Arabic only”to speed up procedure under current computerized accounting system.
- 2.Getting Credit Nr.167,in no deep credit information
- Public registry system for company is requested.
- 3.Trading across Borders Nr.180,cost of trade \$3900 per container, days for export or import 101 days, shall decrease 1/3 of current levels
- 4.Enforcing Contracts Nr.139, 520 days, 51 procedures(steps to file claims,obtain judgement and enforcr it)
- Similar level in Saudi Arabia,UAE or Jordan(Nrs.124-140)
- Days to resolve commercial sale dispute before the court 520 days are similar levels to Iran, UAE,Saudi Arabia,UAE or Oman (520-689 days)
- **Ratification of New York Treaty on foreign award of international commercial dispute is requested.**
- Procedures 51 times shall be decreased to less than 40 times
- 5. Closing a Business Nr.183, no recovery, no practice for years of closing
- Recovery rate(time,cost and other factors such as lending rate and the likelifood of the company continuing to operate) shall be increased from 0% to over 30%

Target the seminar

- **A promoted industry may request its concerning law and regulation in details.**
- **Detailed law and regulation in an industry which you promote FDI, may give FDI a solution which FDI may face and a legal predictability.**
- **Law-oriented Infrastructure may promote foreign direct investment.**
- **Staffs of FDI promotion agency shall appeal to possible foreign investors not only tax incentive, political stability and cheap human resources but also appeal your FDI friendly law-oriented infrastructure.**
- **Possible foreign investor may check your comprehensive ability of doing business in your country. Although you are not a law maker, you shall have an ability to make a proposal for modify or make a law or regulation with reference to the experiences of other countries.**
- **This may be a different approach to IFC's "Doing Business Iraq 2010."**

Business laws in connection with operation of FDI companies

–six types of business and business laws, Understanding relation between welcoming industry and concerned business law

Six types of business	Materials, capital goods	intermediate	Finished
goods	Energy, utility, cement, steel petrochemical, factory machinery, real estate ; type (i)	Car parts, electronics parts, chemical products ;type (iii)	Apparel, food, food processing, daily products, car, home electric goods ;type (v)
service	IT, construction, transportation, telecommunication, finance ; type (ii)	IT, transportation, telecommunication, finance ;type (iv)	Retail, wholesale, construction, tourism, advertising, media, finance telecom. (vi)

	Material, capital	Intermediate	Finished
Goods	(i)Privatization and BOT(Energy, utility), law in transition	(iii)Supporting industry,SME development, industry cluster,FTA and regional economic zone	(v)FDI promotion, FDI in agricultural processing and textile(apparel, food processing, daily products, car, home electric goods),trade union, wage hike
Service	(ii)BPO	(iv)BPO(IT related),industry cluster, Bank law, security market, foreign currency (finance)	(vi)FDI in retail and service industry including telecommunication, tourism development, competition law

possible law fields by industry for possible FDI in your country and possible business laws concerning FDI

industry	Possible law field in concern
Retail (vi)	Abuse of priority status in competition law,,Franchise law, Restriction to enter under foreign investment law
Apparel(v), food(v), food processing(v)	Food hygiene law in exported country, Consumer protection law in the market, Product liability law, Environmental protection law, Consigned production law(import tariff,VAT), Labor law,Company law
Car(v), car parts(iii)	PL law, abuse of priority status against sub contractors and dealers, joint venture agreement, company law, FTA, administrative guidance in local contents
Security house(iv,vi),steel(i), tire(iii,v)	Administrative guidance in operation and financial products, law on mutual fund, chattel mortgage law and securitization law, security exchange law, company law and M&A regulation, consumer law

	Possible law field in concern
Bank(vi), home electric goods(v)	Contract law, mortgage law, bankruptcy law, consumer law, place of origin in foreign investment law, bank branch not covered by foreign investment law, law of trade secret, patent law, design law, trademark law, labor law, environmental protection law(EU regulations like REACH and WEEE)
Electric goods(i,v), electronics parts(iii), ICT industry(iv)	Labor law, consigned production law, IPR, FTA, in the market, Product liability law, Environmental protection law, environmental protection law in the market(EU regulations like REACH and WEEE), Consigned production law(import tariff, VAT)
advertizing(vi), insurance(vi,ii,iv)	Unfair trade practice of competition law, insurance law, administrative guidance in insurance industry(bancassurance), tort law
Energy(I,ii), trading house(ii)	Production Sharing law(PS), joint venture agreement, mining law, BOT regulation, plant export contract, international private law, international contract law, law on international disputes
Machinery(i), motorbike(v)	Joint venture agreement, international contract law, IPR(design, trademark), abuse of priority status in dealer control
Chemicals(i,iii), daily necessities(v)	Environmental law including recycling, IPR, joint venture agreement, tort law, sales agent agreement, EU competition law in huddle, cartel and sanctions

	Possible law field in concern
Tourism(vi),hotel(vi)	SME protection in foreign investment law, labor law(foreign expatriates), environmental protection law, hotel management agreement, securitization law (REIT)
Credit(vi), leasing industry(ii,iv,vi)	Consumer law, leasing regulation, BOT regulation(BTLO for ODA), credit sales regulations, LLP, securitization regulation
Transportation(iv,vi),telecommunication(iv,vi)	Concession agreement, administrative guidance, joint venture agreement, consumer law(e-commerce regulation)
Cement(i),engineering(ii,vi,vi),paper(v,iii)	Joint venture agreement, BOT regulation, environmental law(forest protection, EIA), land law including industry estate regulation, administrative guidance, administrative law, competition law in huddle(談合) and sub-contracting

Iraqi key industries and possible law fields by industry in possible FDI (from seminar “Investor’s Guide to Iraq” by National Investment Commission in April 2009)

Red characters shown below are key industries shown in “Investor’s Guide to Iraq” by NIC in April 2009.

	FDI in Iraq	Possible law field in concern
Retail (vi)	Majid Al Futtaim(UAE) establishes Carrefour at Elbil(Feb.2010)	
Apparel(textiles, leather goods, v), food(v), food processing(v)	FTAA German offered broiler business with 15thou. acre in Dikal	
Car(v), car parts(iii)	1.Renault (France)JV FDI with SOE at Eskandia	2.Daimler made a MOU for truck assemble JVFDI(Jan.2010)
Security house(iv,vi), steel(i), tire(iii,v)	1.Me-Ver Machinery Turkey offered steel FDI and power house(676MW) at Basra(Mar.2010)	2.Arcelor Mittal and Dayen Turkey proposed a steel FDI at Slaymayani with \$130mil. to be operated from 2012(Mar.2010). 3.STX Korea establishes 500MW power house and 3mil ton steel FDI at Basra with 3bil.yen(Feb.2010).

Bank(vi), home electric goods(v)	11 FDI banks	
Electric goods(i,v), electronics parts(iii), ICT industry(iv)		
advertizing(vi), insurance(vi,ii,iv)		
Energy(oil & gas I,ii) , trading house(ii)	1.Mesopotamia Oil & Gas(UK) JVFDI with Drilling Company(SOE) to oil recovery(Feb.2009)	2.Shell(Nederland) made a JVFDI with South Gas to utilize gas for 25 years license 3.CNOOC and Sinochem to finalize Maysan oil field(2.4bil bbl)
Machinery(metal fabrication,i) , motorbike(v)		
Chemicals(petrochemicals,fertilizer, i,iii) , daily necessities(v)		

Tourism(vi), hotel(vi)		
Credit(vi), leasing industry		
Transportation(iv,vi), telecommunication(iv,vi)	1.Orascom(Egypt,mobile carrier), 2.Zain(Kuwait, largest mobile carrier),	3.Globim(Canada)monorail
Cement(construction materials ,i),engineering(ii,vi,vi),paper(v,iii)	1.Lafarge France (cement merged FDI of Orascom cement in 2008 with 5 mil/y in Kurdistan and mid Iraq), 2.Each Land(USA) in recycle facility,hotel,shopping center and low cost residence in Wasit 3.Veolia France made a water purify and supply contract with Baghdad Govern. Amounting \$5bil in future(July 2009). 4.Candy Group German has a plan to office building and leisure park at Baghdad(Nov.2009).	5.Italian consortium started 34bil. Euro(\$4.6bil) BOT project at Al-Faw Port, Basra with 11 quays,100mil.ton/y(connecting Barakat Industrial Park,Apr.2010) 6.Marlok German made a joint operation of Nr.8 quay at Kol Al Zubeil port with Iraq Port Authority with rehabilitation & operation for 7 years(ROT, Aug.2010). 7.CME France made a joint operation of container terminal and Nr.4 quay of Um-Kasul port amounting \$20mil. with Iraq Port Authority (May 2010) 8.Al Jamih Energy(Saudi Arabia) makes FDI in power house at Basra with \$3mil.(Aug.2010) 9.Chinese companies got a FDI license to establish exhibition center and shopping center with 7ha at Babil(Babil IC)(Aug.2010).

Comments to “Investment opportunities proposed by the Provincial Investment Commissions” <http://www.amb-iraq.fr/investmentrng.doc>

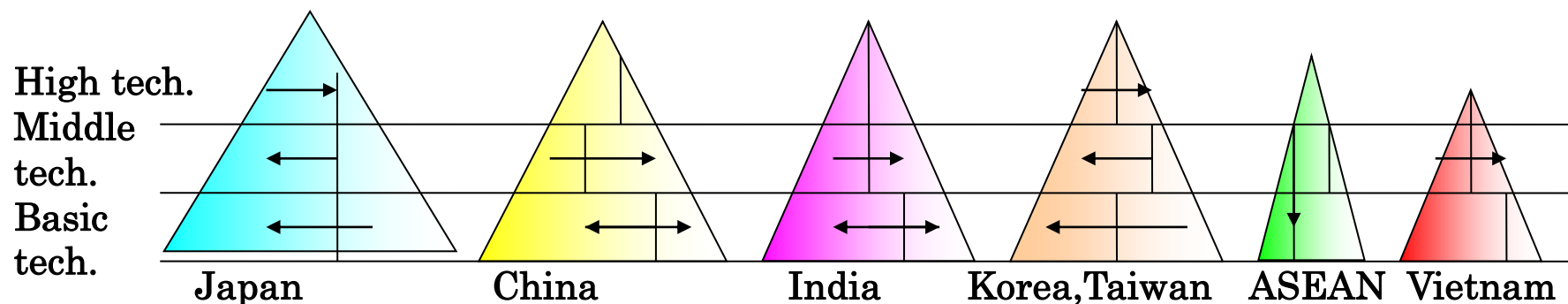
			comment
AL-Anbar Governorate	2.Tourism and entertainment	Providing resorts for the people	Short of return by foreign currency
	1.Al Ramasi City Residence/20 thousand residence		Short of return by foreign currency even if demand growth
Babil	3 resort island	\$2bil.	Tourism site, low possibility for repay by foreign currency
Al Basra	1. 5 thousand residential project		Possible as industry development site
	2.Resort in Al-Sinbad Island with hotels		Possible as foreign currency earning

Kirkuk Govern orate	1.Kirkuk International Airport	15mil(currenc y unit?)	Possible under PPP if cost analysis is good
	2.Seeds production Dependent on Rainwater	190mil(curren cy unit? Too big?)	Possible if the technology and demand are sufficient, Profit by dinar can be re-invested.
Missan Govern orate	1.Construction of industry city	\$40bil.	Specific project only can proceed.Short of return by foreign currency
	2. Construction of refinery to produce oil products and electric power	\$3 bil.	Possible, if it integrates to 1 above, 1 also possible.
Al-Muthan a	1. Automobiles assemble near Al Samawa	\$50mil.	Possible if car company agrees, import parts are available as it is near the port
	2.Cement factory Nr.10, Limestones are produced near	\$250mil.	Possible as foreign currency earning,near Kuwait, what is British specification?
	3. Power house	\$1bil.	PPA in BOT is the key

Al-Najaf Governorate	1.Complete health complex	\$2bil.	Short of foreign currency, ODA preferable
	2.Residential project at Al-Haydariya	\$500mil	Short of foreign currency, local SOE is preferable with loans
Nineveh Governorate	1.Construction of residential city, 15km north of Mosul	\$1bil.	Possible if foreign currency arrangement from oil export
	2. Monsul International Airport	\$400mil.	Possible if demand coordination and arrangement with Kirkuk International Airport
Al-Qadissiya	1. Sports city	\$150mil.	impossible for consumers can not pay construction cost, local construction is preferable with local budget
	2.Dewaneia International Airport	\$250mil.	possible if Baghdad people use.

Salah Al-Deen	1.Vegitable oils factory	\$15mil.	Possible for cash rich companies or if government arranges foreign currency to repay foreign loans
	2.Petrochemicals	\$2bil.	How to coordinate renovation plan of current oil refinery of Baiji, and its crude oil source of Kirkuk oil fields
Thiqar Governorate	1.Electric power house Nr.2 south Nasiriya	\$900 mil.	Short of foreign currency, PPA is the key, one unit only with 600MW may be possible
	2.Oil Refinery 300 thous.bbl/day south Nasiriya	\$7bil.	Possible if oil concession holder may invest, with using PFI
Wasit Governorate	2.Construction of touristic city,	1bil. dinar	impossible as foreign currency shortage from the project, Are current tourist sites popular?
	1. Dairy factory and milk products	\$20mil.	Possible if milk supply in the region is sufficient

Technology pyramid can show technology level of country
 technology has level and range. High technology shall be
 protected by IPR including trade secret.



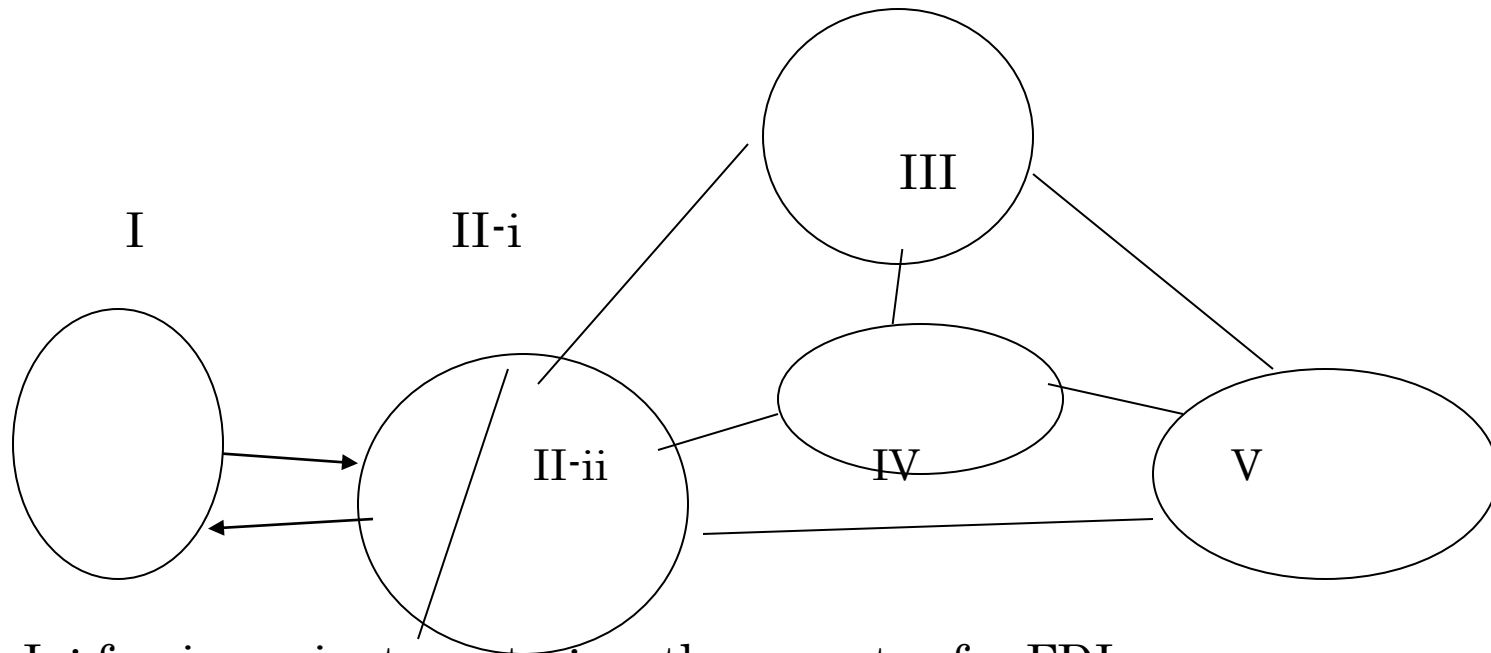
- Vietnam type: Cambodia, Madagascar, Malawi, Myanmar, Oman, Palestine ← trade mark, fakes, safety regulation of export country
- ASEAN type: Indonesia, Syria ← fakes, trade secret
- Korean type: Macedonia, Macedonia, Tunisia ← trade secret, patent
- India type: Iran, Iraq, Ukraine ← trade secret, industrial design, patent

Cluster	Cultural values in country	Cultural value in Character
I	Denmark, Finland, Sweden, Norway, Laos	Individualism, self realization, golden mean and warmth
II	HK, India, Indonesia, Jamaica, Malaysia, Philippines, SGP, China except South China, Vietnam, Kazakhstan	Obedience to authority of the society, Crony, family oriented, obedience to the group
III	Chile. Columbia, Venezuela, Pakistan, Portugal, Korea, Taiwan, South China, Thailand, Russia, Serbia	To avoid uncertainty, not matured individualism
IV	Australia, Canada, Austria, German, UK, Island, USA, Italy, South Africa, Switherland	Strong social norm, high leveled self realization, reciprocity
V	Arab, Iraq, Argentine, Brazil, Belgium, Mexico, Greece, Turkey, Japan, Spain, France, Myanmar	Avoid uncertainty with norm, obedience to social norm

Cluster	Cultural values in country	Cultural value in Character
I	Iraqi transaction with Denmark, Finland, Sweden, Norway shall be made under technology transfer based ODA.	Individualism, self realization, golden mean and warmth
II	Iraqi transaction with HK, India, Indonesia, Malaysia, SGP, China except South China, Vietnam shall be made under political economy with authority. Risk is assumed by authority. It may face national interest and no technology transfer to FDI.	Obedience to authority of the society, Crony, family oriented, obedience to the group
III	Iraqi transaction with Pakistan, Portugal, Korea, Taiwan, South China, Thailand, Russia shall decrease uncertainty under big men communications(top down diplomacy). Quick investment return of FDI with high risk may create troubles(too much import etc.)	To avoid uncertainty, not matured individualism
IV	Iraqi transaction with Australia, Canada, Austria, German, UK, Island, USA, Italy shall be reciprocal business profits. Stick to foreign management right may face troubles, especially in privatization of SOE.	Strong social norm, high leveled self realization, reciprocity
V	Iraq belong to Cluster V, transaction with Arab, Turkey, Japan, Spain, France, to decrease uncertainty with new regulations and their implementations or with trust on norm basis. Decrease risk with gradual trust making	Avoid uncertainty with norm, obedience to social norm

Shape of Country and Business laws of your country

	State Sector	Company Sector	Civil Society Sector	Individual Sector
Object	Govern	Profit	Co-habitation	Free option
Instrument	Law	Market competition	Voluntarism	Free option
Example	Central gove't Prefecture gove't, court, diet	Company limited by shares, FDI, partnership	Family, political party university, religious Group	Individual person, foreigner, national citizen
ASEAN	Small	Small	Big	Medium
China	Big	Small →medium	Medium	Medium
Japan	Medium	Big→medium	Small→medium	Small→big
International Society	Sovereignty of nation state	MNCs	International Communities	Cosmopolitanism
Object of Int'l Society	No interference	Political & Economic profit	Peace	Peace
Instrument of Int'l Society	National Security	Politics & Economics	Share Value consciousness	Value consciousness
Iraq	Big, central & local government	Small except SOE	Big, clan, religious group, tribes	Small→medium



I : foreign private sector: mother country for FDI company

II-i: FDI company sector in local social system

II-ii: local company sector in local social system

III: local state sector :operated by civil servants, indicated by congressmen voted by individual sector, and umpired by independent civil servants

IV: local individual sector: voting right to the state sector from civil society sector

V: local civil society sector: voted political party, family, area people, village, town ship and city,

→ Entrance by FDI, voicing against II-ii, III, disputing against II-ii,III,IV,V

← 2010/10/26

exit from FDI

Iraqi government may face possible problems in relating to FDI business.

- Central government vs. local government(both strong)
- The Government can be challenged by court backed by civil society and petitioned by company sector. To avoid those challenges red tapes, corruption and non security situation by police shall be eliminated.
- The central government, which introduces FDI may face troubles with the congress which is backed by individual sector and civil society sector which request more profits from FDI(employment,wage hike or social welfare) and no damage from FDI like environmental issues or consumer protection issues.

Role of civil servants for incoming FDI development

Regulation building

- If a predictability for a project is high, any investor may make an easy feasibility study to invest.
- Each industry requests different regulations and ability to implement them to give legal predictability for FDI.

FDI promotion

- Appeal of investment environment (political, economy, social)
- Focusing specific industry for FDI promotion

Incentives for FDI

- Tax incentives and other incentives
- Technology levels to fit with FDI business

Operation Process Analysis(OPA)

- Company operation process is divided to processes by products proceeding such as **(1)products planning, (2)research & development(R &D), (3)procurement, (4)production, (5)logistics, (6)marketing and sales, (7)after service, and (8)recycling**. These processes are dealt by front offices.
- Goods or services which are dealt by a company run on the front office in sequence. There are another three processes such **(9)top-management, (10)finance and accounting, and (11)personnel and labor**. These processes are dealt by back offices as back offices do not directly deal goods or services which the company deals.
- Each operation process is checked by **(21)business environment, (22)regulation and (23)technology level**. I call these three factors analysis factors.
- Business environment(21) can be referred with ***comparative investment environment matrix*** and ***management behavior***. Regulations(22) can be referred with ***Shape of country and my separate lecture of Asian Business Law***. Technology level(23) can be referred with ***Comparative technology pyramid***.

Form of Operation Process Analysis

	1	2	3	4	5	6	7	8
21								
22								
23								

9,10,11

- © column number 100 words for reason of profit making
- ○ column number 100 words for reason of profit making
- column number 100 word for reason of profit making
- In service industry, the above OPA matrix shall be modified a little as below.
- Manufacturing(4) in service industry can be ISM(in store marchandice), store layout or internal marketing as tactics at selling place.
- Marketing(6) in service industry can be FSP(frequent shoppers program) or sales promotion as marketing strategy.

Comparative Asian Investment Environment

1. Investment Factors on FDI and Foreign Indirect Investment

- You are requested to understand investment factors in an actual foreign investment case.
- For a foreign indirect investment, investment factors are mainly macro-economic data in the host country, foreign currency data of the host country and Dollar-Yen currency market data, financial data and business topics of a particular company in the host company, industry development trend in which the particular company belongs and stocks market data of the host country.
- For a FDI, investment factors are more detailed analyzed than those in foreign indirect investment, as in the foreign indirect investment, investors usually invest with terms up to 6 months. **Invested items like stocks, bonds are traded in the market**, and the investors are protected to exit from the market easily and confirm the amount of profit and loss from the transaction. **Such profit or loss is a capital gain or a capital loss not gains from the fruits of the company, which are dividend or interest.**

An FDI investor gets profits as dividends resulting his management of FDI company in the host country.

- **On the contrary in FDI, it needs minimum three years to find out success or failure of the FDI transaction. An FDI investor gets profits as dividends resulting his management of FDI company in the host country.**
- **Even if a FDI investor invests in a company equities enlisted in local stock market, he gets profits with long term basis with dividends not capital gains except LBO(leveraged buyout). LBO is not yet popular in Asian countries. In LBO an investor purchases all equities of targeting enlisted company with cheap market price, makes the company delisted in the stock market, restructures the assets of the company with assets sales and layoffs of employees and aims re-enlistment within 5 years with higher price than that he purchases. This means an investor of LBO is an FDI investor and aims capital gains.**

2 Matrix of Comparative Investment Environment

- The Matrix consists of 4 factors in vertical columns and country names in horizontal columns. 4 factors are ***(i)labor problem, (ii)physical infrastructure problem, (iii)intellectual infrastructure problem, and (iv)local adaptation problem.*** This matrix is convenient to make a feasibility study(F/S) which evaluates appropriate country for a concrete FDI project.

Sub-Factors of comparative Environment Matrix

- Each factor consists with sub-factors.
- (i) labor problem consists with sub-factors like (1)low wages of workers, (2)low wages of middle managements, (3)no job hopping, (4)diligence of workers and (5)obedience of workers.
- (ii) Physical infrastructure problem consists with sub-factors like (6)cheap price of land use right, (7)reliability of industry estate, (8)cheap cost in industry estate, (9)no electricity stoppage (except self electric generator), and (10)good port facility.
- (iii) Intellectual infrastructure problem consists with (11)good local partner, (12)small negotiation with local government, (13)easy application of local regulation, (14)no foreign currency requirement, (15)easy tax clearance, (16)easy local financing, (17)L/C issue, and (18)low evaluation on local equity contribution in kind.
- (iv) Local adaptation problem consists with (19)good feelings toward home country, (20)comfortable living condition, (21)communication with English language, and (22)easy learning of local language.

business common sense never selects the country, area or industry which provides incentives to FDI.

- You have to understand ***there are no sub-factors in investment incentives provided by the host country.*** As investment incentives can be provided only the case the investment is usually difficult to be made. This means business common sense never selects the country, area or industry which provides incentives to FDI.
- For example a host country gives tax incentives to an infant industry. The investment cost in the infant industry is high enough not to fit cheap labors. After commissioning the operation, the FDI may face hardship of the strict intervene to the management of FDI by the host government. Tax incentive in corporate income tax does not mean anything, if the FDI can not get profit, as corporate income tax is paid only if the company gets profit. Tax level of 25% of Vietnam, that of 20% of Laos, and 25% of China shall be counted under such situation. In 2003 Vietnam may raise corporate income tax level to 28% from 25%. This policy is preferable for FDI as Vietnamese local companies will not be able to claim FDI as FDI enjoys preferable tax level. But Vietnam decreased to 25% to compete with China in 2008. ***Equal treatment, in other word, national treatment, is more important than investment incentives.***

Special favorable treatment by the host government loses predictability of business

- Special exemption of import tariff leads transaction cost higher. Poor ability of custom officers takes times, procedures, mistakes and corruptions. Comparative low level of import tax with national treatment is favorable. ***Special favorable treatment by the host government loses predictability of business in the host country and makes an adventurous investment with low internal rate of return(IRR) and overestimation of market development.*** As sometimes overestimation of market growth in F/S only gives an excuse to give special favorable treatment to a FDI.

Weight of the factors

- Relating to each concrete case study you can weight each factor with percentage as total factors count 100%. ***In a labor intensive FDI case, you have to weigh (i) labor problem more than other factors***, as cheap labor cost is important for a success. ***In a capital intensive FDI case, you have to weigh (ii) physical infrastructure more than other factors***, as a full operation of machinery without stoppage is a key to a success. ***In a KD(knock-down) production in an import-substitute FDI, you have to weigh (iii) intellectual infrastructure more than other factors***, as import KD parts in low level of custom tariff is a milestone for a successful FDI. ***If your FDI project needs a wide range of technology transfer on OJT(on the job training) base, you have to weigh (iv) local adaptation problem more than other factors.***

Weight of the factors by industry

factor	Standard	Labor intensive	Capital intensive	export market oriented
(i)Labor	20%	50%	10%	40%
(ii)Physical infrastructure	20%	10%	40%	20%
(iii)Intellectual infrastructure	40%	20%	30%	30%
(iv)Local adaptation	20%	20%	20%	10%

you put one point on the worst country in each sub-column in horizontal columns.

- In horizontal columns you put country names or area names which you want to compare in investment environment. And ***you put one point on the worst country in each sub-column.*** You put 2 points on the second worst country in the same sub-column. If you want to compare 5 countries, you put 5 points on the best country in the same sub-column. If you finish putting points in all sub-columns, you can count points in each country. In counting points, you have to consider weight in each factor by multiplying percentage of each factor with sub-total of sub-columns.
- With your reference I show my evaluation in the Matrix below with 15 countries as Table 2. In this typical case I put equal percentage 20% on factor (i)(ii)(iv) and 40% on factor (iii) as to put equal importance among 22 sub-factors. 15 countries are Indonesia(ID), Thailand(T), Philippines(P), China in coastal area(Cu), China in inland area(Cc), Vietnam(V), Malaysia(M), India(I), Laos(L), Myanmar(M), Russia(R), Brazil(B), USA(US), United Kingdom(UK), and Japan(J).
- ***You have to modify the weight on factors with more specific observations.*** If FDI is made in labor intensive industry, (i) may be 40%, if it in capital intensive industry,(ii) may be 40& for example.

4. Management Behavior

- A board of management has each style of management. A management behavior may differ by company by company. ***Some companies take top down decision making, other companies take bottom-up decision making. But classification of such decision making style by company does not make sense in actual.*** So you have to have an instrument to analyze management behavior in each company basis.
- Prof. Yoichi Ebisawa of Kanagawa University shows a management behavior by Business Side and Human Side. ***Business Side consists from company strategy, management resources, organization and management administration. Human Side consists from network, database, information, and media.***
- Network of human side shows ***overestimation of importance to utilize Overseas Chinese network in investment in ASEAN, China and NIES.*** Information of human resources shows importance of top management connection with high officials of host country Government but at same time it sometimes shows failures of FDI as Japanese top managements of Japanese private companies overestimate powers of the Government of Asian host countries. A typical case was the FDI failures of Yaohan in China, which resulted Yaohan Japan went insolvency in late 1990s.
- Iraqi image for general Japanese investors is still Iraq is not in security and peace, so Japanese companies are reluctant to dispatch Japanese personnel to Iraq to avoid bombing, kidnapping or terrorism and they think Iraqi business conditions are uneasy and risky.

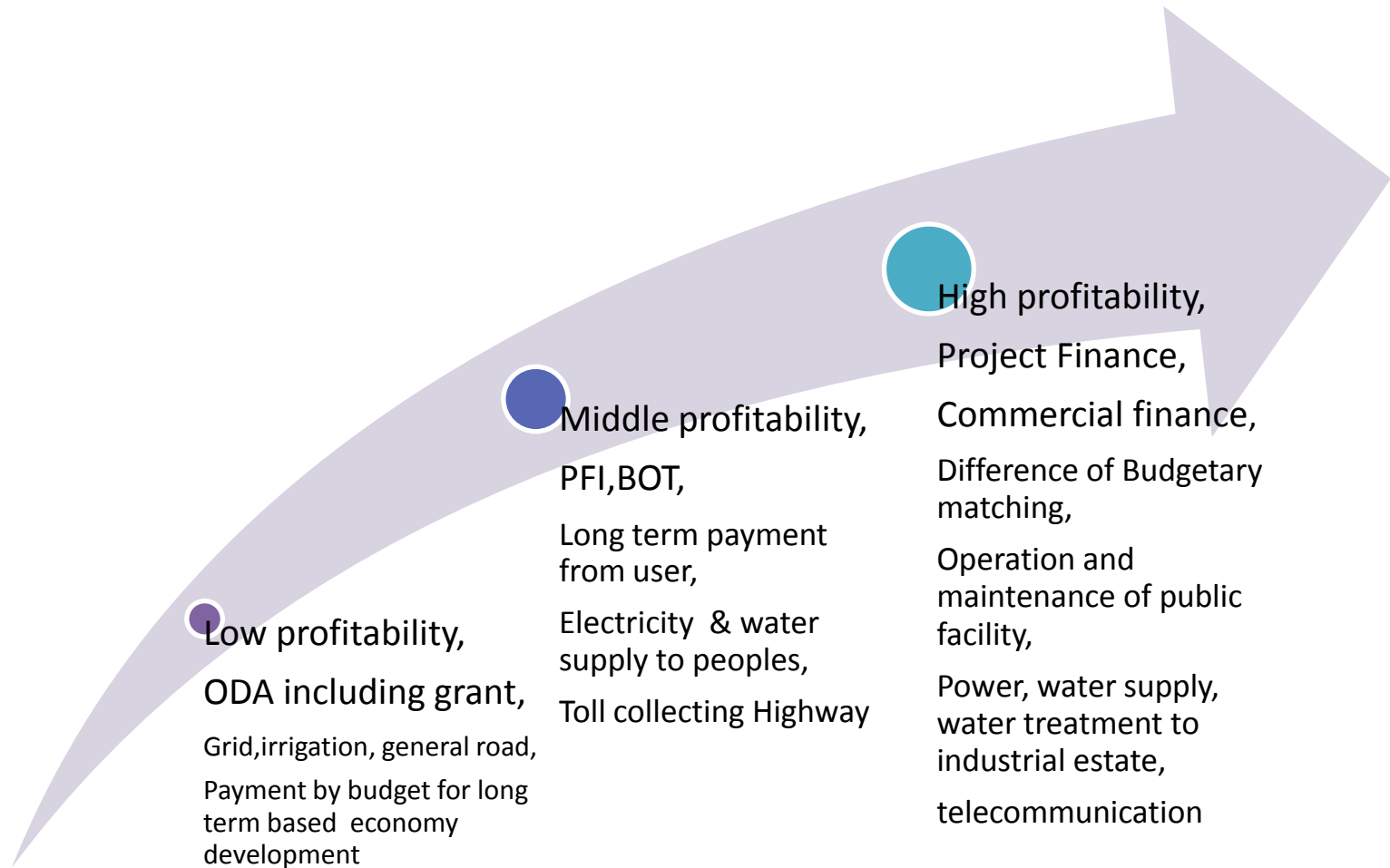
Image to Iraq for general Japanese investors

- Iraqi image for general Japanese investors is still Iraq is not in security and peace, so Japanese companies are reluctant to dispatch Japanese personnel to Iraq to avoid bombing, kidnapping or terrorism and they think Iraqi business conditions are uneasy and risky.
- Public debt reduction by the Japanese Government was made amounting \$6.7billion in Nov. 2005, which was the largest among Paris Club countries.
- Japanese possible investors check implementation and proceeding of Japanese ODA commitment \$5billiom. Proceeding of ODA projects is a good example of checking of ability of recipient Government and its civil servant.
- Those are 15 projects in port, irrigation, rehabilitation of power house, road & bridge, oil refinery rehabilitation, fertilizer rehabilitation, and water project.
- Iraqi Investment seminar in Japan and economic forum in Iraq in 2009 changed the image on Iraqi business.
- **Company Income Tax incentive for 10 years for FDI, company income tax level 15% are enough for FDI. More important one is legal predictability including privatization for domestic market oriented FDI, easy legal search and legal implementation. 15 years tax holidays for Iraqi majority JVFDI company may not function well as foreign partner may request its management right to make quick profit making under modernized management or foreign management culture in the start up or first stage of JVFDI.**

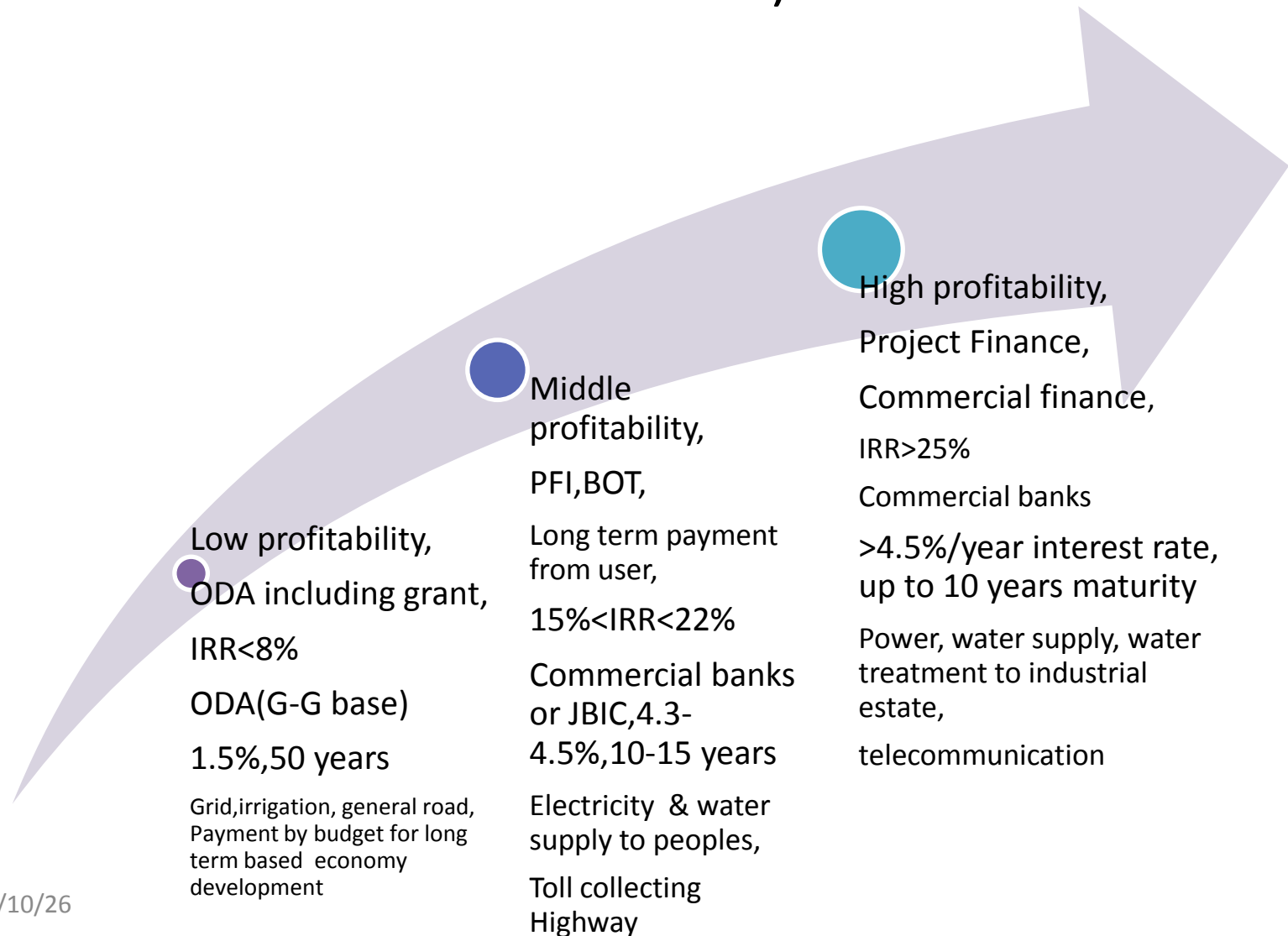
Management Behavior of Japanese SME

- Why do Japanese SME have invested in China? Japanese big companies especially assembling manufacturing companies who are ***domestic market oriented industries***, have wanted to minimize the investment risk to procure their parts in China. So they have requested their sub-contractors in Japan to invest to China. Another SME investment to China is ***export oriented industries*** like apparel, agriculture processing, sea food processing. They invest for cost saving in Japanese market, not value added. Unfortunately Japanese METI's industry policy has paid attention on cost saving not value-added. As energy saving in 1970's resulted from oil shock was in success. ***Success hysteresis story has concealed mistakes in sequences in big bureaucratic organization like ministries, big banks or old economies as it has given an excuse.***

Profitability of a project in Finance for infrastructure



Profitability of a project in Finance for infrastructure (IRR(internal rate of return),ODA(official development assistance))



Demarcation of FDI and PPP by profitability in infrastructure project

	FDI oriented	PFI oriented
	High profitability	Middle profitability
Possibility of sales expansion	high	low(PFI can be made.) or almost no(ODA shall be introduced.)
Usual operator	Private company	SOE(state owned enterprise)
Government support	No budgetary support ,investment incentives(tax)	Government budgetary support(guarantee for long term purchase under take or pay contract)
case	In June 2010,Globim(Canada) invests monorail (electric railway) operating of 36 km between Najaf-Kufa with \$0.6bil.	Pipeline rehabilitation in specific lines
Profit possibility	Increase pilgrims to holy site	Doubtful to increase volumes of oil or gas via specific pipelines
Project independency	New project with green field FDI including power housecan be established	Specific pipelines operating FDI can not be separated from all pipeline network operating company

Part II

continue Part I. FDI promotion in summary

III.Oil & Gas and mining

Exploration & production stage of oil & gas not covered by Investment Law No.13 but covered by Oil Law in drafting

III.2.Processing of Oil & Gas and Mining

covered by Investment Law No.13 which means NIC or province IC may cover FDI in this sector

IV.Infrastructure FDI(PPP(public private partnership, BOT(build operate & transfer))

covered by Investment Law No.13 which means NIC and province IC may cover FDI in this sector

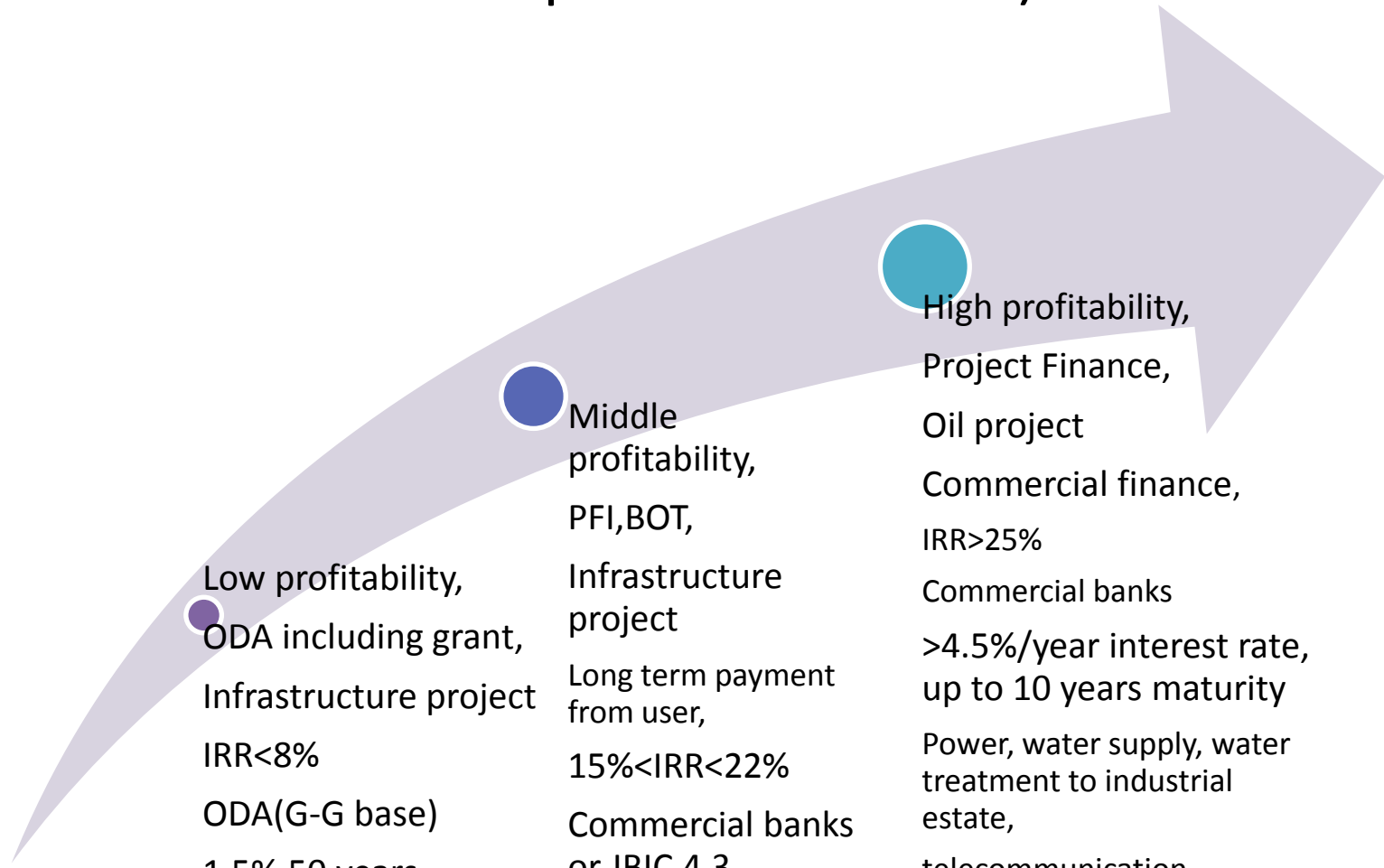
SUZUKI,Koji

Oct.14,2010

Continue Part I.FDI Promotion in summary

- 1. profitability of project and FDI
- 2.FDI promotion with AIDMA by country
- 3.how to get profitability in housing FDI
- 4.FDI with cash rich investor and with technology oriented investor(SME investor)

Profitability of a project in Finance for oil project and infrastructure (IRR(internal rate of return),ODA(official development assistance))



Low profitability,
ODA including grant,
Infrastructure project
IRR<8%

ODA(G-G base)
1.5%,50 years

Grid,irrigation, general road,
Payment by budget for long
term based economy
development

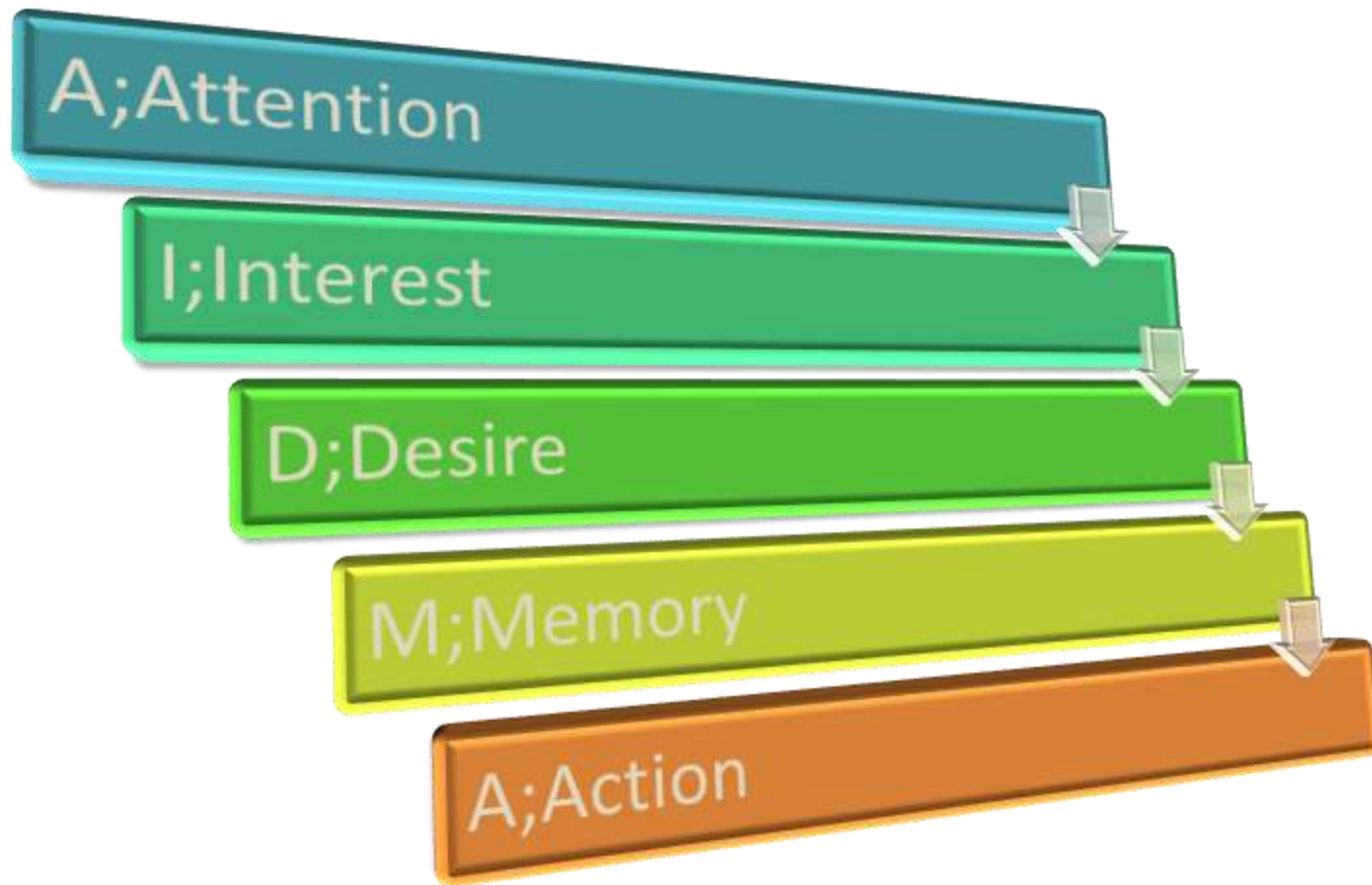
Middle
profitability,
PFI,BOT,
Infrastructure
project
Long term payment
from user,
15%<IRR<22%

Commercial banks
or JBIC,4.3-
4.5%,10-15 years

Electricity & water
supply to peoples,

High profitability,
Project Finance,
Oil project
Commercial finance,
IRR>25%
Commercial banks
>4.5%/year interest rate,
up to 10 years maturity
Power, water supply, water
treatment to industrial
estate,
telecommunication

AIDMA; promotion theory in advertizing



promotion for Japanese investors(cluster V in cultural value)

A;Attention (i)to hold a seminar in Japan, Iraq,or Jordan, (ii)to publish leaflet for doing business in Iraq including legal issues,(iii)information exchange via practical Iraq civil servants(this seminar)

I;Interest at seminar(individual meeting time) disclosure to the company which has attention to a specific project with general project information of the project

D;Desire; information exchange including e-mail(after decrease uncertainty with norms of general information disclosure)

M;Memory; visit the site & NIC

A; Action; start concrete feasibility study

promotion for Turkish investors(cluster V in cultural value)

A;Attention (i)to hold a seminar in Turkey or Iraq, (ii)to publish leaflet for doing business in Iraq including legal issues,(iii)information exchange via practical Kurdish business circles and Iraqi civil servants(in many cases)

I;Interest with information exchange including e-mail, site visit and visit at NIC after decrease uncertainty with norms of (i)success experiences in engineering and hotel business in Kazakhstan, (ii)rush & competition with rivals

D;Desire; check proposed feasibility study

M;Memory;

A; Action; start concrete feasibility study

promotion for Chinese investors(cluster II in cultural value)

A;Attention (i)to hold a seminar in China or Iraq, (ii)to publish leaflet for doing business in Iraq including legal issues,(iii)information exchange via minister level civil servants with Chinese business circles

I;Interest with information exchange including e-mail, site visit and visit at NIC after go-sign of Chinese high authority under(i)Chinese national interest and (ii)success experiences in engineering in LDC including Africa, international bidding for engineering (ii)indicated Chinese SOE rush with Chinese engineeres and workers

D;Desire; check proposed feasibility study under Chinese ways

M;Memory;

A; Action; start concrete feasibility study

Promotion for country in cultural values by AIDMA

for
Japanese(Cluster
V)
A+I with norms of
general specific
information

For Turkish(V)
A with norms of
experience

For Chinese(II) A
with authority

For Koreas,
Russian(III)
A with uncertainty
decrease in high
risk high return
for new market
and political
pressure or
diplomacy

How to get profitability for housing FDI

Sell residence to Iraqi people

- Construction general residential houses
- For house price \$40,000
- Subsidize by Kurdish Government \$20,000
- Salary of Iraqi people
- \$500-2,000/month
- Annual income \$6,000-24,000
- Without no loan Kurdish people get house.
- For Iraqi other than Kurdish people, no government subsidies
- Bank loans(\$20,000) shall be arranged.
- **Housing loan scheme shall be established.**
- 5 years housing deposit holders have titles to borrow housing loan up to 3 times of annual income.
- Collateral of freehold land is requested for borrowers

Lease residence to Iraqi people

- Construction general residential houses
- For house price \$40,000
- Housing FDI has land title, constructions houses and leases the houses to the peoples.
- Salary of Iraqi people
- \$500-2,000/month
- Monthly house lease level; decided by capacity of payment level
- TBI guarantees to housing FDI for lease payment obligation of the lessees.(Guarantee X)
- Loan repayment obligation for housing FDI by foreign currency
- TBI guarantees to foreign banks for loan repayment of housing FDI.(Guarantee Y)
- collateral on mortgage of freehold land title to the banks which extend loan to the FDI
- **If all housing FDIs take similar guarantee scheme , credibility of TBI drops keenly.**(contingent liability shall be counted by loan under BIS'Basel II . Risk assets to Equity ratio over 4% is requested. Credibility of the bank is evaluated by international rating company S&P,Moody's, a company which has rating of AAA to BBB can issue bond to public . BB or B(junk bond) can issue only bond in private offering. CCC to C can not issue bond as no credibility. D is now in default.)

OPA of housing FDI

	1	2	3	4	5	6	7	8	9	10	11
21						©					
22										X	
23				X							

- ©6-21 Demands for residence in standard level are big. Not to sell residences but to lease residence for peoples payment ability
- X10-22 No offshore loan is available, as (i)TBI guarantee is short for credibility, as rating of TBI drops down to under BB level with rushing housing projects,(ii)no foreign currency based revenue makes low credibility for the FDI project. Although law permit free foreign currency conversion and remittance, practical remittance shall be retrained by the central bank foreign currency control(many cases in LDC like China(world Nr.1 foreign currency reserves),Vietnam or India).
- X4-23 no advantage for engineering(materials supply , quality)

How to get profitability for housing FDI

- Sell residence to Iraqi riches and lease offices to foreigners
- Construction general luxury residential houses
- With commercial complex like office tower or shopping centers
- Developing FDI holds free hold land title.
- Offshore bank may take mortgage on freehold land title for the loan to the developing FDI.
- Sell luxury houses with cash to rich Iraqi people.
- Lease offices to foreign representative offices and shopping centers to super market or luxury houses to foreign representatives, which raise monthly cash.
- Foreigners can pay lease fee with foreign currency, it may ease for developing FDI to repay offshore loans.
- Appropriate site(place for real estate) shall be found.
- Pre feasibility study can be made by Investment Commission before to show the possible foreign investors

OPA of revised housing FDI

	1	2	3	4	5	6	7	8	9	10	11
21						◎					
22										○	
23				○							

- ◎6-21 Demands for residence in luxury level is big. Sell residences to Iraqi riches and lease residences to foreigners who work as foreign representative and lease offices to foreign representatives and commercial complex to super market.
- ○10-22 Offshore loan is available, as (i)foreign currency based cash flow may be a repayment and interest payment source for offshore loan, (ii)freehold land of FDI is mortgaged for offshore lenders and complemented with TBI guarantee.
- ○4-23 some advantage for engineering(materials supply , quality, foreigners tastes)

Phosphate Fertilizers Plant at Al-Anbar – Al-Qaem

	1	2	3	4	5	6	7	8	9	10	11
21			◎			○					
22											
23				○	×	×					

- ◎ 3-21 The availability of raw materials, as well as the local market and the distribution demands.
- ○ 6-21 demands in the local market and the distribution demands
- ○ 4-23 foreign technology with cost saving and energy saving
- × 5-23, 6-23 There is no FDI advantage in logistics & distribution.
- To make FDI advantage, distribution of imported pesticide too, payment term in advance at crop with finance or technology advise to cultivate plants to make more crops

A factory producing Aluminum cans for carbonated drinks with \$100 million at Karbala – Industrial Area

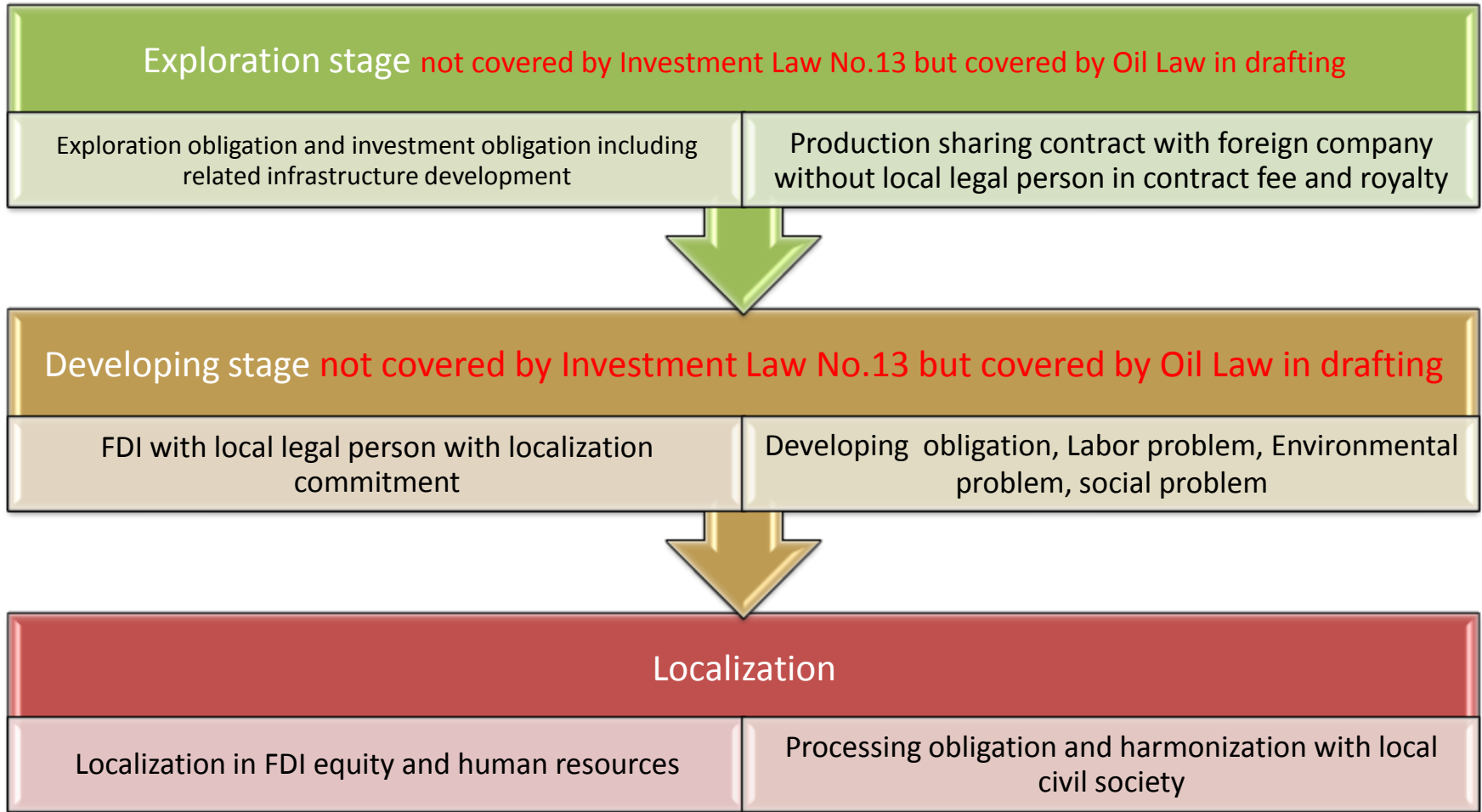
	1	2	3	4	5	6	7	8	9	10	11
21						⊙			○	○	
22											
23				○							

- ⊙6-21 Certain demand is planned. Coca Cola or Pepsi has a bottling FDI or an Iraqi bottling franchisee, which has a factory near a scheduled site of aluminum can factory. Availability of land.
- ○9-21,10-21 Bottler of Coca Cola or Pepsi has minority shareholder of FDI. Similar case in Vietnam, can maker with F&N SGP(bottler FDI), short of fund, long term can supply contract with bottler
- ○4-23 foreign technology with cost saving and energy saving

4.FDI with cash rich investor and with technology oriented investor(SME investor)

- Technology oriented investor is requested to solve funding problem as it daces financial shortage for big project
 - Collateral of assets of FDI
 - Use of Venture capital
 - Many manufacturing FDI, agro processing FDI, real estate FDI
- Cash rich investor
 - wants to introduce finance for big FDI to hedge risk with using local collaterals and guarantee.
 - MNC(multi national company) Trading houses are not cash rich companies.

III.Oil & Gas and mining



Iraqi Draft Oil Law in politics

- Iraqi Draft Oil Law does not mention PS contract ,but service contract, development and production contract and exploration risk contract only.
- Local government vs. central government

	Possible law field in concern
Bank(vi), home electric goods(v)	Contract law, mortgage law, bankruptcy law, consumer law, place of origin in foreign investment law, bank branch not covered by foreign investment law, law of trade secret, patent law, design law, trademark law, labor law, environmental protection law(EU regulations like REACH and WEEE)
Electric goods(i,v), electronics parts(iii), ICT industry(iv)	Labor law, consigned production law, IPR, FTA, in the market, Product liability law, Environmental protection law, environmental protection law in the market(EU regulations like REACH and WEEE), Consigned production law(import tariff, VAT)
advertising(vi), insurance(vi,ii,iv)	Unfair trade practice of competition law, insurance law, administrative guidance in insurance industry(bancassurance), tort law
Energy(I,ii), trading house(ii)	Production Sharing law(PS), joint venture agreement, mining law, BOT regulation, plant export contract, international private law, international contract law, law on international disputes
Machinery(i), motor bike(v)	Joint venture agreement, international contract law, IPR(design, trademark), abuse of priority status in dealer control
Chemicals(i,iii), daily necessities(v)	Environmental law including recycling, IPR, joint venture agreement, tort law, sales agent agreement, EU competition law in huddle, cartel and sanctions

Main Oil Deals in KRG region (Between Two Rivers

LLC, presentation to JETRO on July 8,2010

Oil or Gas site	company	Province	Target production(Bpd)	Remuneration fee/barrel
Tawke	DNO Inter'L(55%), Genel Enerji(25%), KRG(25%)	Dohuk	100,000	
Taq Taq	Addax(45%), Genel Enerji55%	Irbil	180,000	
Sangaw	Sterling Energy53%, Addax27%, Korean National Oil20%	Sulimaniya		
Miran W1	Heritage Oil50%,KRG50%	Sulimaniya	10,000	
Dohuk PSC	DNO Int'l40%,Genel Enerji40%,KRG20%	Dohuk		
Kalar Bawanoor Block 44	Western Zagros40%,KRG25%, Talisman Energy 40%	Sulimaniya		

Main Oil Deals in South region

Oil site	company	Province	Target production(Bpd)	Remuneration fee/barrel
Majnoon	Shell60%,Petronas40%	Basrah	1.8nil.	\$1.39
West Qurna Phase2	Lukoil56.25%,Stateoil18.75%,North Oil Con,25%	Basrah	1,8mil.	\$1.15
Halfaya	CNPC50%,Petronas25%,Total25%	Maysan	535,000	\$1.4
Garraf	Petronas60%,Japex40%	Thi Qar	230,000	\$1.49
Badra	Gazprom40%,TPAO10%,Kogas30%,Petronas20%	Wasit	170,000	\$5.50
Zubair	ENI32.81%,Occidental23.44% mKorea Gas18.75%,Missan Oil Co.25%	Basrah	1.2mil.	\$2.0
W.Qurna Phase 1	Exxon 60%,Oil Exploration25%, Shell15%	Basrah	2.325mil.	
Rumaila	BP38%,CNPC37%,South Oil Company25%	Basrah	2.85mil.	\$2.0
Adhab	CNPC75%,State Oil Marketing Organ25%	Wasit	115,000	\$6.0-\$3.0

Main Oil Deals in Central region

Oil site	company	Province	Target production(Bpd)	Remuneration fee/barrel
Qaiyarah	Sonangol100%	Nineveh	120,000	\$5.00
Najmah	Sonangol100%	Nineveh	110,000	\$6.00
East Baghdad	No bidders	Baghdad Salah al Deen	400,000	NA

Main Oil Deals in KRG region

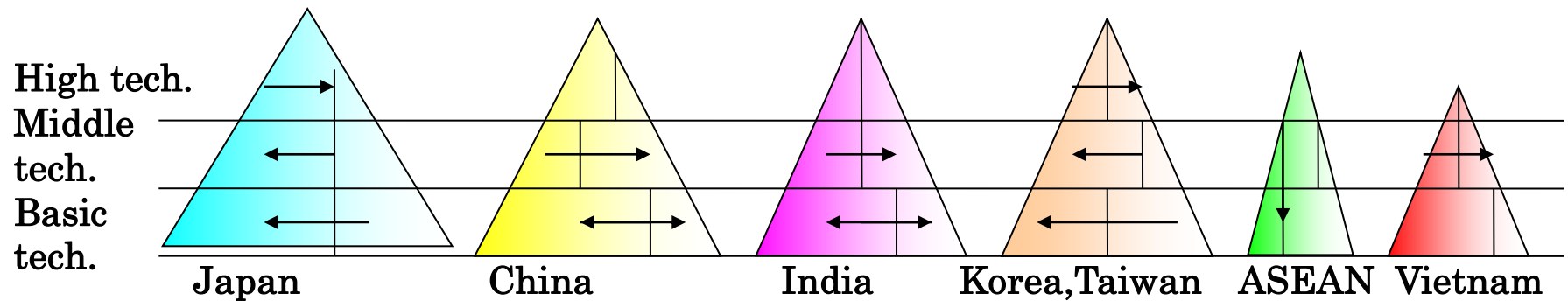
Oil site	company	Province	Target production(Bpd)	Remuneration fee/barrel
Tawke	DNO Inter'L(55%), Genel Enerji(25%), KRG(25%)	Dohuk		
Taq Taq		Irbil		
Sangaw		Sulimaniya		
Miran W1		Sulimaniya		
Dohuk PSC		Dohuk		
Kalar Bawanoor Block 44		Sulimaniya		

(Only to reference) Oil & gas FDI information

Japan-Iraq investment seminar in July 2008 at Jordan, Mar.2009 at Baghdad, July 2009 at Tokyo, Dec.2009 at Baghdad and Basra

	BP(UK) got upgrading of oil well	
	Sinopec(China) purchased Adax Petroleum with \$7bil. For Kurdish oil well development.	China cut 80% of Chinese claims to Iraq \$8.49bil.to get oil concession of CNPC(Nov.2009)
	3.CNOOC and Sinochem are moving closer to finalize Maysan oil field(2.4bil bbl)	
	4.Lukoil signed West Qurna-2 field (12.8 bil.bbl)with 20 years contract	

Technology pyramid can show technology level of country
 technology has level and range. High technology shall be
 protected by IPR including trade secret.



- India type: Iraq, Iran, Venezuela ← Iraq has basic and middle technology, up grading technology and rehabilitation capital and technology are requested for FDI,
- Vietnam type: no local technology ← FDI for technology, market (sales and procurement) and capital
- ASEAN type: Indonesia, Malaysia ← for local market needs and supply, expanding up stream and down stream with local technology
- Korean type: ← import materials and processed for local company needs

OPA of Japanese FDI in Oil & Gas, mining

	1	2	3	4	5	6	7	8	9	10	11
21				○		○					
22			◎								
23											

- ◎3-22 concession with other foreign major companies, Original concession is rare.
- ○6-21 big Japanese market for constant supply for industry concern
- ○4-21 exploring technology with Japanese operator< exploring technology with foreign major companies, special investing Japanese company is established for each oil or gas project to get finance from JOGMEC(exploring stage) and JBIC(development stage).

INPEX, INPEX ABK, Ltd. Exploration, development, production and sales of oil in Abu Al Bukhoosh Block, United Arab Emirates, <http://www.inpex.co.jp/english/business/index.html>

- Contract Area Venture Company
- Umm Shaif Field Japan Oil Development Co., Ltd.
(JODCO)(Est. February 22, 1973)
-
-
- Lower Zakum Field
- Upper Zakum Field
-
- Umm Al-Dalkh Field
- Satah Field

Interest Owned (As of December 31, 2009)

JODCO 12% ,
ADNOC(Abu Dhabi National Oil Company) 60% ,
BP 14.67% , TOTAL 13.33%
JODCO 12% , ADNOC 60% , BP 14.67%
TOTAL 13.33%
JODCO 12% , ADNOC 60% ,
ExxonMobil 28%
JODCO 12% , ADNOC 88%
JODCO 40% , ADNOC 60%



■ Oil field

国際石油開発帝石株式会社 INPEX CORPORATION



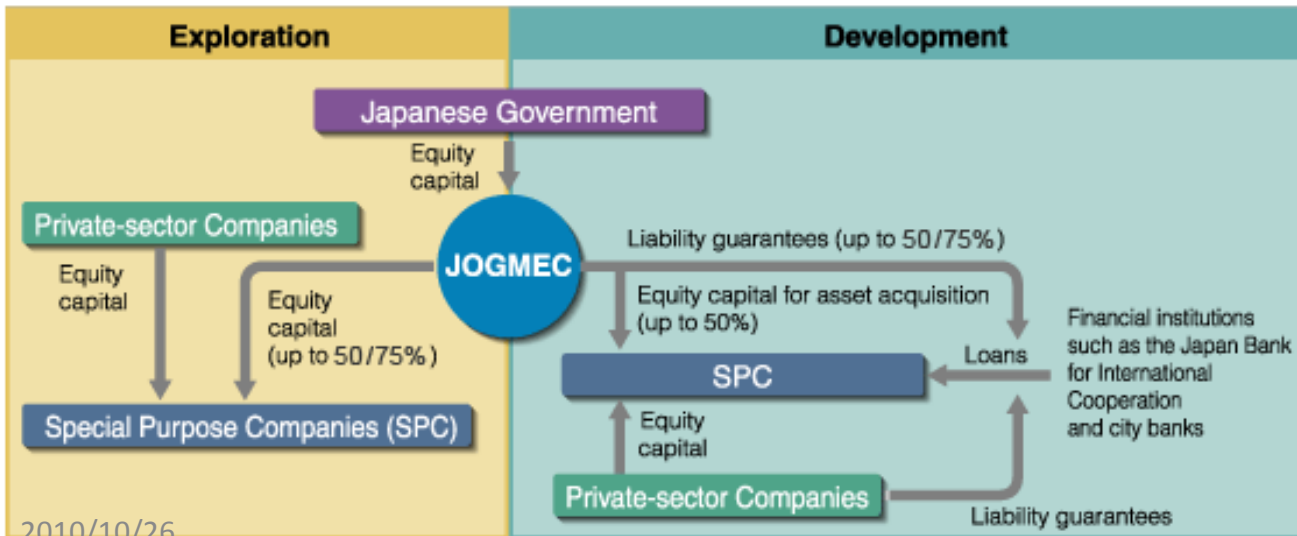
Role of JOGMEC(SOE,)

http://www.jogmec.go.jp/english/activities/fieldsurvey_metal/pogo.html

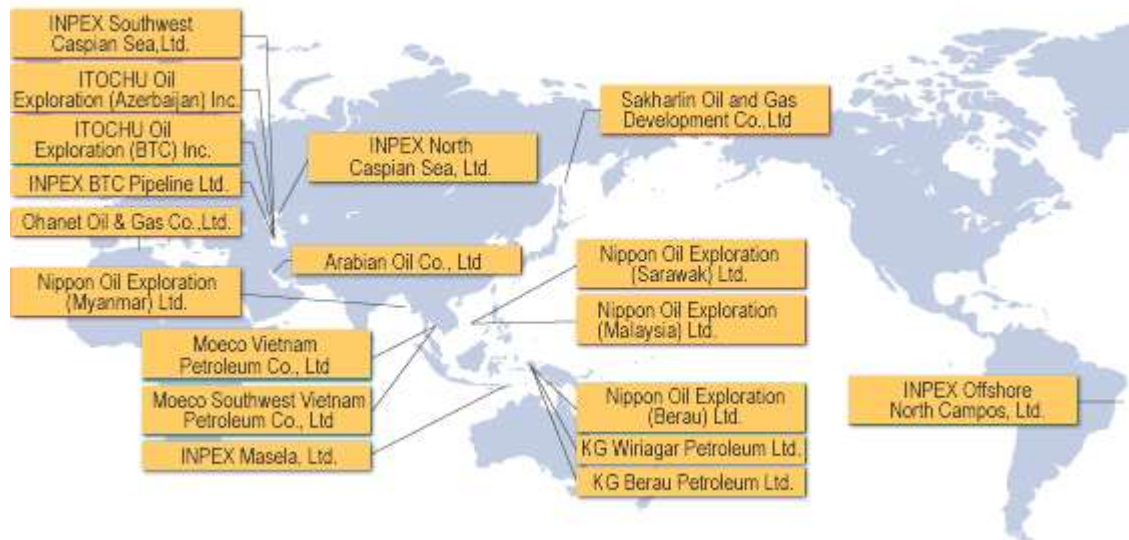
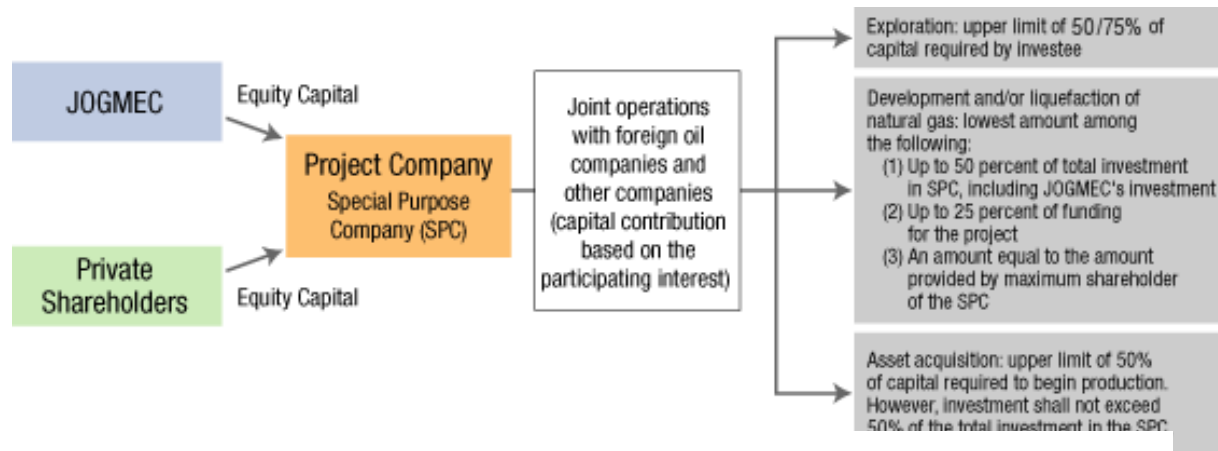
- **Equity Capital**
- JOGMEC provides equity capital finance for oil and gas E&P activities and asset acquisitions. Upon receiving a request for financing, JOGMEC evaluates each prospective investment on the basis of both conventional economic criteria and the relative importance of the project to Japan's national energy policy.
- JOGMEC also assesses whether the applicant company observes its own health, safety and environmental (HSE) standards. Prior to making a final investment decision, JOGMEC consults with Japan's Ministry of Economy, Trade and Industry to ensure the investment is consistent with Japan's national energy policy.
- **Liability Guarantees**
- JOGMEC supports energy resource development by guaranteeing liabilities. As with equity capital requests, JOGMEC evaluates requests for guarantees on the basis of both conventional economic criteria and the relative importance of the project to Japan's national energy policy. Recent expansion of this role has allowed JOGMEC to guarantee the liabilities of loans made not only by banks, but also by private companies.

Japan Oil, Gas and Metals National Corporation

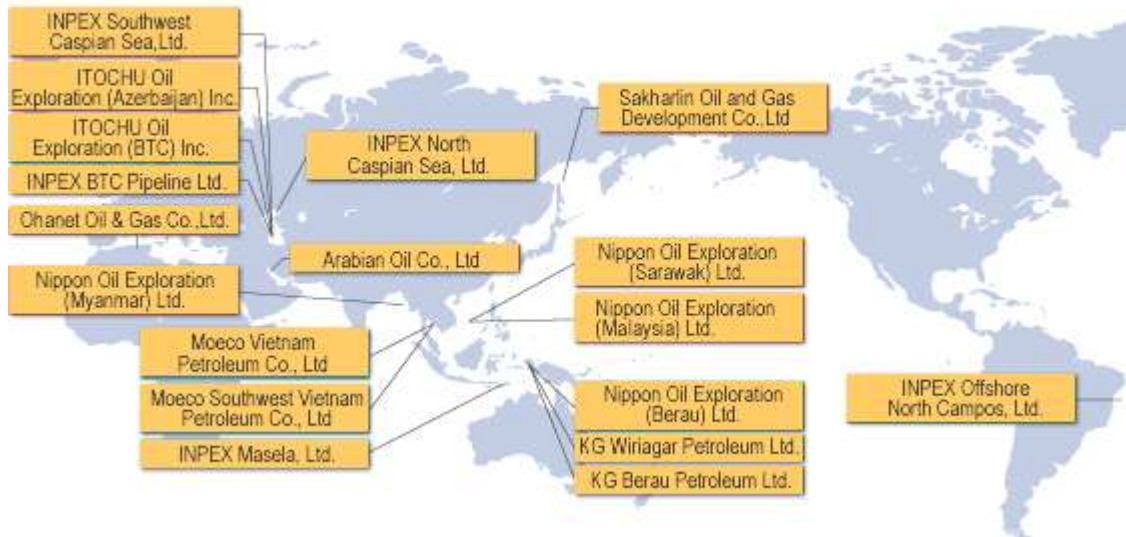
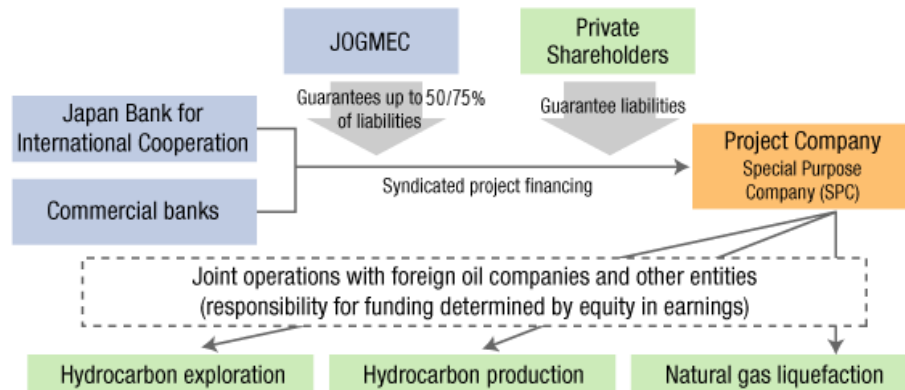
Financial Assistance Systems



JOGMEC in equity contribution in oil & gas



JOGMEC in Guarantee in oil & gas



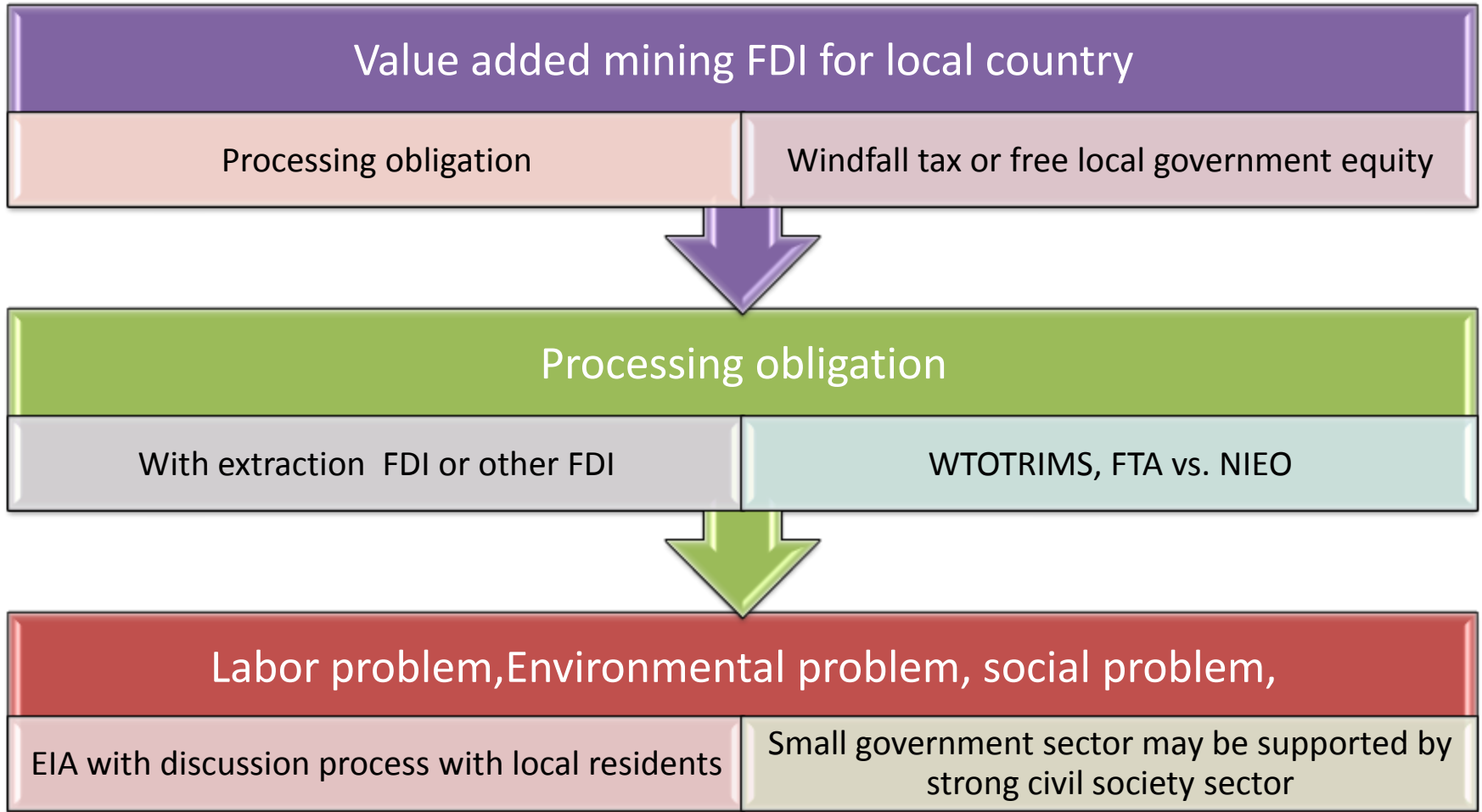
JOGMEC in metal mining

- Financing for overseas exploration is a program for promoting exploration and development by supplying loans to Japanese companies and others for overseas mineral exploration. From the launch of the program in fiscal 1968 through fiscal 2005, total loans of ¥8.2 billion have been made for 80 projects.
- In August 2006, JOGMEC made a ¥5.4 billion loan, one of its largest to date, for the Regalito copper project in Chile. This project is in the final stage of prospecting, and it has already been confirmed to have 630 million tons of copper ore reserves (0.43% grade). If mine development progresses smoothly, 100,000-150,000 tons of copper per year will be produced starting from 2011, which will contribute significantly to ensuring a stable supply of copper for Japan.
- Equity capital for overseas exploration is a program for funding part of the capital required for large mineral resource exploration projects conducted overseas by Japanese companies. Since the program's launch in fiscal 1974 through fiscal 2005, it has provided total funding of ¥6.2 billion for three projects. Presently, JOGMEC owns a joint interest with Japanese companies in an exploration project for manganese nodules, a deep-sea mineral resource, and in the Frieda River copper project in Papua New Guinea.
- Liability guarantees for overseas development is a program designed to promote mine development by guaranteeing the liabilities of Japanese companies when they borrow the required funds from financial institutions for mining of metal resources conducted overseas. Since the program's launch in fiscal 1963 through fiscal 2005, it has made liability guarantees totaling ¥34.0 billion and US\$26,483, and the mineral resources extracted from developed mines have provided a stable supply of resources for Japan.

Japanese ODA for crude oil export facility rehabilitation

- Project; Sub-merged pipeline and forwarding facility for South oil pipeline route
- Project management contract between Ministry of Oil and Japan Oil Engineering, Yachiyo Engineering
- In current Iraq, this project is sole infrastructure project in relation to oil pipelines.
- Concrete ODA project proceeding in a same industry may get a trust for possible investor in Japan, as Japanese cultural value belongs to Cluster V.
- The 3rd bidding for three gas fields to be held or postpones in Oct.20 10 may give interest for Japanese investors but its bidding condition is said too hard(service year 20 years, no sign bonus).

III.2. Processing of Oil & Gas and Mining



	Possible law field in concern
Bank(vi), home electric goods(v)	Contract law, mortgage law, bankruptcy law, consumer law, place of origin in foreign investment law, bank branch not covered by foreign investment law, law of trade secret, patent law, design law, trademark law, labor law, environmental protection law(EU regulations like REACH and WEEE)
Electric goods(i,v), electronics parts(iii), ICT industry(iv)	Labor law, consigned production law, IPR, FTA, in the market, Product liability law, Environmental protection law, environmental protection law in the market(EU regulations like REACH and WEEE), Consigned production law(import tariff, VAT)
advertising(vi), insurance(vi,ii,iv)	Unfair trade practice of competition law, insurance law, administrative guidance in insurance industry(bancassurance), tort law
Energy(I,ii), trading house(ii)	Production Sharing law(PS), joint venture agreement, mining law, BOT regulation, plant export contract, international private law, international contract law, law on international disputes
Machinery(i), motor bike(v)	Joint venture agreement, international contract law, IPR(design, trademark), abuse of priority status in dealer control
Chemicals(i,iii), daily necessities(v)	Environmental law including recycling, IPR, joint venture agreement, tort law, sales agent agreement, EU competition law in huddle, cartel and sanctions

Oil & gas relating FDI information

Gas utilization	Shell(Nederland) made a JVFDI with South Gas to utilize gas for 25 years license	
Oil recovery not concession	Mesopotamia Oil & Gas(UK) JVFDI to oil recovery	
Petrochemical complex at Basra not FDI	Korean STX signed an MOU with Ministry of Industry and Minerals to build a \$3.2bil. Petrochemical complex in Basra Province	
Oil Refinery not FDI	SK Energy and Ministry of Oil agreed to conduct a joint survey on a new refinery in Baghdad.	

Japanese petro-chemical FDI, Sumitomo Chemical

<http://www.sumitomo-chem.co.jp/japanese/division/petro.html>

- **Petrochemical Corporation of Singapore (Pte.) Ltd. (PCS)**
- PCS was incorporated under the initiative of Sumitomo Chemical as part of the economic cooperation between Singapore and Japan. A major hub of the petrochemical industry in Singapore, the Company's equity ownership is divided equally (50:50) between Sumitomo (with other Japanese partners) and Shell Eastern Petroleum. The plant went on stream in 1984, and has been playing a pivotal role in the complex by supplying such high-quality raw materials as ethylene, propylene, acetylene and butadiene to downstream companies.
- **The Polyolefin Company (Singapore) Pte. Ltd. (TPC)**
- TPC commissioned its facilities in 1984 as the first polyolefin producer in South East Asia. The current equity ratio is 70:30, divided between Japanese owners (including Sumitomo) and Shell Eastern Petroleum. The Company is a leading polyolefin manufacturer in the region, marketing high-quality low-density polyethylene, linear low-density polyethylene and polypropylene to neighboring countries including China.
- **■ Rabigh Refining and Petrochemical Company (ペトロ・ラービグ), Saudi Arabia**
- ペトロ・ラービグは、サウジアラビアのラービグにおける世界最大級の石油精製・石油化学統合コンプレックス開発計画の事業主体として、当社とサウジ・アラムコが共同で、2005年に設立しました。2008年にサウジアラビア株式市場に上場したことにより、現在の当社とサウジ・アラムコAramcoの出資は、それぞれ37.5%となっています。
ペトロ・ラービグは、同コンプレックスを2009年に本格稼働させ、ガソリンなどの石油製品のほか、ポリエチレン、ポリプロピレン、プロピレンオキサイド、モノエチレングリコールなどの石油化学製品を生産しています。

OPA of Sumitomo Chemical's petrochemical FDI

	1	2	3	4	5	6	7	8	9	10	11
21			◎			○					
22											
23					◎					○	

- ◎5-23 SGP is good logistics site
- ◎3-21 Aramco, partner in **Rabigh project, SHELL in SGP projects** are the good oil gas suppliers
- ○6-21 Japan and ASEAN market
- ○10-23 JBIC(JEXIM) finance for SGP projects, Project Finance for Rabigh project

Idemitsu's FDI plan at Vietnam oil refinery & Petro chemical complex at Nghi Son \$5.8bil. Project

- JVFDI with Idemitsu 35.1%, KPI 35.1%, Petro Vietnam 25.1%, Mitsui Chemical 4.7%
- Oil refinery Capacity of oil refinery:10 million ton /year, to be operated in 2013, 2nd oil refinery in Vietnam following Zun Kuat Oil Refinery
- Material supply from Kuwait and Vietnam so Petro Vietnam and Kuwait SOE(KPI) are the partners of JVFDI
- Project finance will be formed, non-recourse finance
- Risk hedge under detailed feasibility study in construction, demand & supply with FDI partners and finance
- ■[ベトナム] 国内第2の製油所、建設開始, 三井化学、出光興産も出資
- 国営石油会社ペトロベトナムの発表によると、国内で2カ所目となる製油所「ギソン製油所・石油化学コンプレックス」の建設が、北中部タインホア省のギソンで5月初旬に始まった。
- この製油所建設のため、ペトロベトナムの他に日本の出光興産と三井化学、クウェート国際石油(KPI)が出資している。精製能力は年間1000万トンで、2013年の操業開始を目指している。総投資額は62億米ドル。総事業費用うち、ペトロベトナムが25.1%、出光興産とKPIがそれぞれ35.1%、三井化学が4.7%を出資している。
- ベトナムでは現在、中部クアンガイ省で国内初となるズンクアット製油所を建設中。ここは年間の精製能力が650万トンで、2009年操業開始予定。
- ギソン製油所の作業開始のための式典に参加したグエン・タン・ズン首相は「この製油所とズンクアット製油所の精製能力を合わせれば、国内石油需要の65%に対応することができる」と話した。
- またペトロベトナムは、バリア・ブンタウ省のロンソンに、
- 国内3カ所目となる製油所建設を計画 중이다。
- ベトナムは原油産出国であるが、国内に石油精製所を持っていないため、
- 原油を全量輸出して、石油製品を輸入するという状態が続いている。



OPA of Idemitsu's FDI plan at Vietnam oil refinery & Petro chemical complex at Nghi Son \$5.8bil. Project to be done in 2014

	1	2	3	4	5	6	7	8	9	10	11
21			◎			○					
22											
23				○						○	

- ◎3-21 Kuwait SOE(KPI), JVFDI partner supplies main crude oil.
- ○6-21 Vietnam and ASEAN market
- ○4-23 oil refinery & petro chemical complex operation technology from Idemitsu and Mitsui Chemical
- ○10-23 70% Project Finance to be mainly financed by JBIC

OPA of Petroleum refinery and petrochemical complex. at North Babil (Jurf Al-Sakhar) \$3.5 billion with Capacity: 140 thousand barrels/ day

	1	2	3	4	5	6	7	8	9	10	11
21			⊙			○ ×					
22											
23				○						○ ×	

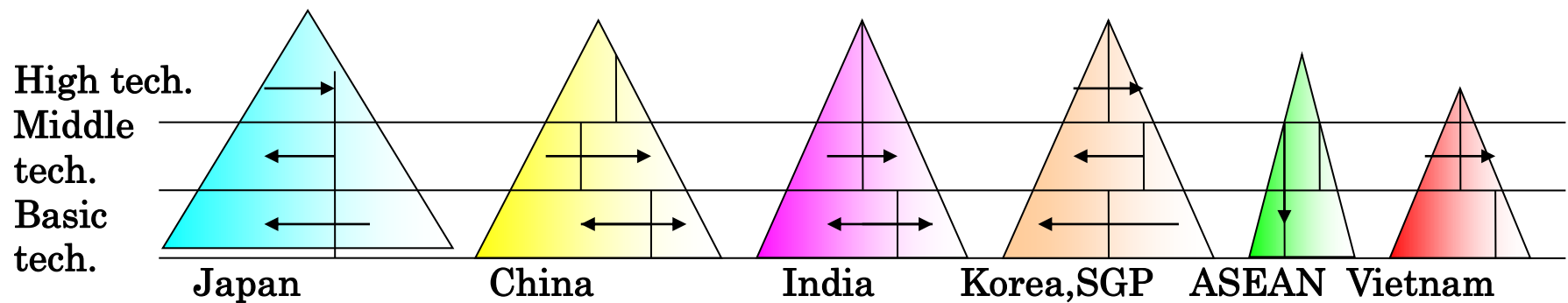
- ⊙3-21 JVFDI partner supplies main crude oil.
- ○ × 6-21 Iraqi & foreign market,
- ○4-23 oil refinery & petro chemical complex operation technology from foreign partner
- ○ × 10-23 Total cost is too big. Introduction of Project Finance is sought to decrease investor's risk. Future sales claims of oil products can be assigned to the senior lenders. To decrease cost ,electricity or water supply system can be operated to other FDI under another project finance scheme.

OPA of Construction of Refinery to produce Oil Products and Electric Power at Missan \$3 billion for increasing the production capacity of the oil products and Electric Power; If it is a rehabilitation or expansion project, separation to current refinery is indispensable

	1	2	3	4	5	6	7	8	9	10	11
21			⊙			○×					
22											
23				○						○×	

- ⊙3-21 JVFDI partner supplies main crude oil.
- ○ × 6-21 Iraqi market, supply oil products to the construction project of Oil Industry City of \$40 Bil. at Bazirgan district to increase the production capacity of the oil products, the raw materials and spare parts and Employing the Working Force, Its F/S may be inferior to F/S of Petroleum refinery and petrochemical complex North Babil (Jurf Al-Sakhar) \$3.5 bil., as Oil Industry City plan is too big to realize.
- ○4-23 oil refinery & petro chemical complex operation technology from foreign partner
- ○ × 10-23 Total cost is too big. Introduction of Project Finance is sought to decrease investor's financial risk. Future sales claims of oil products can be assigned to the senior lenders. To decrease cost ,electricity or water supply system can be operated to other FDI under another project finance scheme.

Technology pyramid can show technology level of country
 technology has level and range. High technology shall be
 protected by IPR including trade secret.



- Vietnam type: small petro. chemical industry with oil production, BOT based oil refinery and complex
- ASEAN type: Indonesia, Malaysia, Thailand ← middle sized petro chemical FDI, oil or gas supply from local oil and gas SOE
- Korean type: SGP, Abu Dhabi, Qatar ← 100% FDI in SGP with oil majors, oil supply from oil majors and spot market, JV FDI in Abu Dhabi and Qatar with local SOE oil and gas supply from local SOE
- India type: Iraq, Venezuela ← short of processing technology, constant supply source for petro chemical, SOE oriented petro chemical industry

OPA(operation process analysis) in general for Oil & Mining, venture capital, lease and banks

	1	2	3	4	5	6	7	8	9,10,11
21									
22			○	◎		○			
23									

- ◎4-22 appropriate production sharing contract,
- ○6-22 many customers, Long term sales claims may be collaterals to get finance.
- ○3-22 natural resources concession

Problem in Mining Industry

Stage	Host government	Foreign company	Form of FDI
Mining exploration	Welcoming foreign company for exploration with minimum concession fee	High risk for success of exploration	Production sharing contract, Contractual joint venture
Hidden agenda(思惑) if the project gets success	National interest (tax, environmental issue)	Accumulated Loss , infrastructure burden	
Mining development	Increase concession fee, Early tax contribution or dividends	High return with tax incentives and low concession fee	Joint venture FDI

Iraqi News said that Iraqi Oil Field International Bidding on June 30,2009 Hard conditions & political problems made success bidding only Rumeila Oil Field for BP-CNPC group

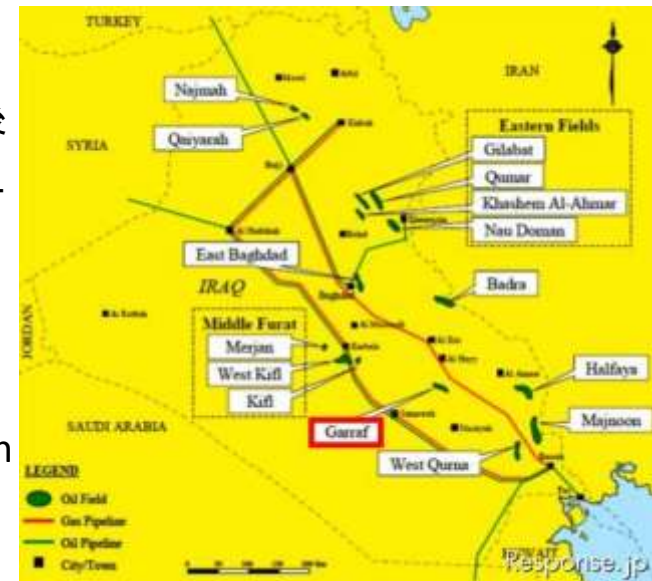
Remuneration fee paid by the Government; increased production

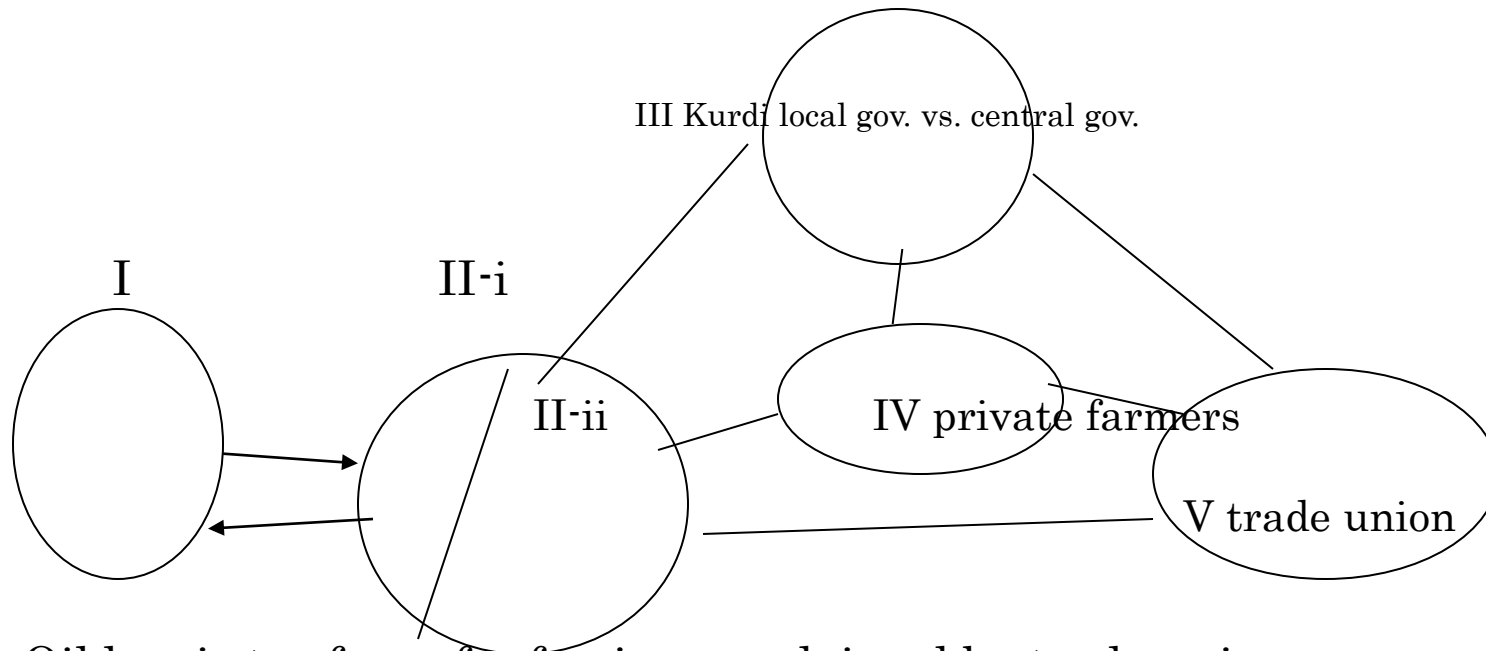
- 2009 6月30日、イラクは合計8カ所の有力油田・ガス田の開発事業に関し、約40年ぶりに外資に門戸を開放する歴史的な入札を実施。ただ、事はイラク側の思惑通りには運ばなかった。
- 落札されたのは、英石油大手BP ([BP](#))と中国の国有石油大手、中国石油天然気集団(ペトロチャイナ・グループ、[CNPC](#))の企業連合が落札者となった。イラク最大級の油田、Rumailaルメイラ油田のみ。ほかの7つの[油田・ガス田](#)は、イラク政府が提示した厳しい条件と、イラクでの事業の政治・経済的リスクを石油各社が嫌気して、落札者が決まらなかった。
- BP・CNPC連合はルメイラ油田開発事業のために、5億ドル(約480億円)の鉱区取得費用(サインボーナス)を含め、総額150億~200億ドル(約1兆4000億~1兆9000億円)を投じる必要がある。契約期間は20年間。企業体は鉱区取得費(サインボーナス)5億ドルを支払う必要があるが、投資コストを回収後、1バレルあたり2ドルの報酬が得られる。現在の日生産量110万バレルを285万バレルに引き上げることに合意。毎日570万ドル(約5億円)の収益が保障されたことになる。
- イラク政府は、日量約100万バレルの基準量を上回る追加生産分(175 280)についてBP側にmaximum remuneration fee対価を支払うが、その額は1バレル当たりわずか2ドルだ。BPIは1バレル当たり3.99ドルの支払いを求め、米石油大手エクソンモービル([XOM](#))は4.80ドルの支払いを求めている。イラク政府は入札提案全体ではBP連合の提案よりもエクソン連合の提案を高く評価していたが、エクソン側は1バレル当たり2ドルという条件の受け入れを拒否。BP側はこの条件を受け入れ、ルメイラ油田を落札した。
- 埋蔵量23億バレルのイラク北部のバイハッサン油田では、米石油大手コノコフィリップス([COP](#))率いる企業連合が1バレル当たり26.70ドルの対価支払いを求めたが、イラク政府は4ドルまでしか譲歩しなかった。
- クルド自治区は、石油会社が10~15%の利益分配を受けられる魅力的な投資条件を提示。これに対し、中堅以下の石油会社が、同自治区が結ぶ契約を公認しない中央政府との関係悪化も厭わずに採掘事業に応じた。自治区政府はわずか数年間にノルウェーのDNO([DTNOF.PK](#))やトルコの[ゲネル・エネルジ](#)、スイスのアダックス石油([AXCL](#))などの独立系石油会社と契約を結び、タウケ油田とタクタク油田の開発を進めた。)率いる英ヘリテージ・オイル([HOILL](#)、本社:英領ジャージー島)は、最近、ミラン油田という推定埋蔵量23億~42億バレルの新油田を発見した。
- つい最近までは、石油事業者が内陸のクルド自治区で採掘した原油を運び出すには、タンクローリーを使うしかなかった。だが6月1日から、イラク政府の認可の下、タクタク油田とタウケ油田から日量9万バレルの原油をイラク北部のパイプライン経由でトルコのセイハンまで輸出できるようになった。収益金はイラク政府が受け取るようになっており、石油事業者との利益分配の詳細条件はまだ確定していないものの、ゲネルのメフメット・セビルCEOは、「応分の分配を受けられると確信している」と述べている。
- クルド自治区に関する石油事業では、静かなM&A(合併・買収)ブームも起きている。6月25日、中国石油大手の中国石油化工集団(シノペック・グループ、[SNP](#))は、同自治区で原油採掘を行うスイスのアダックスを72億ドル(約7000億円)で買収することで合意した。6月9日にも、英ヘリテージが同社株24億ドル(約2300億円)の提供を条件に、トルコのゲネルと合併することで合意。
- 6月1日、クルド自治区で産出した原油のパイプライン輸送開始を祝う式典で、自治区政府のアシュティ・ハウラミ天然資源相は、域内の生産量を4年で日量100万バレルに増やす意向を表明した。ハウラミ天然資源相は中央政府への苦言も呈し、適正さを欠く油田運営の問題だけで、600億ドル(約5兆8000億円)の国家損失が生じていると指摘。
- <http://images.businessweek.com/extras/09/06/iraqidbidrumailajune3009.pdf>

News said on Dec.22,2009

INPEX(Japan)-Petronas got Garraf Oil Field Concession 20 years, InPEX has 40% stake, Petronas has 60%

- 落札したのは、石油開発公団から分離した原油、天然ガスの開発会社「石油資源開発」。イラクで行われた国際入札で、南部ガラフ油田の開発権をマレーシア国営企業とともに落札した。豊富なイラク油田への日本として初の開発参入で、喜ばしい限りだ。
- 同油田の埋蔵量は、日本の年間原油輸入量(十四億バレル)の六割弱に当たる約八億六千万バレル。開発比率は日本40%、マレーシア60%。二十年の長期契約で、日本は日量最大二十三万バレルの生産を目指し、生産一バレル当たり一・四九ドル分の現金か原油を受け取ることになる。日本の海外での油田開発事業で最大規模であり、エネルギーの安全確保、供給に大きく寄与する。
- イラクは原油埋蔵量が千百五十億バレルで世界第三位を誇るが、イラク戦争で開発はストップ。イラク政府が今年六月末、四十年ぶりの国際入札を実施した。英国と中国の企業が最大規模の南部ルメイラ油田を落札。今回の二次入札で英国、オランダ、ロシアなどに続き、日本が落札に成功した。
- イラクでの油田開発をめぐるのは、欧米メジャーのほか中国、インドなど新興国の攻勢が強まっている。日本の場合、入札とは別枠で新日本石油などが南部ナシリヤ油田の開発で八月末、イラク政府と原則合意している。今後も後れを取らない情報収集と粘り強い獲得交渉が求められる。
- 日本はアラブ首長国連邦や東南アジアなどでも油田開発をしているが、サウジアラビアとクウェート国境のカフジ油田の権益を二〇〇三年に失ったほか、イランのアザデガン油田も操業をやめている。日本の自主開発原油の比率は16%にまで落ちている。
- 懸念はやはり政情が不安定なことだ。今回入札を果たしたガラフ油田は、イスラム教シーア派が多く居住する地域で、宗派抗争が起きない保証はない。2009年12月22日
- On Sep.30,2010, news said, INPEX may be enforced to abandon oil exploration concession at Azadegan Oil Field in Iran, by the enhanced US Economic Sanction toward Iran.





Oil law is too favor for foreigners; claimed by trade union

Oil concession; Kurdi local government and central government

Environmental spill is problem; claimed by civil society and foreign countries

Land compensation; claimed by private farmers and villagers in civil societies

I : foreign private sector: mother country for FDI company

II-i: FDI company sector in local social system

II-ii: local company sector in local social system

III: local state sector :operated by civil servants, indicated by congressmen voted by individual sector, and umpired by independent civil servants

IV: local individual sector: voting right to the state sector from civil society sector

V: local civil society sector: voted political party, family, area people, village, town ship and city,

→ Entrance by FDI, voicing against II-ii, III, disputing against II-ii,III,IV,V

← 2010/10/26

exit from FDI

Conflict with private sector and civil society sector; oil land compensation toward farmers

- August 10, 2010
- An angered farmer is awaiting a verdict in a nearly \$2 million lawsuit claiming that the South Oil Company took over his land without just compensation, in an early test of whether – and how – the government will compensate Iraqis who are displaced or adversely affected by the oil-sector expansion.
- Sheikh Sadoon Hameed asserts that oil operations began on his farm land in Missan province in 2001. The Missan Oil Company, a new state firm which took over the province's oil operations
- <http://www.iraqoilreport.com/politics/oil-policy/farmers-lawsuit-demands-compensation-for-oil-land-4888/>



- <http://www.iraqoilreport.com/politics/oil-policy/expanding-oilfields-versus-ancient-farmlands-4952/>
- In northern Basra province and the West Qurna oilfield. Saddam Hussein then began diverting water from their lands for both political and economic reasons. Now, in the new Iraq, the Muhitat farmers are still battling the government for the right to till an income from the arid earth.
- The village extends by two kilometers into oil wells areas, which made the South Oil Company ask us to leave the place we lived in for the past 600 years.
- Ninety-five percent of Iraq's budget comes from oil exports, which the country plans to expand beyond the current 2 million barrel per day (bpd) capacity by boosting crude production to 12.5 million bpd within seven years. By contrast, agriculture represents less than ten percent of Iraq's GDP, though the sector provides over twenty percent of the country's jobs.
- The Iraqi government's eyes, however, seem set on the oil prize. The Oil Ministry has signed 11 contracts with foreign oil companies since last November to revolutionize and boost Iraq's largest oilfields, including Rumaila (BP and the Chinese National Petroleum Corp.), West Qurna Phase 1 (ExxonMobil and Royal Dutch Shell), and Zubair (Eni, Occidental Petroleum and the Korean Gas Corp.).
- Sheikh Hamadani and the other farmers living in villages near or on oil fields don't necessarily oppose oil development or foreign oil companies. But they do feel they've been wronged, and complain they have no say in how the land is being used, and no recourse when they are forced out.
- During the former regime, Russian companies used to work here and they used to offer all kinds of services and allowed us the freedom to work in our farmlands.
- "We are happy to see oil investing companies to come and invest in our country," he added, "but we are calling for justice, nothing more."
- Khalil Ismail Dagher, the head of the Karama Farmers' Association in Zubair which represents 2,500 farms, said security measures designed to protect oil infrastructure are curtailing movement around the land. Farmers attempting to modernize their irrigation systems, which are ravaged and antiquated due to past wars and sanctions, have only been able to work once every 15 days.
- "Our daily production rate of tomato is only 100 tons after it was 500 tons, due to oil operations and the restriction on movement imposed by the oil police authorities," Dagher said.
- Alaa Badran, the secretary of the Basra Provincial Council's agriculture committee, said farmers must receive Oil Ministry approval to farm in areas where oil operations are taking place, per a 2001 order, which still supersedes orders from the Ministry of Agriculture.
- The Iraqi government has supported domestic farmers by restricting some produce imports as a way to create a price floor for locally grown goods. Yet farming does not nearly represent what oil does to the national budget.
- "There are some 10,000 farmlands planting tomato, melons, cucumbers, garlic and onion distributed along Zubair, Um Qasr, Luhais and Safwan that suffer many problems due to oil pipelines passing through these lands, and local farmers are facing serious difficulties in accessing their lands," said Abdulhassan al-Abadi, the head of the Farmers' Local Federation.

- Salman Farhood, a farmer from the Luhais area, said a daytime curfew on trucks carrying produce is slowing down delivery to the market. Like many farmers, he said it is increasingly difficult to receive a contract renewal from the Oil Ministry.
- “The South Oil Company strives to end our contracts and this is our main concern,” said Abdulhussein al-Amer, a farmer from Rafidhiya. “And don’t forget our other key problem which is the cheap imported crops from Iran.”
- Farmers also say promised employment by foreign oil companies has been slow, and at times non-local Iraqis are being hired as guards and laborers. Those who have been hired have complained that local recruitment agencies are skimming as much as 80 percent of the wages promised to the workers.
- Muhitat villagers say the ministry wants to relocate them to an area with even less infrastructure. “If they want us to leave then they should have provided us those essential services to make it realistic for us to consider leaving,” said 55-year-old Haloob al-Hamdani. “We protect the oil wells within our area but all we are getting in return is threats. We have lived in the area since the Sumerians’ time.”
- Abadi, of the farmers federation, said farmlands have been destroyed without compensation. “If oil reserves are detected in one of the farmers’ lands, he has to evacuate his land immediately without any form of compensation.”
- The South Oil Company referred all queries to the ministry spokesman in Baghdad, who reiterated that all land in oil areas ultimately belongs to the Oil Ministry and those affected would be compensated.
- ExxonMobil refused to comment, and Eni officials didn’t respond to queries.
- “There have not been any requests for people to move within Rumaila, and we are committed to following best practice on social issues,” said Michael Townshend, president of BP’s Iraq operations. The Rumaila field will produce 2.85 million bpd, making it the world’s second biggest producing field.
- Fareed Khalid of Basra province’s oil and gas committee said, “There aren’t any serious issues” and farmers’ complaints are being evaluated for compensation. None have been forced out yet, and there are ongoing talks about hiring affected farmers to work in the oil sector.
- “This is part of the citizens’ rights to launch complaints if they felt they are being harmed with these oil operations and our role is to be by their side and to back them up,” Khalid said. “Farmers are acclimating to the new situation.”
- <http://www.iraqoilreport.com/politics/oil-policy/expanding-oilfields-versus-ancient-farmlands-4952/>

Offshore oil spill out

- July,29,2010
- The Ministry of Environment is also pushing for Iraq's return to active participation in the Marine Emergency Mutual Aid Center (MEMAC), a Gulf countries environmental protection group.
- But the Oil Ministry and central government have shown little interest in adopting Environmental Ministry suggestions, Latif said, as both focus their efforts on trying to bolster production and encourage additional foreign investors to the sector. Iraq is in need of massive reconstruction of all economic and social sectors, and with oil sales providing the state's only cash flow, there is a vacuum of competition for the funds.
- "The environmental issue is just not a top priority (in the Iraqi government),"
- Environment and water officials will also be pushing state-run and foreign oil companies to improve their preparedness for potential onshore oil spills. They discussed initiatives in a symposium held by the oil ministry last week in Baghdad with foreign oil companies.
- Latif said that his ministry was working with environmental advisers at the U.S. Embassy in Iraq to craft a law that would create environmental compliance standards for foreign oil companies operating in Iraq, based on existing international and American regulations.
- The Iraqi government would also be subject to new environmental regulations, said the deputy environment minister, noting that Iraq's recent history has not been environmentally friendly.
- <http://www.iraqoilreport.com/politics/oil-policy/as-iraq-loosens-the-taps-slow-planning-for-a-spill-4865/>

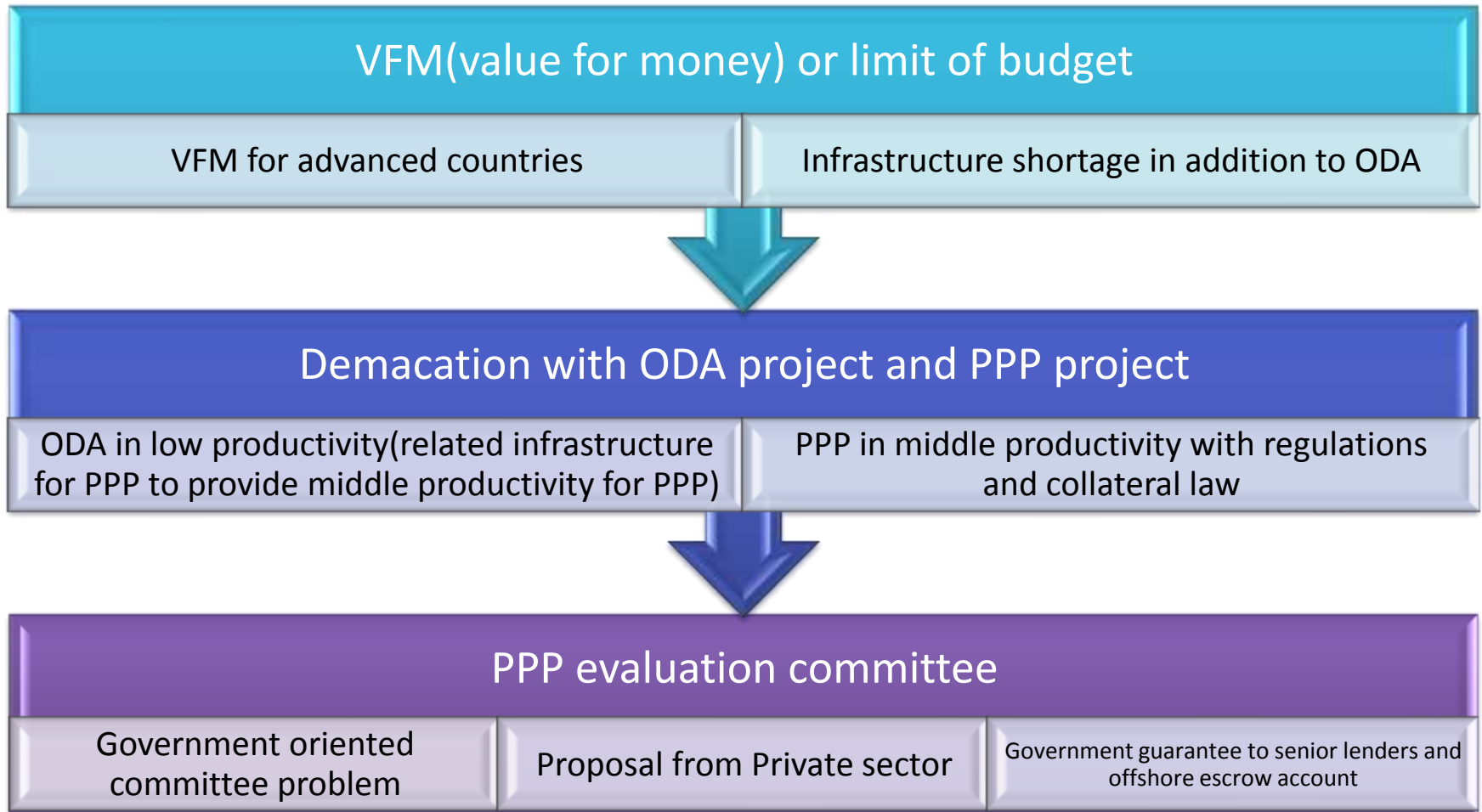
News on Iraqi Oil Draft law

- July 2,2010
- Oil unions formed since 2003 have successfully blocked privatization of infrastructure and [briefly stopped work in 2007 during protests against a draft oil law](#) they viewed as too friendly to foreign oil companies. Arrest warrants were issued but not acted on. In response to such dissent, [workers are often fired](#) or [moved to different jobs](#).
- [Union leaders have said](#) they welcome international oil companies [but are wary of a return to an oil sector utterly dominated by foreigners](#), as was the case until Iraq nationalized its industry in the 1970s.
- <http://www.iraqoilreport.com/politics/oil-policy/union-leaders-taken-to-court-for-oil-sector-dissent-4698/>
- the rift between the semi-autonomous Kurdistan Regional Government in the north and the central government in Baghdad. Their dispute over control of Iraq's oil sector has been a major front

Point for successful FDI in oil & petro-chemical FDI from Japan

- Law predictability
- Partner for material supplier
- Financial support

IV. Infrastructure FDI (PPP (public private partnership, BOT (build operate & transfer)))



Iraqi PPP Infrastructure projects

(source; “introduction to legal matters relating to doing business in Iraq” by Salem Chalabi on June 14,2010 at Tokyo)

- In March 2010, Ministry of Electricity and NIC announced a limited bidding for seven IPP electricity generation plants. 40 applicants sent expression of interests.
- Now 10 IPP projects
- No PPP regulations for IPP
- In April 2010, Ministry of Health and NIC announced PPP for state owned Ibn Sina Hospital in Baghdad, renovated by Coalition Provisional Authority in 2003.
- No PPP regulation for hospital

Information on infrastructure FDI in Iraq(Part Ippt.24)

- 5.Italian consortium started 34bil. Euro(\$4.6bil) BOT project at Al-Faw Port, Basra with 11 quays,100mil.ton/y(connecting Barakat Industrial Park, Apr.2010)
- 6.Marlok German made a joint operation of Nr.8 quay at Kol Al Zubeil port with Iraq Port Authority with rehabilitation & operation for 7 years(ROT, Aug.2010).
- 7.CME France made a joint operation of container terminal and Nr.4 quay of UmKasul port amounting \$20mil. with Iraq Port Authority (May 2010)
- 3.Veolia France made a water purify and supply contract with Baghdad Govern. Amounting \$5bil in future(July 2009).
- 9.Chinese companies got a FDI license to establish exhibition center and shopping center with 7ha at Babil(Babil IC)(Aug.2010).
- Not FDI but use PFI idea;Korean company made a contract with Sarah Haddin IC to make Tiklit international Airport, 15% of revenue of airport may be repayment fund for 25 years (Mar.2010).

	Possible law field in concern
Bank(vi), home electric goods(v)	Contract law, mortgage law, bankruptcy law, consumer law, place of origin in foreign investment law, bank branch not covered by foreign investment law, law of trade secret, patent law, design law, trademark law, labor law, environmental protection law(EU regulations like REACH and WEEE)
Electric goods(i,v), electronics parts(iii), ICT industry(iv)	Labor law, consigned production law, IPR, FTA, in the market, Product liability law, Environmental protection law, environmental protection law in the market(EU regulations like REACH and WEEE), Consigned production law(import tariff, VAT)
advertising(vi), insurance(vi,ii,iv)	Unfair trade practice of competition law, insurance law, administrative guidance in insurance industry(bancassurance), tort law
Energy(I,ii) , trading house(ii)	Production Sharing law(PS), joint venture agreement, mining law, BOT regulation, plant export contract, international private law, international contract law , law on international disputes
Machinery(i), motor bike(v)	Joint venture agreement, international contract law, IPR(design, trademark), abuse of priority status in dealer control
Chemicals(i,iii), daily necessities(v)	Environmental law including recycling, IPR, joint venture agreement, tort law, sales agent agreement, EU competition law in huddle, cartel and sanctions

OPA for Infrastructure building FDI, heavy industry, Industry estate, environmental project

	1	2	3	4	5	6	7	8	9,10,11
21									
22						©			
23			○	○					

- ©6-22 long term utility supply contract with state utility company,
- As no smuggling is made, local market accepts FDI products.
- ○4-23 operation & management contract in international base,
- High manufacturing technology realizes good quality with proper price with on timing delivery. High technology licensing fee is acceptable by local partner.
- ○3-23 Materials can be procured on time. Engineering contract with good project management know how

PFI in various types in water business

(source:Nikkei on June 9,2010)

	Specific consignment	Third party consignment	PFI	concession	Privatization
Planning & management	Public	Public	public	private	Private
Administration	public	Public	Private	Private	Private
Marketing	private	Public	Private	Private	Private
Engineering	Private	Private	Private	Private	Private
Maintenance	Private	private	private	Private	private

Iraqi ownership not FDI's ownership
but funding source may include an
idea of project finance.

- A Korean company made a contract with Sarah Haddin IC to engineer Tiklit international Airport, 15% of revenue of airport may be repayment fund for 25 years (Mar.2010).
- The Korean company is only a contractor.
- But it or Korean Government(Korean EXIM Bank(financer) requests a certificate for repayment funding source.

Claims cut between Government to Government

		140bil. GG claims at Paris Club in 2003	
Japan	80% cut of Gov.claims under Paris Club New ODA	\$3.28bil among \$3.5bil,(Madrid commitment in Oct.2003,12 projects plus new committed Feb.2010, 87.8bilyen for 3 project including water project)	Feb.2010, \$3.5bilODA+ grant \$1.5bil was Nr.2 following by USA \$20bil.
China	80% cut of Gov.claims cut	\$8.47bil.for oil concession	Dec.2009
Russia	90% cut of Gov.claims	\$12bil. for Lukoil	Feb.2008
German	100% cut of Gov.claims		Nov.2009
Iraq	100% cut incentive	100% cut country get priority in investment incentive	Jan.2010
Denmark	100% cut	\$55mil	Jan.2010
2010/10/26 UAE	100% cut	\$7bil including \$4bil principal	July 2009

Japanese ODA to Iraq; 15 projects

- Water Kurdish 3.4 billion yen, middle west 41.3 billion yen, Basra 43 billion yen
- Power, Delalock, hydro 17 billion yen,
- thermal Al Akaz 29 billion yen, rehabilitation,
- Kurdish electric sector
- Port, Basra Oil Terminal including pipeline
- Road, Samawa

BOT,PFI & PPP, role distribution by public and private, Does this work well? IBRD data base may contribute to solve with some difficulties. But those do not think differences of social system of each country.

	BOT	PFI	PPP
Ownership	Private	private	Public
Administration	public	private	Public
Planning	public	public	Public
engineering	Private	private	Private
Operation & maintenance	private	private	Private

other method for infrastructure FDI

Infrastructure FDI, PPP

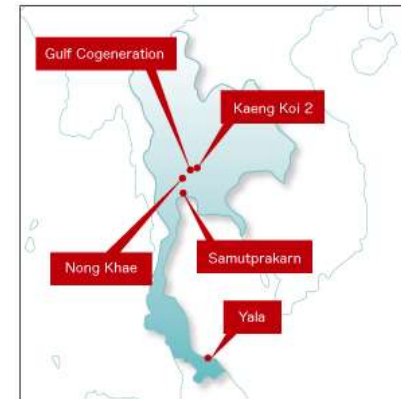
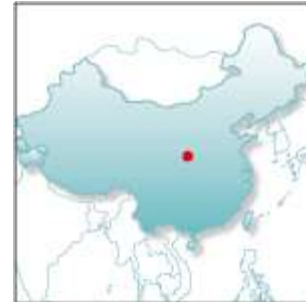
PFI(BOT,BOO,BTO),
SPC(BOT
company) may be
a FDI

Concession of
utility
management,
concession holder
may be a FDI

Consignment of
management on
public utility,
Consignment
contractor may
be a FDI

IPP(independent power producer) business under BOT(build operate & transfer) is popular among trading houses and power houses.

- J-POWER acquired a 27% interest in Shaanxi Hanjiang Investment & Development Co., Ltd, the owner and operator of the Hanjiang Integrated Water Power Development Project(180 MW(60MW × 3) , 270 MW (45MW × 6))in Shaanxi Province, China. This is the first IPP hydro power project implemented by a Japanese company in mainland China. Risk is decreased with government guarantee.
- J-POWER acquired an equity share in Gulf Electric Public Company Limited (GEC), a holding company active in IPP business in Thailand. J-POWER owns 49% of the entire stock equity. GEC owns an IPP project and SPP projects in Thailand. Risk is decreased with minority euties.



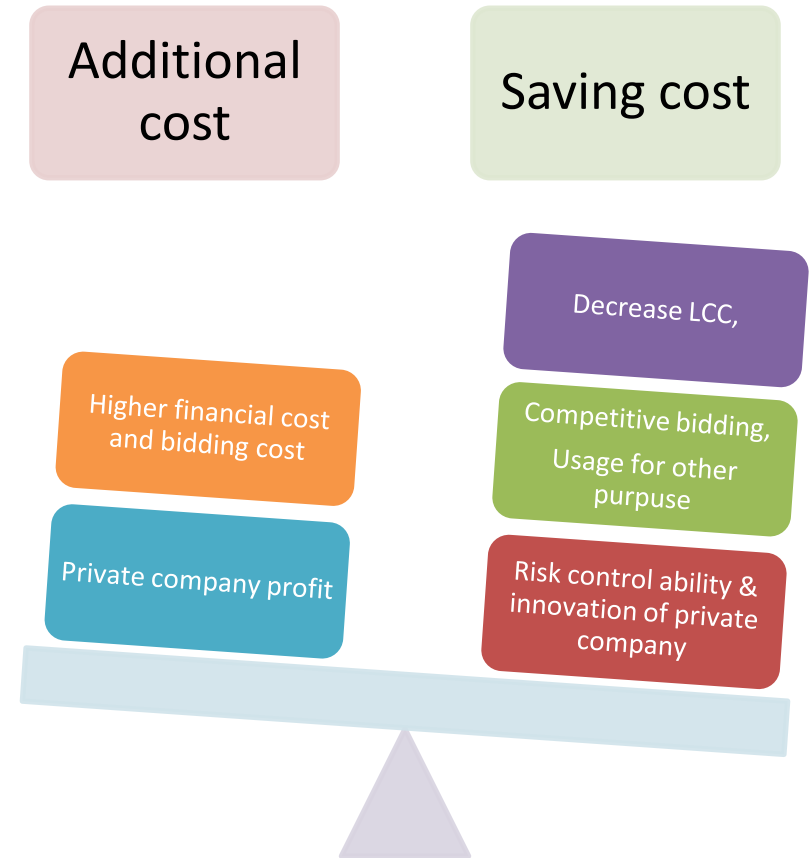
PFI guideline in Malaysia delayed

(source; <http://dprojek.blogspot.com/2007/07/whats-actually-delaying-pfi@guidelines.html>)

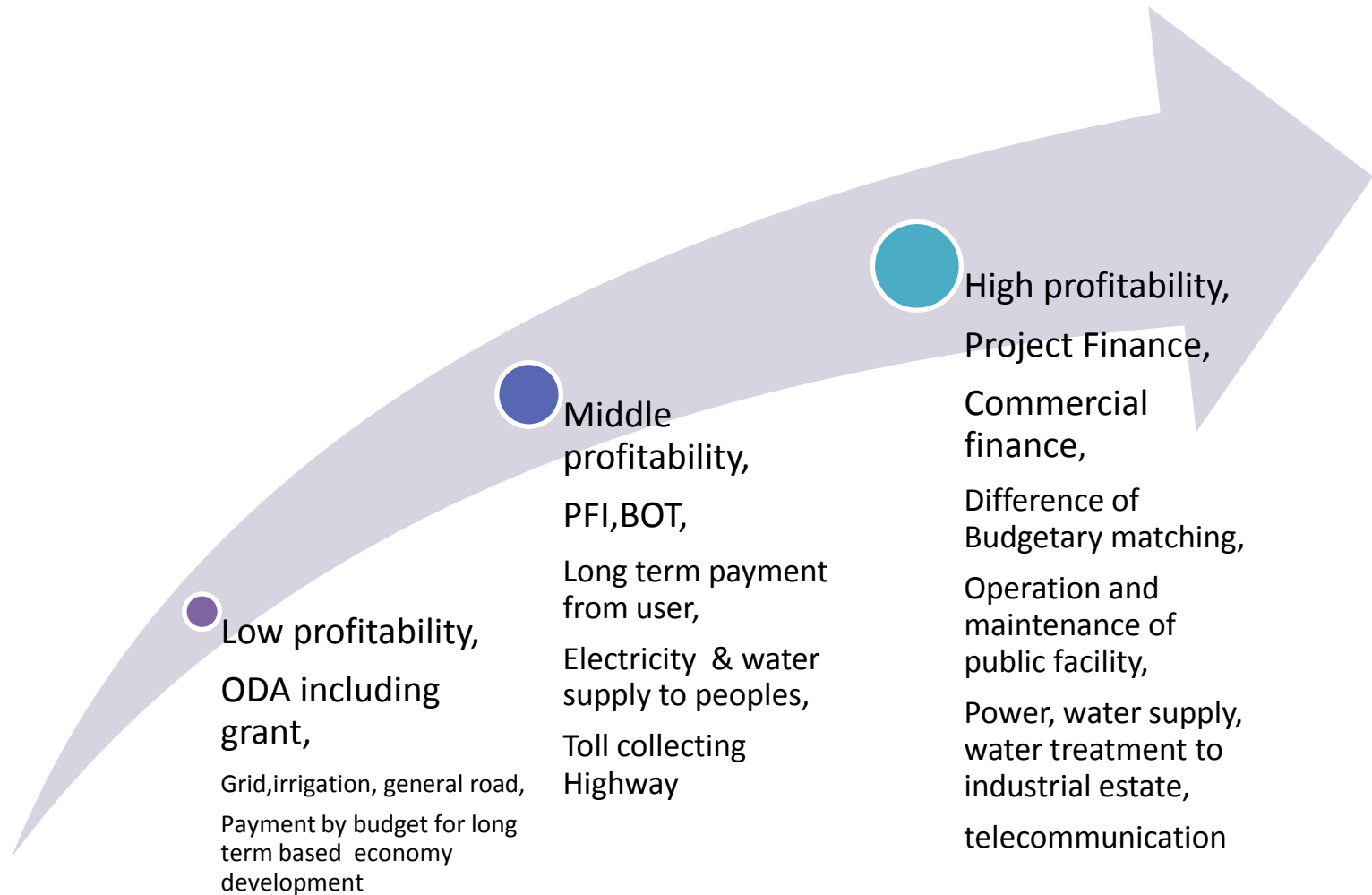
- RM20bil. projects out of RM220bil. During 9th Malaysia Plan was scheduled under PFI in 2006.
- Government's burden of funding and related construction risks. The Government lease the facilities from the contractors after engineering.
- Contractors raise own funding, and get paid when the job is done to the Government's specification. The contractors maintain the facilities to get paid as long as they pass the maintenance.
- The Public sector comparator(PSC) determines whether a project would be better delivered by the government alone.PSC provides a benchmark for assessing the value of a private sector bid and includes the value of shifting project risk to the private party. Can PSC determine the factors?
- Transparency and openness of PFI is doubtful.
- 100% SOE, PFI Sdn.Bhd., to be established will play a role in implementing the PFI projects. Can PFI Sdn.Bhd. work well?
- Can profit margins of the contractors,many of which are hit-and- run contractors, without operation risk, be limited? In Malaysia there are many badly maintained infrastructures which enjoy attractive incentive schemes.
- **SUZUKI's comment; General PSC may not be made. But big state sector of Malaysia under Cultural value II wants standard for PFI. "BOT as a Bags of trouble" was made in Malaysia in early 1990.**

VFM(value for money) in LDC is difficult. Can LCC(life cycle cost) be decreased?

- VFM shall be smaller than PSC(public service comparator) in PPP.
- VFM in advanced country is government budget saving.
- But PPP in LDC is introduced by short of government budget not budget saving.
- What is VFM in LDC for budget shortage?



Finance for infrastructure



Typical problems analysis under BOT projects with solutions with OPA(operation process analysis)

- Party relation is important. To make positioning of possible problems, OPA is efficient.
- Shape of country analysis and cultural value analysis may decrease the possible problems.

	1	2	3	4	5	6	7	8	9	10	11
21	Izmir			HK Nr.2 tunnel		KAFCO			BOO or BOT	Paiton,	
22	Thai Highway			Hin Krut						KAFCO	
23	Take or pay contract			Pac Bilau						Escrow a/c	Subcontractor

BOT regulation; Collaterals in BOT project, BOO, BTO, PPP, PFI, TOT

2010/10/26

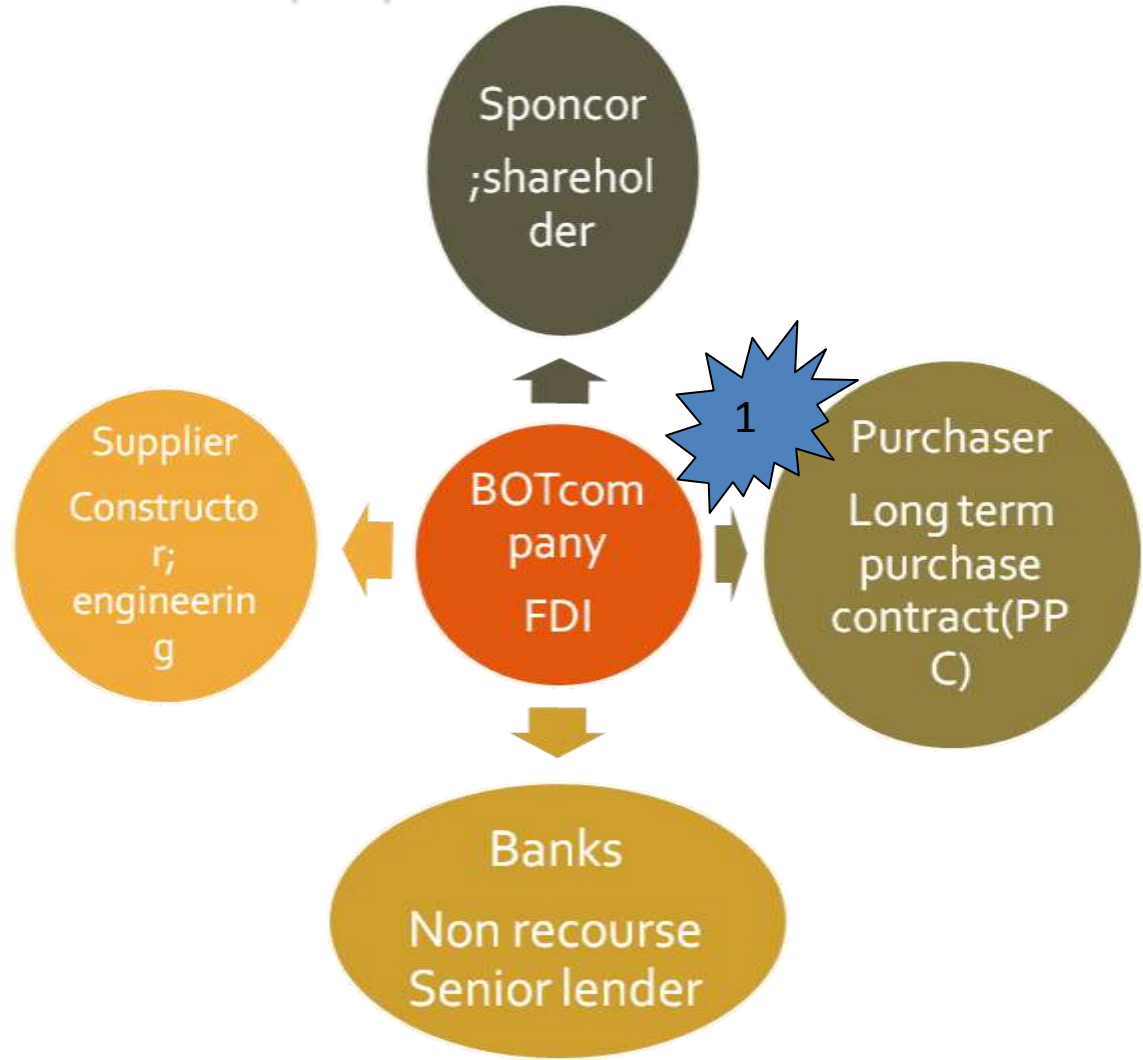
collaterals	Collateral right	Uncertainty reason	Risk reducing instrement	Com't
Long term sales contract	Assignment, chattel mortgage, pledge on claim(China)	Foreign currency, not specified buyers in export BOT	Government guarantee for loan or performance, shadow toll	No shadee toll in India and Thailand, Thai, India, Malaysia, Taiwan request local curenry based payment
Infrastructu re facility	hypotec or mortgage	Public assets shall not be collateralized.	BOT regulation admits exception. In road BOT, concession on exit and entrance, high IRR	Nor order in mortgage
Land use tight under the facility	Hypotec or mortgage	Public land shall not be collateralized.	High IRR	VN, China(CJV), Indonesia(confort letter by the Gov't)
Escraw a/c	trust信託	In Civil code country current bank a/c can not be collateralized.	Trust at NY, London, SGP	No in Thailand, India

BOT project in trouble

	(i) Long term sales contract	(ii) Environmental issue of facility construction	(v) Construction contract problem
(iii) Claims from neighbors or consumers	Paiton, Tanjung Jati	Hin Krut	KAFCO, Paiton
(iv) Political matter	KAFCO, Maharashtra Enron, Changsha 長沙	Izmir	

- Trouble may come from shape of country problem, especially relationship between small state sector and big civil society.
- Risk hedge of Marubeni in water BOT at Chengdu requests no direct toll collection, IFC and ADB involvement and French company involvement. 水ビジネスでの丸紅、成都、水道代金を直接住民から徴収すると問題に直面する可能性がある。Risk hedgeとしての国際金融機関と欧米企業の利用
- President of Petro Vietnam visited at Japan with 36 PPP projects proposals in June 2010.

Structure of BOT: Purchaser remits payment to escrow account of BOT at trust company company distribute to deposit 1st, Bank 2nd, operator 3nd, BOT company 4th. Long term sales claims and assets of BOT company are the collaterals to the senior lender.



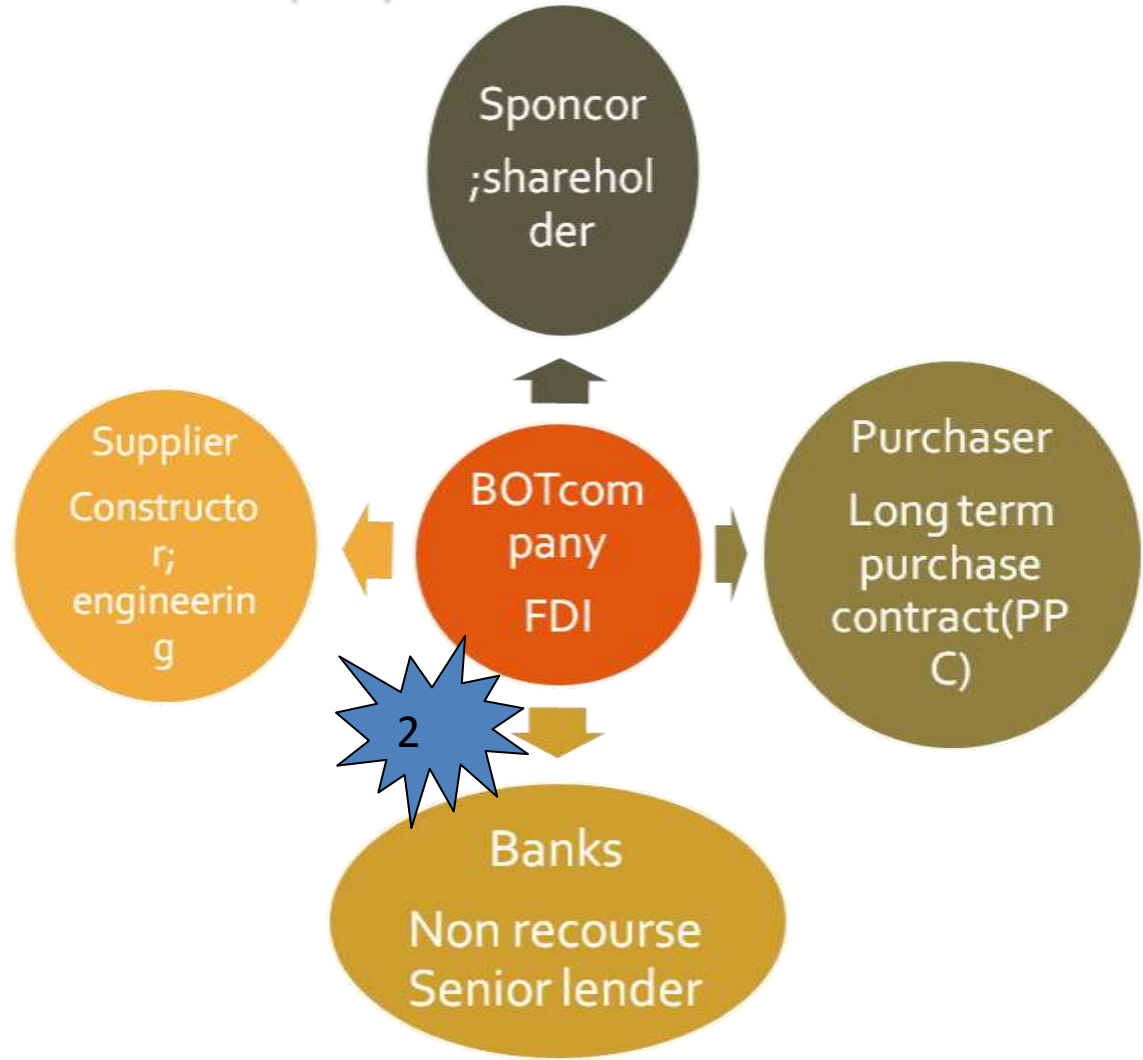
(1) Issues of long term sales contract with analysis

risk	solution	case	Analysis
Price is high in local currency base	from BOT to FDI	Paiton, Tanjung Jati, Indonesia	Weak state sector used strong civil society sector.
export prices are far low than expected	From BOT to FDI	KAFCO, Bangladesh	Conflict between weak state sector and middle foreign sector, Foreign Cluster III used local Cluster II who wanted foreign reserve with export.
Low profitability in highway or bridge BOT	Shadow price by the local government, PPP, PFI, separation of management and engineering	Many in UK , Japan, VN starts PPP with using budget or ODA, failure of Bangkok subway	Can middle state sector arrange budget? No Thai weak state sector insisted overestimated passengers. Middle state sector can arrange unfair burden to middle company sector with civil servant discretion.

(1)Issues of long term sales contract with analysis

risk	solution	case	Analysis
No Purchase by purchaser as it prefers its own power houses	Take or pay agreement	All PPA(power purchase agreement)	Can contract can supersede shape of country problem? Cluster III & II may deteriorate contract with reasons.
Contract is void by local law (toll gate management shall not be made by FDI)	Event of default and local government executes project purchase	Thai highway BOT with Kumagai	Thai weak state sector under Cluster III can not decide implementing power with local law.
Project is cancelled by election or congress 2010/10/26	No solution	Mahara stra Enron Turkey Izmir Power (election),Changsha Power BOT(congress)	Strong state sector backed by civil societies cancelled the project. 127

Structure of BOT: Purchaser remits payment to escrow account of BOT at trust company company distribute to deposit 1st, Bank 2nd, operator 3nd, BOT company 4th. Long term sales claims and assets of BOT company are the collaterals to the senior lender.



Senior lender(Bank) requests in BOP(build operate and transfer) or PFI(private finance initiative)(1/2)

	Current Iraq	comment
Mortgage on land of FDI	No, as FDI can not hold free hold land title, so real mortgage on free hold land title is not be made.	Mortgage on land use right in Vietnam and Indonesia
Mortgage on facilities and buildings	No, as occupancy mortgage on facilities and buildings are requested to be registered. But no mortgage registration system is established.	
Assignment to senior lenders of long term sales contract(in power house, PPA(power purchase agreement))	Yes, title of sales claim changes to senior lenders, similar to international practices	In Iraq, occupancy mortgage covers claims of borrowers including future claims with maximum limit.
Escrow account at trust bank at London or NY	Yes, escrow A/C at London there is precedent case in oil sales.	

Senior lender(Bank) requests in BOP(build operate and transfer) or PFI(private finance initiative)(2/2)

	Current Iraq	comment
Guarantee by the government	Yes in purchase guarantee(to SPC FDI), no in payment guarantee(to senior lenders,L/G) , Payment guarantee includes international public debt reported to IMF as it is a part of balance of payment of a country. Purchase guarantee is not a part of balance of payment.	100% payment L/G in Pakistan, Bangladesh, 50% payment L/G in Vietnam, purchase guarantee of Chinese local government, no guarantee in Thailand and India.
Junior loan	Yes from investor, not clear from long term purchaser	Junior loan to long term purchaser is a domestic loan , no report to IMF
Payment order at escrow A/C	Yes, payment to senior lender, contractor,material supplier, O&M operator, SPC FDI(salary, admi.fee)	

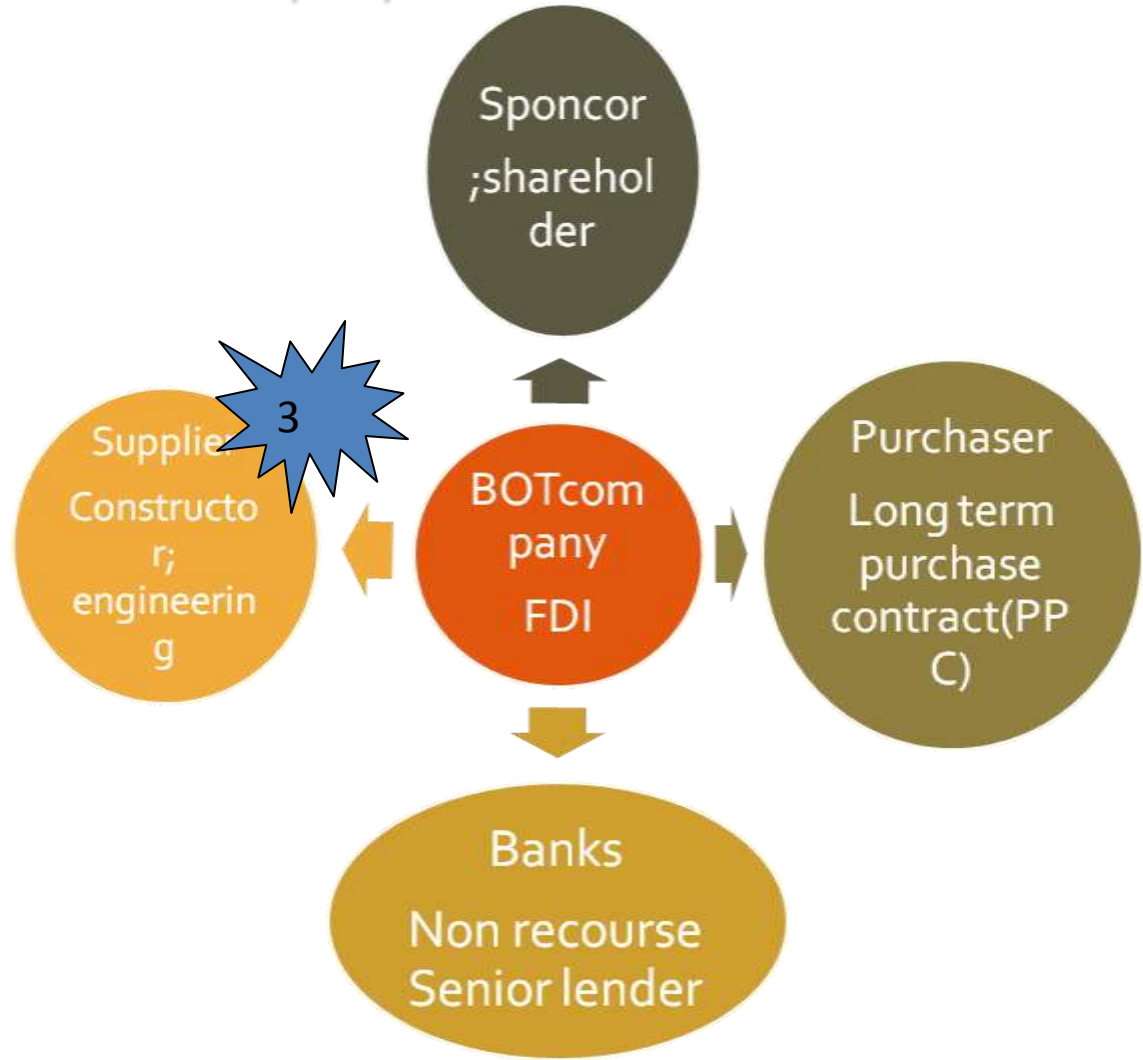
(2)Issues of senior loan with analysis

risk	solution	case	Analysis
Monthly sales money shall be seized by senior lenders	Escrow account of trust at LDN,NY or SGP	Usual in all BOT, Thai and India refused offshore escrow account	Strong state sector(India,Malaysia) or Cluster III (Thailand)refuse offshore escrow a/c.
Balance of escrow a/c is short to pay to senior lenders	Minimum deposit at escrow a/c is twice of payment to senior lenders biannual base	Many BOT	Cluster III civil servant's attitude
Payment Shortage to senior lenders	Subordinated loans by sponcors, guarantee by local government	Many subordinated loans by sponcors, especially Japanese trading houses, Failure of guarantee in Kafco, L/G by Pakistan Hab River,	Weak state sector prefers L/G to issue junior loans. Strong state sector may issue L/G to monitor BOT in China

Step in right of senior lenders by local utility agency(long term purchaser)

- Direct agreement between senior lenders and long term purchaser to secure the senior loan shall be made.
- Upon a default of SPC(BOT company FDI), senior lenders seize the collateral of BOT facility and sales to the possible buyers. But a possible buyer, a utility operator is limited to local utility agency, which may purchase the facility with big discounted price to make big loss to the senior lenders.
- So before the long term purchaser cancels the contract by SPC default, the senior lenders can execute step in right to find a new operator instead of the current default SPC, with a permission of the long term purchaser. To execute a step in right, the senior lenders have a pledge or chattel mortgage on the equity shares of the SPC.

Structure of BOT: Purchaser remits payment to escrow account of BOT at trust company company distribute to deposit 1st, Bank 2nd, operator 3nd, BOT company 4th. Long term sales claims and assets of BOT company are the collaterals to the senior lender.



(3)Issues of engineering with analysis

risk	Solution	case	analtsis
EIA is added for port facilities	No solution, civil society surveillance	Thai Hin Krut Power	Weak state sector and strong civil society with Cluster III
Performance of Engineering period	Performance bond by engineering companies or sponsors	Pac Bilau,Philippine	No concern for weak state sector
typhoon in engineering period	Event of default, guarantee by third party	HK Nr.2 submerged tunnel	Cluster II delegates it to security package
Late of project schedule	Bonus and penalty clause of engineering contract	Many BOT cases, Not BOT but Middle east plant projects (IHI Cement, Dubai World)	Sub-contractor of engineering company under Cluster III is risky

Part III

V. Agro Processing FDI covered by

Investment Law No.13 2006 which means NIC and province based Investment Commission cover FDI in this industry and minimum capital investment \$250,000.

VI. Banking FDI and insurance FDI, not covered

by Investment Law No.13 2006. Law of the Banks, No.94, 2004 and Law of the Central Bank of Iraq, No.56, 2004 cover banking FDI

SUZUKI, Koji

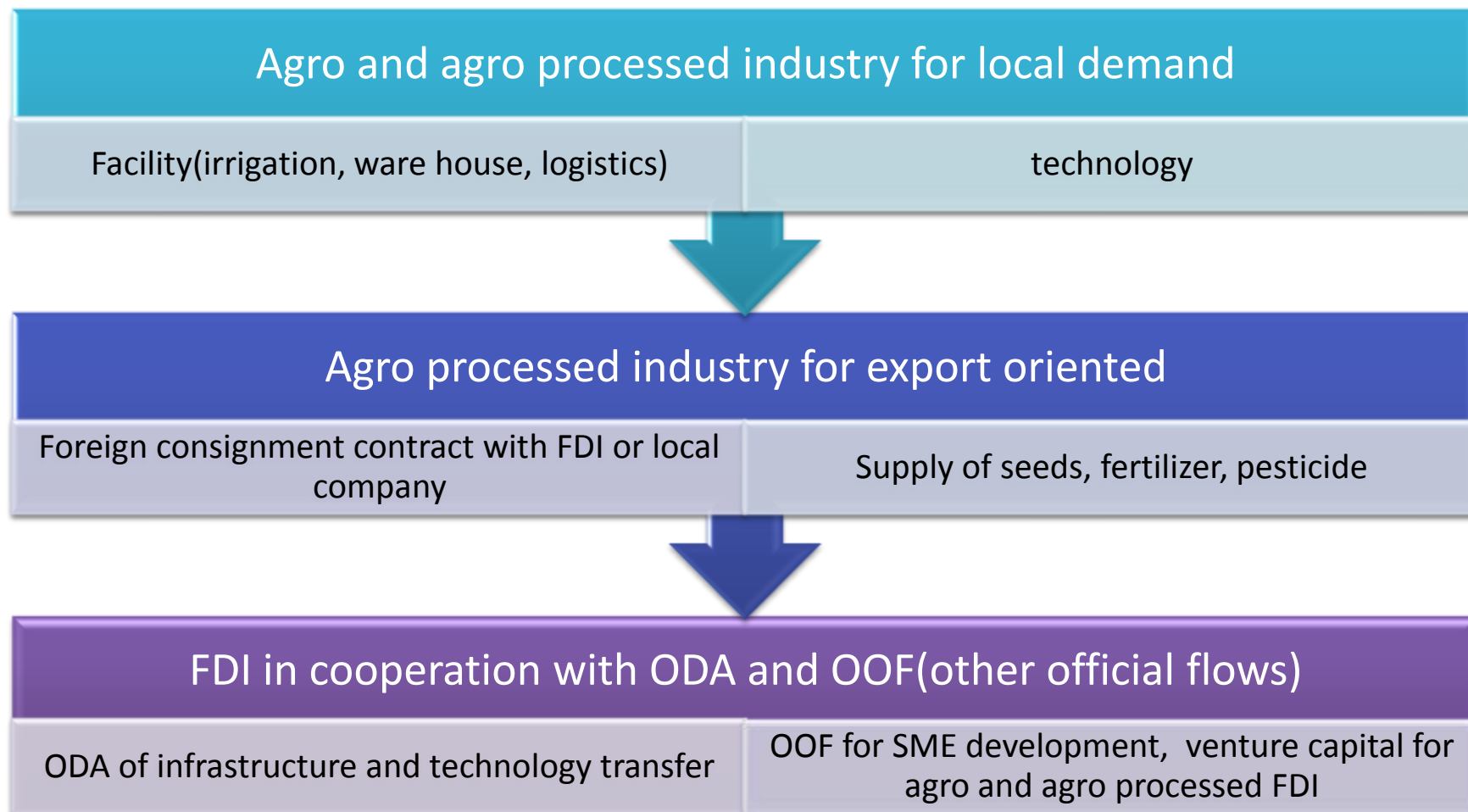
Tel.0977-22-2527

K-suzuki@ctb.ne.jp

Oct.15,2010



V. Agro and agro processed industry



possible law fields by industry for forum assignment in possible FDI in your country and possible business laws concerning FDI

Iraq has nutrition health requirements regulations.

The Ministry of Agriculture inspects all agricultural and livestock and issues health certificates for live stock.

The Ministry of Health inspects and issues health certificates for manufactured food products.

	Possible law field in concern
Retail (vi)	Abuse of priority status in competition law,,Franchise law, Restriction to enter under foreign investment law
Apparel(v), food(v), food processing(v)	Food hygiene law in exported country, Consumer protection law in the market, Product liability law, Environmental protection law, Consigned production law (import tariff,VAT), Labor law,Company law
Car(v), car parts(iii)	PL law, abuse of priority status against sub contractors and dealers, joint venture agreement, company law, FTA, administrative guidance in local contents
Security house(iv,vi),steel(i), tire(iii,v)	Administrative guidance in operation and financial products, law on mutual fund, chattel mortgage law and securitization law, security exchange law, company law and M&A regulation, consumer law

Agro-processing FDI

- Japanese FDI in agro-processing is almost for export oriented, like packaged frozen foods and processed foods.
- Local market oriented Japanese agro-processing may not compete with price and local market adapted product quality, except Ajinomoto.
- Ajinomoto FDI make seasonings which use sugar canes as materials, and noodles for local general consumers, and processed foods and frozen foods for local middle class consumers.
- Supporting FDI for local agro-processing industry can be made by Japanese FDI like supplies of seeds, seedlings, fertilizer, pesticide, agro used plastics or agro-processed machines.

Ajinomoto, biggest Japanese food MNC in amino acid, affordable seasonings maker

AJINOMOTO

- **EUROPE**

- [AJINOMOTO EUROPE S.A.S.](#)
- [AJINOMOTO EUROLYSINE S.A.S.](#)
- [AJINOMOTO FOODS EUROPE SAS](#)
- [Ajinomoto Poland Sp. z o.o.](#)
- [S.A. Ajinomoto OmniChem N.V.](#)
- [Ajinomoto Sweeteners Europe](#)
- [OOO "AJINOMOTO"](#)

- **ASIA**

- [Ajinomoto Co., Inc.](#)
- [Ajinomoto Co., \(Thailand\) Ltd.](#)
- [Ajinomoto Vietnam Co., Ltd.](#)
- [Wan Thai Foods Industry Co., Ltd.](#)
- [AJINOMOTO PHILIPPINES CORPORATION](#)
- [Ajinomoto \(Malaysia\) Berhad](#)
- [Ajinomoto \(Singapore\) Pte. Ltd.](#)
- [PT Ajinomoto Indonesia](#)
- [Ajinomoto \(China\) Co., Ltd.](#)
- [Ajinomoto Co., \(Hong Kong\) Ltd.](#)
- [AJINOMOTO TAIWAN INC.](#)



OPA of Ajinomoto FDI

	1	2	3	4	5	6	7	8	9	10	11
21			○			◎					
22											
23				○	○						

- ◎6-21 local middle class, BOP(Base of pyramid) based sales promotion(kiosk, small package with staffs of sales FDI)
- ○5-21 diversified distribution system
- ○4-23 qualified production method with hygiene and local food standard
- ○3-21 contract farmers or own plantation

OPA of FDI for Dairy factory and milk products in Wasit governorate with \$15-20mil. vs. Ajinomoto FDI

	1	2	3	4	5	6	7	8	9	10	11
21			○A			◎AD					
22											
23			○D	○AD	○AD						

- ◎6-21 for Ajinomoto local middle class, BOP(Base of pyramid) based sales promotion(kiosk, small package with staffs of sales FDI), for Dairy FDI, for every peoples in Providing healthy and pasteurized dairy products
- ○5-23 both in same as diversified distribution system
- ○4-23 both in same as qualified production method with hygiene and local food standard
- ○3-21 for Ajinomoto, contract farmers or own plantation, for Dairy factory FDI, many contract farmers with feeding including nutrition of amino acid supplied by Ajinomoto (FDI)
- Ajinomoto, Meiji Milk(Megumilk) may have interests, if demands and price analysis with rival companies including imported dairy & milk products is made or shown. Ajinomoto can get profits to supply nutrition of amino acid to milk farms for feeding. Meiji Milk may also have interests in feeding pharmaceuticals as Meiji Milk was merged with Meiji Pharmaceuticals in 2009. Meiji Milk in success in Thailand for milk production. Ajinomoto is a cash rich company, which does not request collateral for loan but may request management right(67-75% of equity shares) There may be a management behavior problem for security.

OPA of FDI Factory of vegetable oil at Salah Al-Deen with \$15mil. vs. Ajinomoto FDI

	1	2	3	4	5	6	7	8	9	10	11
21			○AV			◎AV					
22											
23				○AV	○A						

- ◎6-21 For Ajinomoto, local middle class, BOP(Base of pyramid) based sales promotion(kiosk, small package with staffs of sales FDI) ,for vegetable oil FDI, corn, cotton and sun flower oils are purchased by every peoples.
- ○5-21 diversified distribution system for Ajinomoto FDI vs. general distribution network for Vegetable oil FDI
- ○4-23 both same as qualified production method with hygiene and local food standard
- ○3-21 both same as contract farmers or own plantation
- Nisshin Oilio, Showa Oilio, Ajinomoto may have interests, if demands and price analysis with rival companies including imported vegetable oils is made or shown. There may be a management behavior problem for security.

4. Management Behavior (Same ones of Part I ppt. nr.48-50)

- A board of management has each style of management. A management behavior may differ by company by company. **Some companies take top down decision making, other companies take bottom-up decision making. But classification of such decision making style by company does not make sense in actual.** So you have to have an instrument to analyze management behavior in each company basis.
- Prof. Yoichi Ebisawa of Kanagawa University shows a management behavior by Business Side and Human Side. **Business Side consists from company strategy, management resources, organization and management administration. Human Side consists from network, database, information, and media.**
- Network of human side shows **overestimation of importance to utilize Overseas Chinese network in investment in ASEAN, China and NIES.** Information of human resources shows importance of top management connection with high officials of host country Government but at same time it sometimes shows failures of FDI as Japanese top managements of Japanese private companies overestimate powers of the Government of Asian host countries. A typical case was the FDI failures of Yaohan in China, which resulted Yaohan Japan went insolvency in late 1990s.
- Iraqi image for general Japanese investors is still Iraq is not in security and peace, so Japanese companies are reluctant to dispatch Japanese personnel to Iraq to avoid bombing, kidnapping or terrorism and they think Iraqi business conditions are uneasy and risky.

Image to Iraq for general Japanese investors

- Iraqi image for general Japanese investors is still Iraq is not in security and peace, so Japanese companies are reluctant to dispatch Japanese personnel to Iraq to avoid bombing, kidnapping or terrorism and they think Iraqi business conditions are uneasy and risky.
- Public debt reduction by the Japanese Government was made amounting \$6.7billion in Nov. 2005, which was the largest among Paris Club countries.
- Japanese possible investors check implementation and proceeding of Japanese ODA commitment \$5billiom. Proceeding of ODA projects is a good example of checking of ability of recipient Government and its civil servant.
- Those are 15 projects in port, irrigation, rehabilitation of power house, road & bridge, oil refinery rehabilitation, fertilizer rehabilitation, and water project.
- Iraqi Investment seminar in Japan and economic forum in Iraq in 2009 changed the image on Iraqi business.
- **Company Income Tax incentive for 10 years for FDI, company income tax level 15% are enough for FDI. More important one is legal predictability including privatization for domestic market oriented FDI, easy legal search and legal implementation. 15 years tax holidays for Iraqi majority JVFDI company may not function well as foreign partner may request its management right to make quick profit making under modernized management or foreign management culture in the start up or first stage of JVFDI.**

Management Behavior of Japanese SME

- Why do Japanese SME have invested in China? Japanese big companies especially assembling manufacturing companies who are ***domestic market oriented industries***, have wanted to minimize the investment risk to procure their parts in China. So they have requested their sub-contractors in Japan to invest to China. Another SME investment to China is ***export oriented industries*** like apparel, agriculture processing, sea food processing. They invest for cost saving in Japanese market, not value added. Unfortunately Japanese METI's industry policy has paid attention on cost saving not value-added. As energy saving in 1970's resulted from oil shock was in success. ***Success hysteresis story has concealed mistakes in sequences in big bureaucratic organization like ministries, big banks or old economies as it has given an excuse.***

Sakata, world leading seed company has sales FDI in many countries.



OPA of sales FDI of Sakata

	1	2	3	4	5	6	7	8	9	10	11
21	○					○					
22			◎								
23											

- ◎3-22 patent protected seed and seedling exported from Japan
- ○6-21 local distributors for farmers
- ○1-21 for local food market with up graded quality with imported seeds and seedlings

OPA of Phosphate Fertilizers Plant Al-Anbar – Al-Qaem for FDI & Sakata

FDI

	1	2	3	4	5	6	7	8	9	10	11
21	○S		◎P			○SP					
22			◎S								
23				○P							

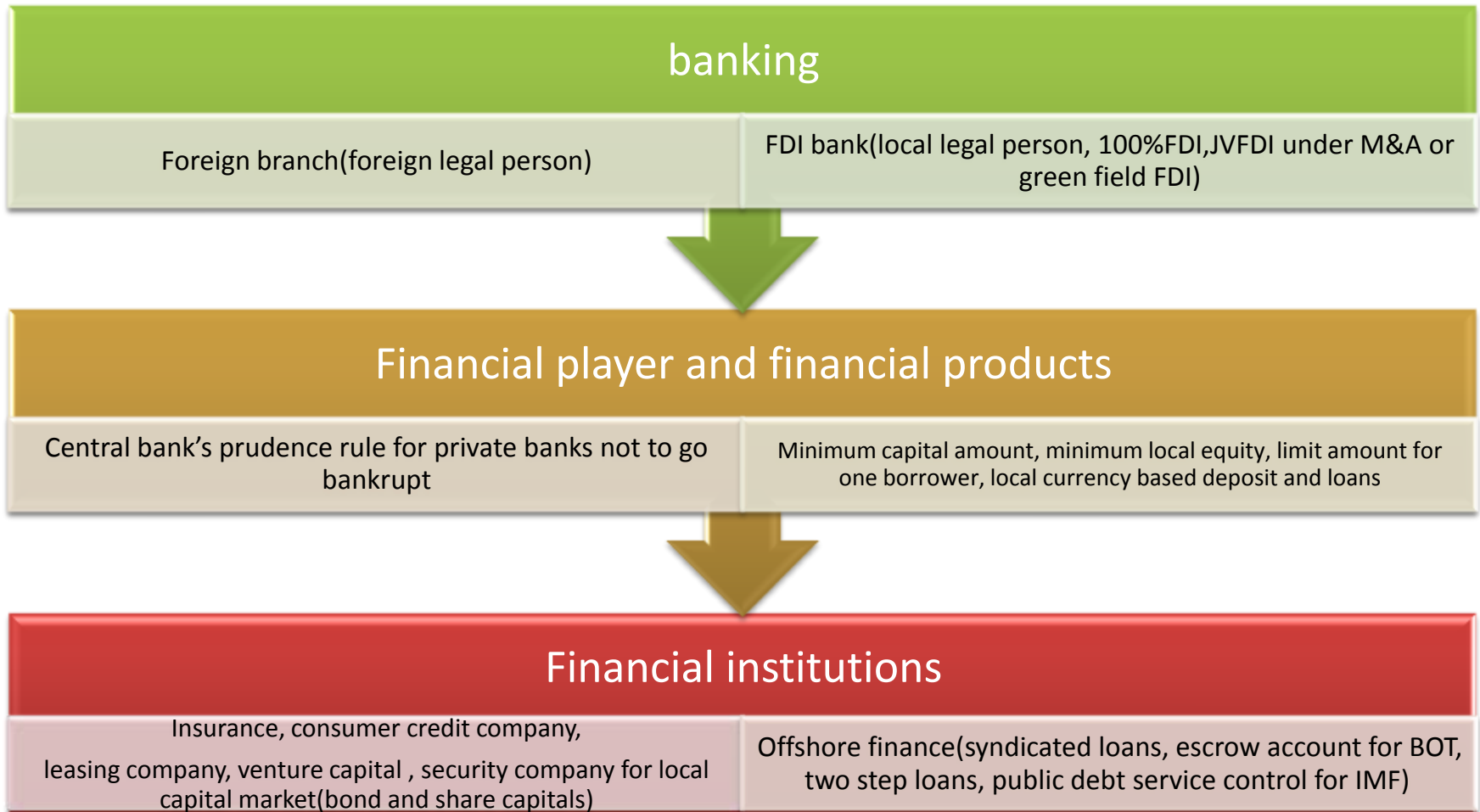
- ◎3-21 The availability of raw materials
- Vs. 3-22 seed and seedling exported from Japan
- ○6-21 local distributors for farmers (same as local market and the distribution demands.) but value added is requested for phosphate fertilizer with import pesticide or technology of planting
- ○1-21 for Sakata, for local food market with up graded quality with imported seeds and seedlings
- ○4-23 energy saving production, inventory minimizing production

OPA of FDI for **Production of seeds in the areas dependant on rainwater – Agricultural project, Covering the entire areas dependant on rainwater of the Kirkuk Governorate with \$190mil.& Sakata FDI**

	1	2	3	4	5	6	7	8	9	10	11
21	○S					○SK					
22			◎S K								
23				○PK							

- ◎3-21 same to the availability of (patented) imported seeds
- With Sakata's 3-22 seed and seedling exported from Japan
- ○6-21 local distributors for farmers (same but government subsidy may be needed for Kirkuk project as price may be expensive as R&D cost is expensive although local market and the distribution demand)
- ○1-21 for Sakata, for local food market with up graded quality with imported seeds and seedlings, for Kirkuk does Sakata have rainwater seeds?
- ○4-23 energy saving production, inventory minimizing production

VI. Banking FDI



FDI Bank under current Iraq banking(7 state owned banks and 23 local private banks),What is a function not covered by Trade Bank of Iraq, volume, foreign currency loan or risk evaluation?

banking

No branch(foreign legal person)

11 FDI bank(local legal person, 100%FDI,JVFDI under M&A or green field FDI)

Financial player and financial products

Central bank's prudence rule for private banks not to go bankrupt

Minimum capital amount(\$210mil for FDI bank, \$85mil for all banks), minimum local equity, limit amount for one borrower, local currency based deposit and loans

Financial institutions

Insurance, consumer credit company, leasing company, venture capital , security company for local capital market(bond and share capitals)

Offshore finance(syndicated loans, escrow account for BOT, two step loans, public debt service control for IMF)

Current FDI banks in Iraq(source by NIC);

Why are more FDI banks requested?

Islamic banking or general banking?

Possible problem may be project evaluation, industry finance, collateral, foreign currency based loan or deposit collection.

FDI banks in Iraq	Foreign equity	Foreign bank	Possible Problems
Commercial Bank	49%	Al-Ahly Al-Muttahid Bank of Bahrain	
Baghdad Bank	49%	Al-Khaleej Al-Muttahid Bank of Bahrain	
Al-Ahly Bank of Iraq	49%	Export and Finance Bank of Jordan	
Adre Essalam Bank	70%	HSBC	
Al-Etiman Bank of Iraq	85%	75% by National Bank of Kuwait,10% IFC	
Al-Eqtisas Bank	49%	Al-Ayan C. of Kuwait	
Al-Mansour Bank	60%	National Bank of Qatar, Merchant Brodge of Lux?(source by Mr. Al Rasul)	
To be established In Kurd		Byblos Bank of Lebanon(source by Mr. Al Rasul)	

If a bank goes bankrupt ; only for local banks not foreign banks by the local government

Early correct measures

- No before Asian Financial Crisis
- M&A between banks
- BIS Standard 8% & 4% for sound banking

Deposit Insurance

- Prevent bank run with pay off limit
- No before Asian Financial Crisis

Public money injection

- Default of a bank shall be avoided as bank has a payment settlement function in the market economy. Public injections to GM & AIG are rare cases under too big to fail.
- Inferior bond as injected capital is counted as equity.

I think Iraq shall develop comprehensive commercial financial institutions.

Development Fund of Iraq, a venture fund? expires 2010.

possible law fields by industry for forum assignment in possible FDI in your country and possible business laws concerning FDI

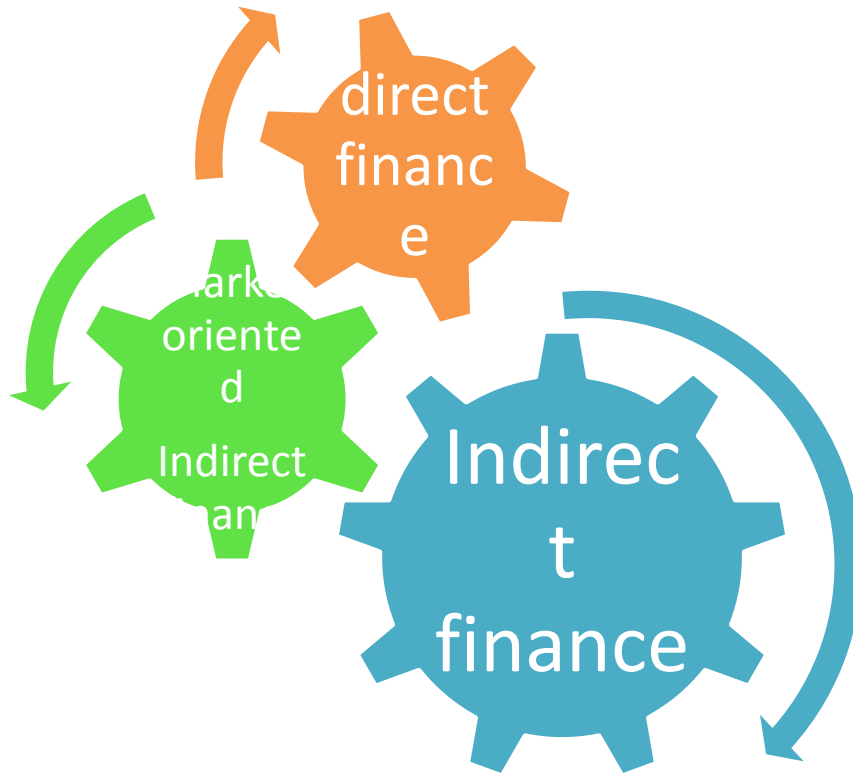
	Possible law field in concern
Retail (vi)	Abuse of priority status in competition law,,Franchise law, Restriction to enter under foreign investment law
Apparel(v), food(v), food processing(v)	Food hygiene law in exported country, Consumer protection law in the market, Product liability law, Environmental protection law, Consigned production law(import tariff,VAT), Labor law,Company law
Car(v), car parts(iii)	PL law, abuse of priority status against sub contractors and dealers, joint venture agreement, company law, FTA, administrative guidance in local contents
Security house(iv,vi),steel(i), tire(iii,v)	Administrative guidance in operation and financial products, law on mutual fund, chattel mortgage law and securitization law, security exchange law, company law and M&A regulation, consumer law

	Possible law field in concern
Bank(vi), home electric goods(v)	Contract law, mortgage law, bankruptcy law, consumer law, place of origin in foreign investment law, bank branch not covered by foreign investment law, law of trade secret, patent law, design law, trademark law, labor law, environmental protection law(EU regulations like REACH and WEEE)
Electric goods(i,v), electronics parts(iii), ICT industry(iv)	Labor law, consigned production law, IPR, FTA, in the market, Product liability law, Environmental protection law, environmental protection law in the market(EU regulations like REACH and WEEE), Consigned production law(import tariff, VAT)
advertising(vi), insurance(vi,ii,iv)	Unfair trade practice of competition law, insurance law, administrative guidance in insurance industry(bancassurance), tort law
Energy(I,ii), trading house(ii)	Production Sharing law(PS), joint venture agreement, mining law, BOT regulation, plant export contract, international private law, international contract law, law on international disputes
Machinery(i), motor bike(v)	Joint venture agreement, international contract law, IPR(design, trademark), abuse of priority status in dealer control
Chemicals(i,iii), daily necessities(v)	Environmental law including recycling, IPR, joint venture agreement, tort law, sales agent agreement, EU competition law in huddle, cartel and sanctions

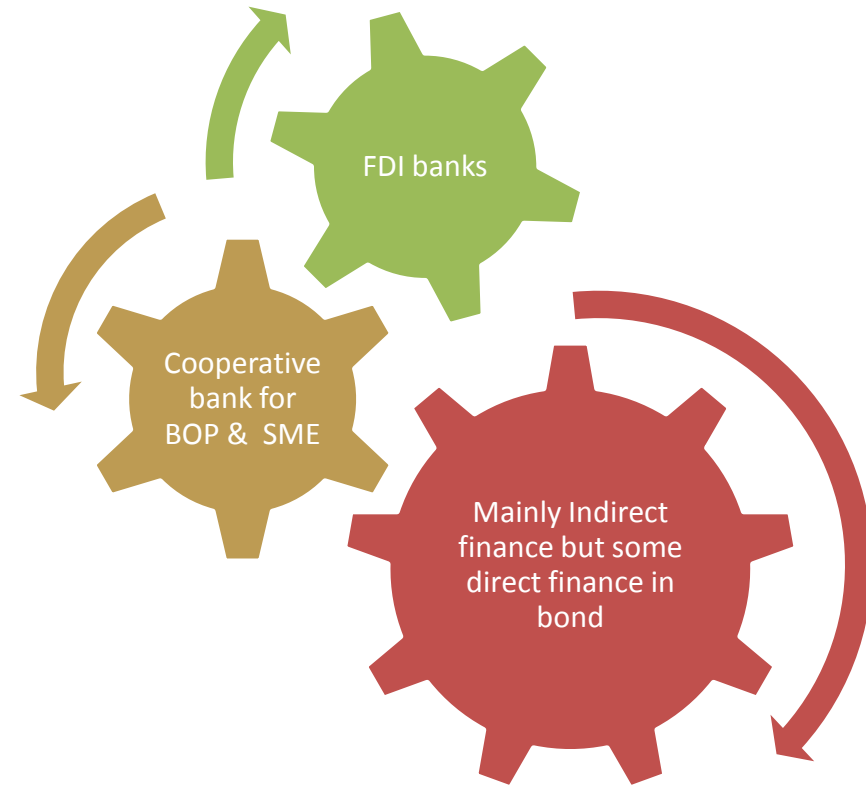
	Possible law field in concern
Tourism(vi),hotel(vi)	SME protection in foreign investment law, labor law(foreign expatriates), environmental protection law, hotel management agreement, securitization law (REIT)
Credit(vi), leasing industry	Consumer law, leasing regulation, BOT regulation(BTLO for ODA), credit sales regulations, LLP, securitization regulation
Transportation(iv,vi),telecommunication(iv,vi)	Concession agreement, administrative guidance, joint venture agreement, consumer law(e-commerce regulation)
Cement(i),engineering(ii,vi,vi),paper(v,iii)	Joint venture agreement, BOT regulation, environmental law(forest protection, EIA), land law including industry estate regulation, administrative guidance, administrative law, competition law in huddle(談合) and sub-contracting

In Asian trend, big indirect finance and small direct finance make market oriented indirect finance. In Iraq,

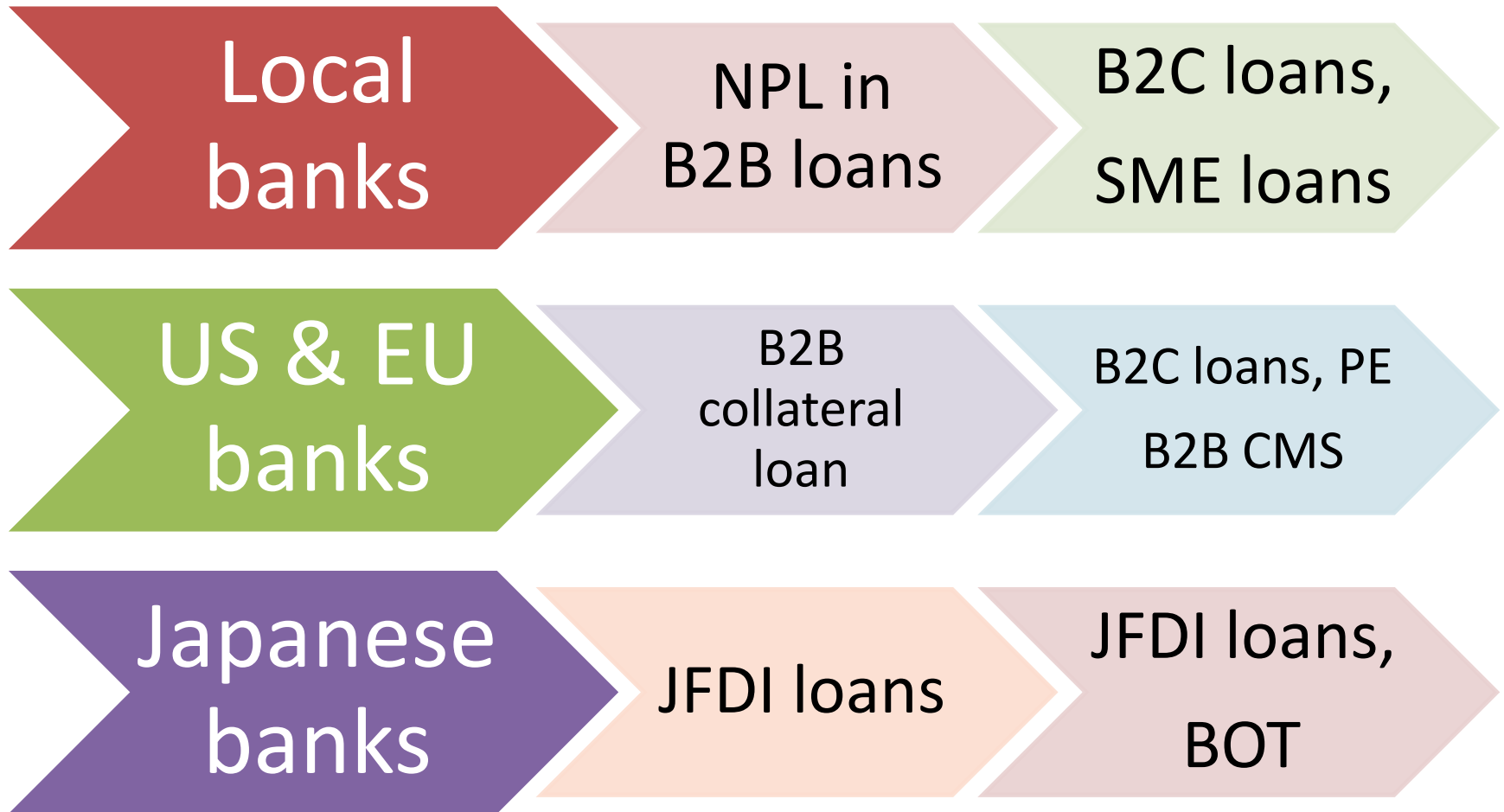
Asian context



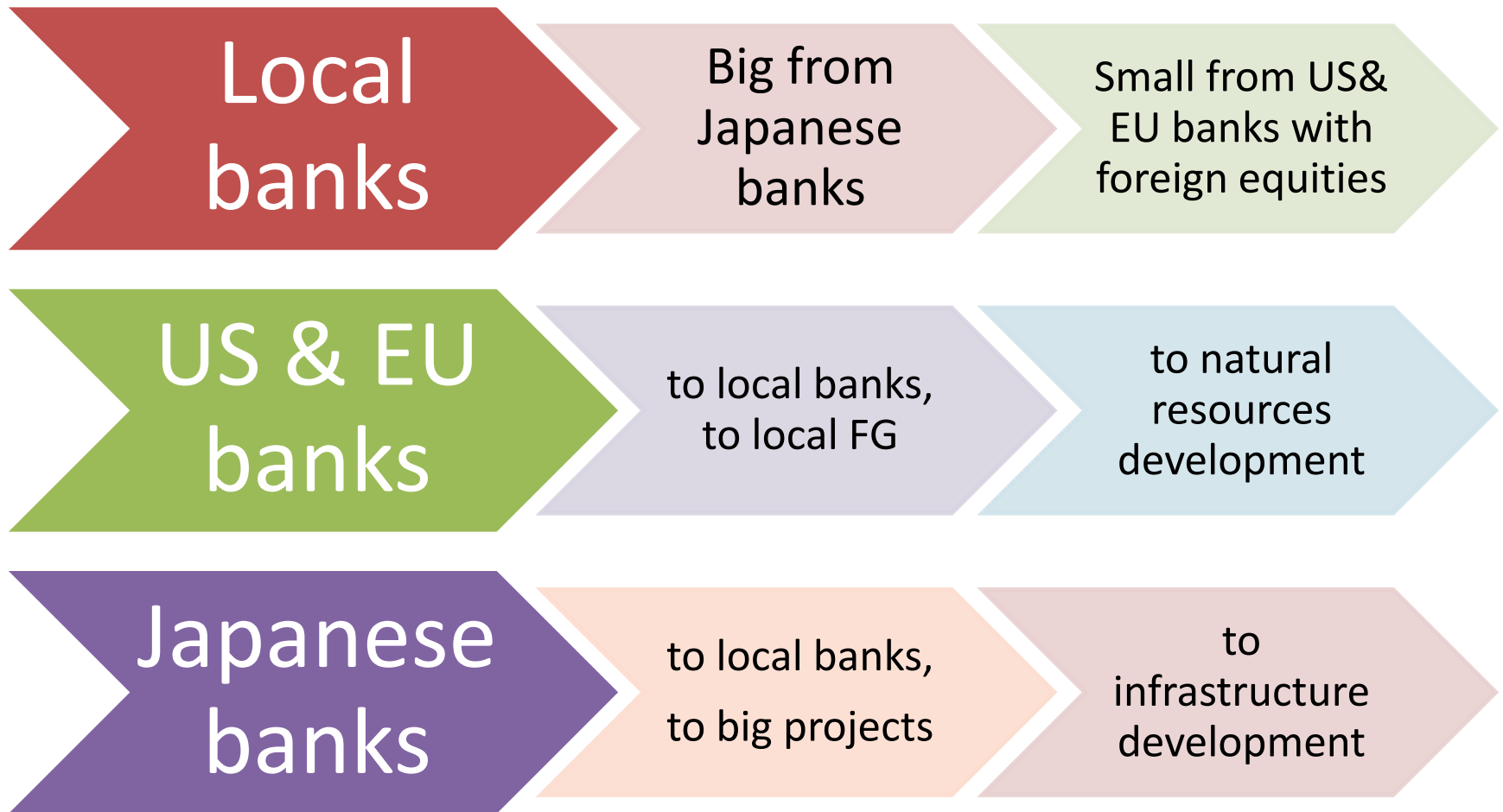
Iraqi context



Resident Banks activities in Asia



Offshore loan activities in Asia, in Iraq, may local banks be substituted by FDI bank?



Risk dealing, Iraqi local banks may have prudence rules to make sound banking.

Local
banks

Low risk high return
in B2C

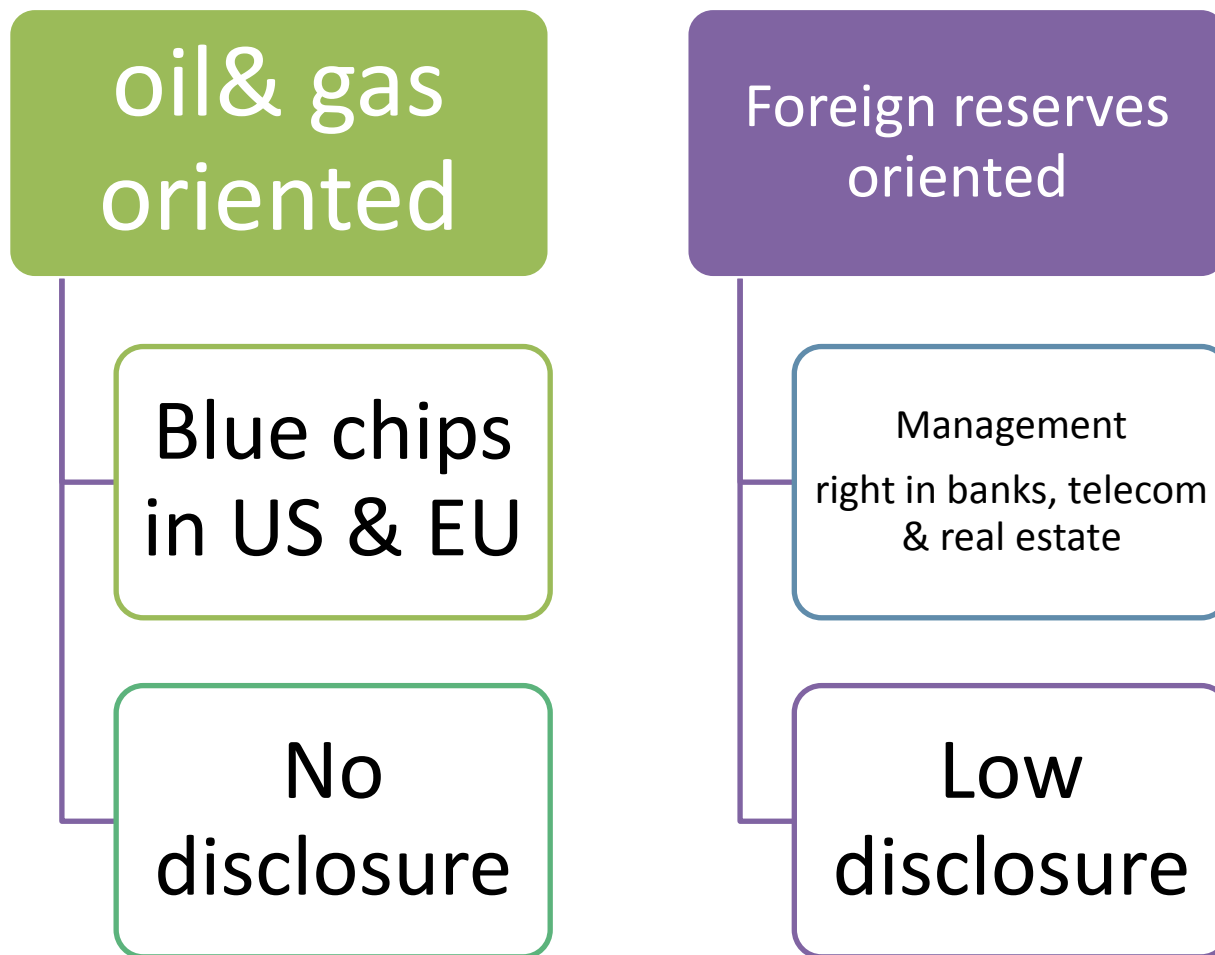
US & EU
banks

High risk(loan),low risk(fee) high return in B2B,
Low risk high return in B2C

Japanese
banks

Relationship banking,
Japanese FDI related

SWF(sovereign wealth fund) can be used for some Iraqi sectors, oil & gas, agricultural plantation and real estate development, with loans(short term and long term loan), and equity holders(FDI).



Insurance, leasing, consumer credit, may be requested in Iraq with FDI base as those need international standard and long term based investment.

insurance

- Century of Asians
- Life insurance FDI & local make local capital market.

leasing

- Japanese FDI development in lease or installment payment.
- World low interest rates may make adverse selection.

Consumer
credit

- Century of Asians
- Credit evaluation Know how vs. asymmetry information

Venture capital can be requested for some FDI especially foreign SME based FDI.

Investment

- Early stage VC
- Pass through
- Conflict of interest of fund manager

exit

- IPO at local or third country emerging market
- strategic investor
- MBO

Mutual fund & Asian Stocks are propsective future

Many Asian SE are weak markets but top down approach is preferred to bottom up approach as only blue chips are traded in Asian secondary market.

Technical
Analysis for
weak type
market

Fundamental
analysis for
semi-strong
type market

Portfolio
theory(CAPM)
for strong
type market

Read trend of Bond market in Asia to raise funds for infrastructure development

State bond

- Offshore issuance with rating above BBB
- Onshore issuance for investment by local banks after Asian Financial Crisis

Asian company bond

- Reluctant to information disclosure
- Offshore euro yen bond issuance without rating before Asian Financial Crisis
- Asian bond market development under bond issuance of Japanese FDI

Securitization (ABS)

- Leasing claims, consumer credit claims, sales claims, loan claims, real estate claims with state registration
- loan claims to CLO and CDO, subprime loan housing loans made Lehman Shock in 2008.
- real estate claims to REIT

Bond market in Asia with risk avoidance and risk favorite

Risk avoidance bond in the world

- Bond with BBB or above by S&P, Moody's or Fitch
- Treasury bonds of advanced countries,
- MNC company bonds of advanced countries

Risk avoidance bond in Asia

- Offshore Asian treasury bonds with BBB or above
- Onshore Asian treasury bond with local rating company
- Offshore Asian company bonds with BBB or above
- Onshore Japanese FDI company bonds guaranteed by JBIC

Risk favorite bond

- Private issued bonds without no rating(Eurobond in SGP,LDN)
- Private issued bonds with local rating (VC investment bond for MBO)
- Securitized bond(CLO,CDO,CDS) with rating
- Public issued bonds with BB or under(junk bond)

Credit ratings are opinions by rating agency about credit quality of an issue, such as a bond or other debt obligation, and relative likelihood that it may default.

Operation risk

- Industry(development, competitiveness, regulation),
- economy, market trend,
- Profitability & stableness including operation portfolio

Financial risk

- Risk Coverage with Capital
- Liquidity of assets & liability
- Quality of assets
- stakeholder

Future cash flow	• Enough, and safety
risk analysis	• Operation Risk, financial risk
Default risk	• Remoteness to default

ODA & Public Finance with shape of country check with following 3 ppt. of shape of country.

State sector

ODA for physical &
intellectual
infrastructure
building

OOF for BOT &
Project
Finance

company sector

Offshore
loan

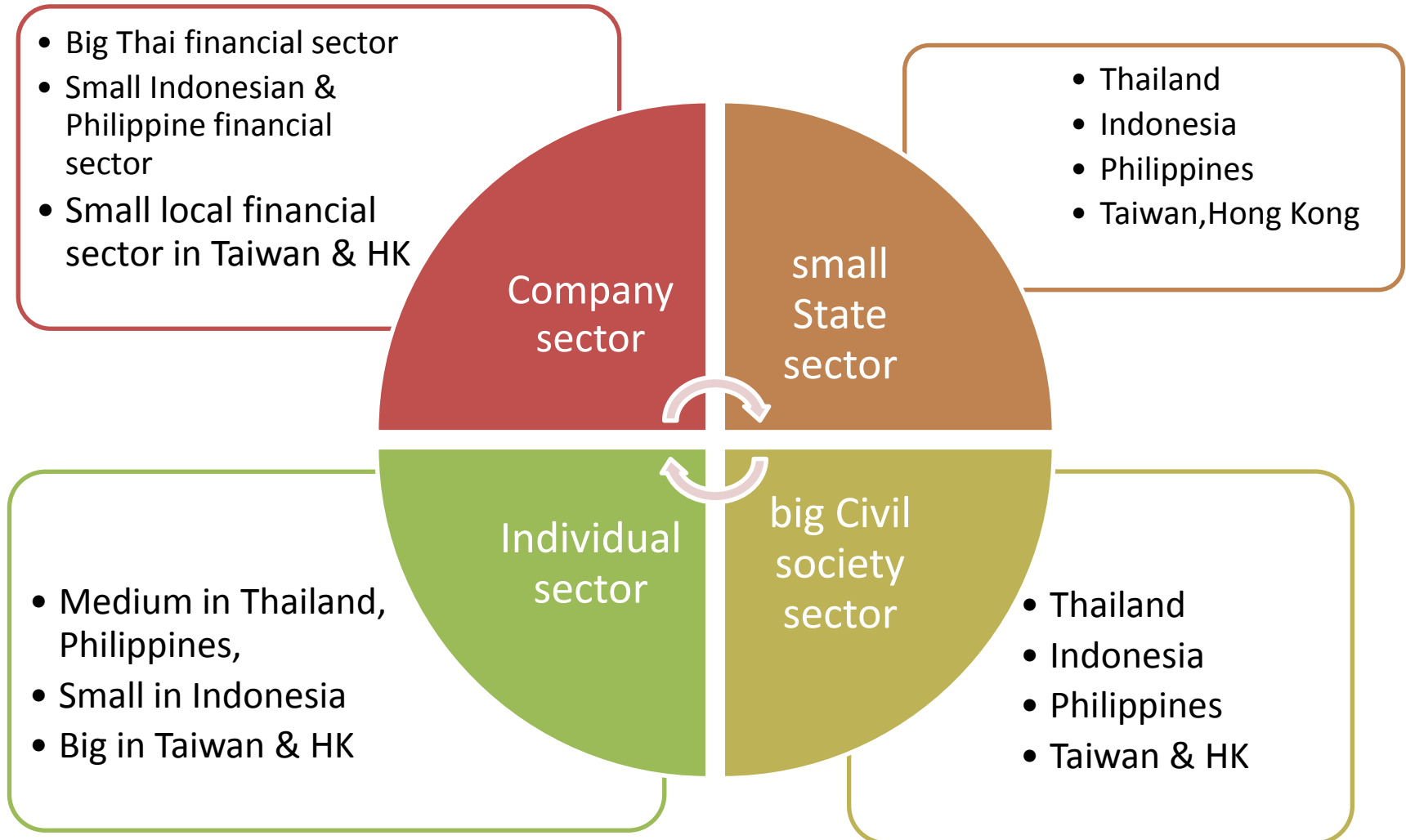
Equator
principles
in lenders liability

Civil society sector

Islamic
finance

microcredit

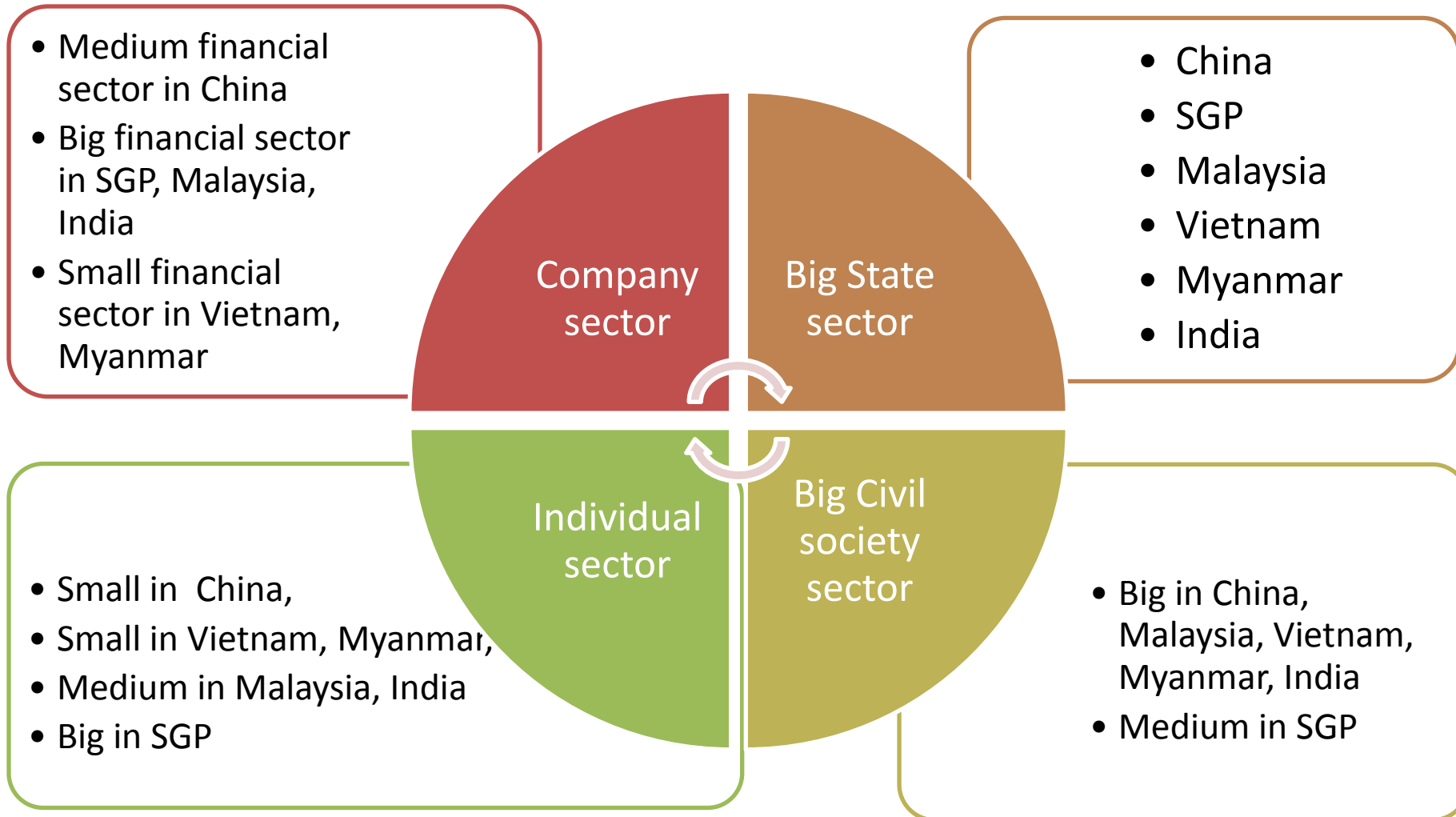
Apply Shape of country analysis under small state sector (Chap.1 ppt.35) to concrete financial topics.



Regional infrastructure development plan with state sector oriented projects

- Asia Business Summit held on 15 Mar.2010 declared infrastructure building and liberalization of trade and Investment. The declaration may be studied at APEC Summit to be held in Oct.2010,at Hanoi, which will adopt Asian Development Plan up to 2020 amounting \$200bil, covering 650 projects in infrastructure development in APEC region. (Nikkei Mar.30,2010)
- Priority projects will be
- Road from Southwest China to North Vietnam \$1bil.
- Port of East India \$1.3bil.
- Bridge between Thailand and Cambodia \$0.9bil.
- New air port at South Vietnam \$5bil.
- Port of Indonesia \$2.1bil.

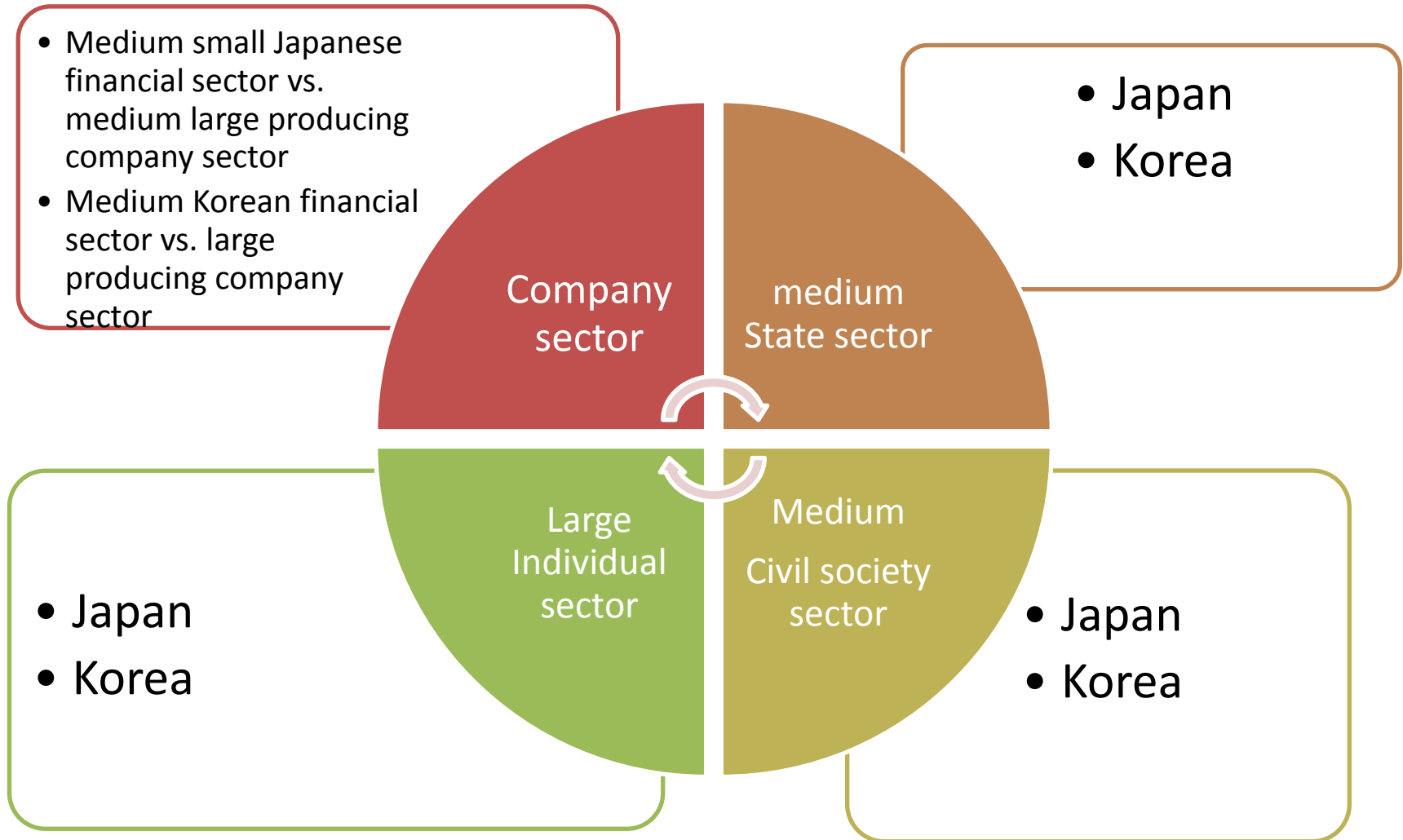
Apply shape of country analysis under big state sector to concrete financial topics.



Loans to SPC(special purpose company) of local governments by Chinese big 3 SOE banks.

- China big 3 SOE banks increased loan outstanding by 30% from 10tri yuan to 15tri yuan(\$2.2tri.), which made decreased equity ratio by 0.46%(Construction Bank of China)-0.29%(Bank of China). Increased loans for infrastructure building to SPC of local governments will be possible NPL, as debt amount 8 tri. yuan of the SPC of local government is 25% of GDP of China, and much portion of the debts has been invested to Chinese stocks and real estates not original infrastructure projects(Nikkei in Mar.30,2010).

Apply Shape of country analysis under medium state sector to concrete financial topics



Asian Investors with Risks

risk	investor	Country	Asian Financial product
↑ Risk avoidance	Pension fund,EPF	JPN,Malaysia,Korea	Local bond, local blue chips
	Institutional investor	US& EU,	MF of offshore bond, ETF
	Individual	All Asia	MF of bond, MF of MNC stocks, passive local MF
risk neutral	SWF	SGP,Malaysia, China	MNC stocks, VC, PE, FDI,strategic Asian stocks or loans for national interest
	Institutional investor	All Asia	Asian blue chips, Asian public issued bond, long term loans
	SWF	Middle East	MNC stocks, FDI,PE,hedge fund,
	Individual	All Asia	Active MF of Asian stocks, local blue chips
↓risk favorite	Semi-professional individual investors	JPN,China,India	Local stocks
↓risk favorite 2010/10/26	Professional individual investors	Taiwan,HK,JPN,Korea ,China,Thailand,SGP	Offshore Asian stocks, PE ,VC,hedge fund

Credit rating in Asia(ACRAA is an association in Asia)

- S&P, Fitch, R&I,JCR
- AAA,AA,A,BBB(公募可能),BB,B,CCC,CC,C,
- D(default)
- Moody's
- Aaa,Aa,A,Baa,Ba,B,Caa,Ca,C,D
- Some LDC have local rating company for local bond issuance under public offering. Private bond offering requires no rating. LDCには国内社債用のrating companyがある場合もある。私募債にはratingはいらない。公募債用。実際には私募債の勝手ratingをしていることも多い。
- India;Crisil makes bank loan rating too. This is not for CDS(credit default swap市場) but for supporting securitization of loans to promote infrastructure finance.
- Indonesia;PEFINDO
- China;China Credit Information Service(PRC),Ltd.(CCX) is a creditability research company信用調査会社
- Thailand;Tris Rating
- Korea;Korea Investors Service(Moody's)



Asian financial products with risk

risk	Financial products
↑ Risk avoidance	Japanese treasury bond, Japanese company bond, Japanese blue chips
	Asian treasury bonds
	Asian offshore company bonds with rating
risk neutral	Japanese stocks, SGP blue chips, Korean blue chips
	Double listed Asian stocks
	Asian local company bond with rating
↓ risk favorite	HK blue chips, Shanghai blue chips, Shenzhen blue chips, Mumbai blue chips
↓ risk favorite	Asian market derivatives, PE, Hedge fund, Asian stocks not blue chips, Asian company bond without rating

Reference only; Alternative investment is an investment not to traditional financial products like stocks and bonds

- High risk high return & Low liquidity; risk favorite cash rich investors
- for world riches including Asian riches
- for stabilizing portfolio investment with risky financial products not correlation to traditional financial products
- Following financial commodities are said Alternative investment .
- (i)Private equity; private offering, invest to non listed stocks, VC(early stage, later stage), buy out fund(Mezzanine fund, LBO,MBO),
- (ii)Hedge fund; private offering, global macro type; invest to interest rate, currency, stocks, commodities with short sell and leverage(borrowing), Weak government financial or currency policies including Asian or European ones are targeted.
- (iii)Securitized products; Credit enhancement is made with inferior bond or third party guarantee.
- (iv)Managed futures; limited partnership type, invest to futures & derivatives for international commodities and financial commodities
- (v)Natural resources fund; private offering, commodities, not in a usage of one of the type of mutual fund like JPM natural resources

Investor: preferable conditions

SPC: bankruptcy remote to avoid influence of bankruptcy of originator

Originator: Loan, lease claim, a/c receivables, real estate leasing fee in similar terms & conditions

