

Risk and Risk Mitigation of Cross-Border Gas Pipeline Projects

Seminar on Hydrocarbons Development and Transportation
Across Borders: Investment, Market Structure and Integration

Damascus, June 19, 2008

Anna Bjerde
Lead Energy Specialist, the World Bank



Major risks associated with trans-border gas pipelines

- Safety: Natural gas is transported across land not owned by one single pipeline company and outside of a secure industrial site:
 - Route planning and pipeline designs important.
- Supply: Uncertain upstream developments:
 - Gas pipeline infrastructure may reach completion, but there is no/or unstable gas flow; “not in my country”.
- Market: Steady demand, creditworthiness, payment discipline.
 - Long-term agreements, large users vs small, risk premium.
- Country risk: Stability, investment climate, legal and regulatory frameworks, cross-border relationships.

Implications of a high-risk environment

- Lack of funding or very high cost of capital.
- Development of expensive infrastructure and lack of its use:
 - Need for back-up energy, costs need to be considered.
- Partially completed projects, incomplete projects, delays:
 - Loss of market.
- Break-down of cross-border relationships.

***Multiple countries means multiple Political Risks -
Differences between Producer, Consumer and Transit Countries***

Risk mitigation measures

- Keep projects as simple as possible and limit the number of stake-holders.
- Harmonized agreements among countries:
 - Beware though: country specific laws and regulations prevail.
- Two Key contracts:
 - Gas Transportation Agreement (country a with country b).
 - Gas Sales and Purchase Agreement (country a with country c).
 - The transporter is paid by the seller or the buyer:
 - Who best bears the risk?
- Financial Indemnities:
 - Guarantees.
 - Insurance.

How to mitigate cross-border risks

EX ANTE

- Project Economics:
 - Producer country
 - Consumer country
 - Transit country (transit fees)
- Inter-government agreements.
- Sound contractual framework (e.g., SPA/GTA interplay).
- Strong Sponsor/Governments relationship.
- Joint and/or local ownership.
- Multiple project participants (spread the “pain”):
 - Export Credit Agencies
 - Commercial Banks.
 - IBRD, other MLAs
 - Midstream (Pipeco) as Transporter:
- Ongoing consultation.
- Regional framework/Organization.
- Escrow accounts.

EX POST

- Strong Project Economics going forward
- Complementary prospects
- “Equities”
- Consultation
- Dispute resolution mechanism
- Regional framework/Organization

World Bank Group Support

IBRD: **Loans**
 Guarantees

IFC: **Equity**
 Loans
 Loan Syndication

MIGA: **Political Risk Insurance**

