THE JOURNAL OF

Structured and Project Finance

VOLUME 10, NUMBER 1 SPRING 2004

We start this issue with an article by George Crozer that describes the Blue Sky project, which is Indonesia's first major structured financing in several years and features a trustee borrowing structure that shows promise for future project financing in that country. Mr. Crozer's article is the first of seven in this issue with an Asian focus. Andrew Kinloch follows with a survey of credit loss experiences spanning the region with an encouraging note that, even though equity holders have taken their lumps in sectors such as energy and infrastructure, only in submarine cables have lenders suffered substantial losses. In a survey of LNG in Asia, Russell Wells, Robert Ritchie, and Merrick White describe the risk and financing implications of changing LNG supply and demand patterns, including increased use of structured financing techniques. The Asian LNG market is moving somewhat in the direction of a merchant model as the U.S., U.K, and other power markets are moving away from it. Piyush Joshi discusses LNG developments in India as well as new legislation that provides for a long-overdue restructuring of the Indian power industry, addressing problems related to the well-known Dabhol debacle. Next Russell Wilkinson and Peter Roberts juxtapose the tantalizing opportunities provided by the world's fastest growing power industry in China with the legal and regulatory obstacles that unfortunately deter most Western lenders from participating in that market. Bruce Cooper, however, is more encouraging in his description of the precedent-setting Phu My 3 traditional power project financing in Vietnam. Then Rajan Thillai, addressing mostly Asian projects, outlines the project characteristics most frequently matched with three common project formats, build-operate-transfer (BOT), build-own-operate (BOO), and build-own-operate-transfer (BOOT). He finds the BOT model well suited to projects with strong public benefits, where governments want to maintain a degree of control, and projects with high revenue uncertainty. Moving to the Middle East—or the western tip of Asia if you will—Selma Stern evaluates environment and resettlement issues related to the GAP hydroelectric and irrigation project in Anatolia. Then, shifting to troubled power industry in the United States, Rob Latoff and Panos Ninios describe some of the new players that have bought distressed power-generation assets—including industrial players such as upstream oil and gas companies, commercial banks, and new financial entrants such as private equity, hedge funds, and distressed debt traders—and the strategies they will need to succeed. Then, even though many major U.S. energy players have pulled back from the international arena after disappointing experiences in recent years, Charles Tooman makes a case that the growth in demand for natural gas and electricity in the developing world will pull at least a portion of their investment dollars offshore again over the next few years. Brennan Higgins and Sriram Vasudevan follow with some guidelines for corporations in managing their energy price exposure; they point out that companies with high energy components in their cost of goods sold, low gross margins, and low market pricing power have a particular need for strategic energy risk management programs. Father-and-son team Anthony and Tony Merna provide us the results of their survey of risk management practices at the corporate, strategic business, and project levels followed by 25 FTSE-listed corporations, noting that the importance of comprehensive risk management strategies is stressed in two well-known U.K. reports concerning corporate governance, the 1992 Cadbury Committee Report and the 1999 *Guide for Directors on the Corporate Code,* known as the Turnbull Report. Finally, Douglas Lamb and Anthony Merna describe how a public sector comparator can be used to quantify the value for money that a government such as that in the U.K. can realize by commissioning privately financed rather than traditional publicly delivered infrastructure projects. As with many of our past issues, this issue of *The Journal of Structured and Project Finance* has focused not only on Asia, but on the energy and power industries. Despite a combination of regulatory and financial challenges in markets as diverse as the United States, India, and China, the continued growth in demand for power in these and other markets and the continued development of innovative structured and other financing techniques to cope with those challenges will keep this market interesting for a long time.

Christopher Dymond
Editor

Henry A. Davis
Managing Editor