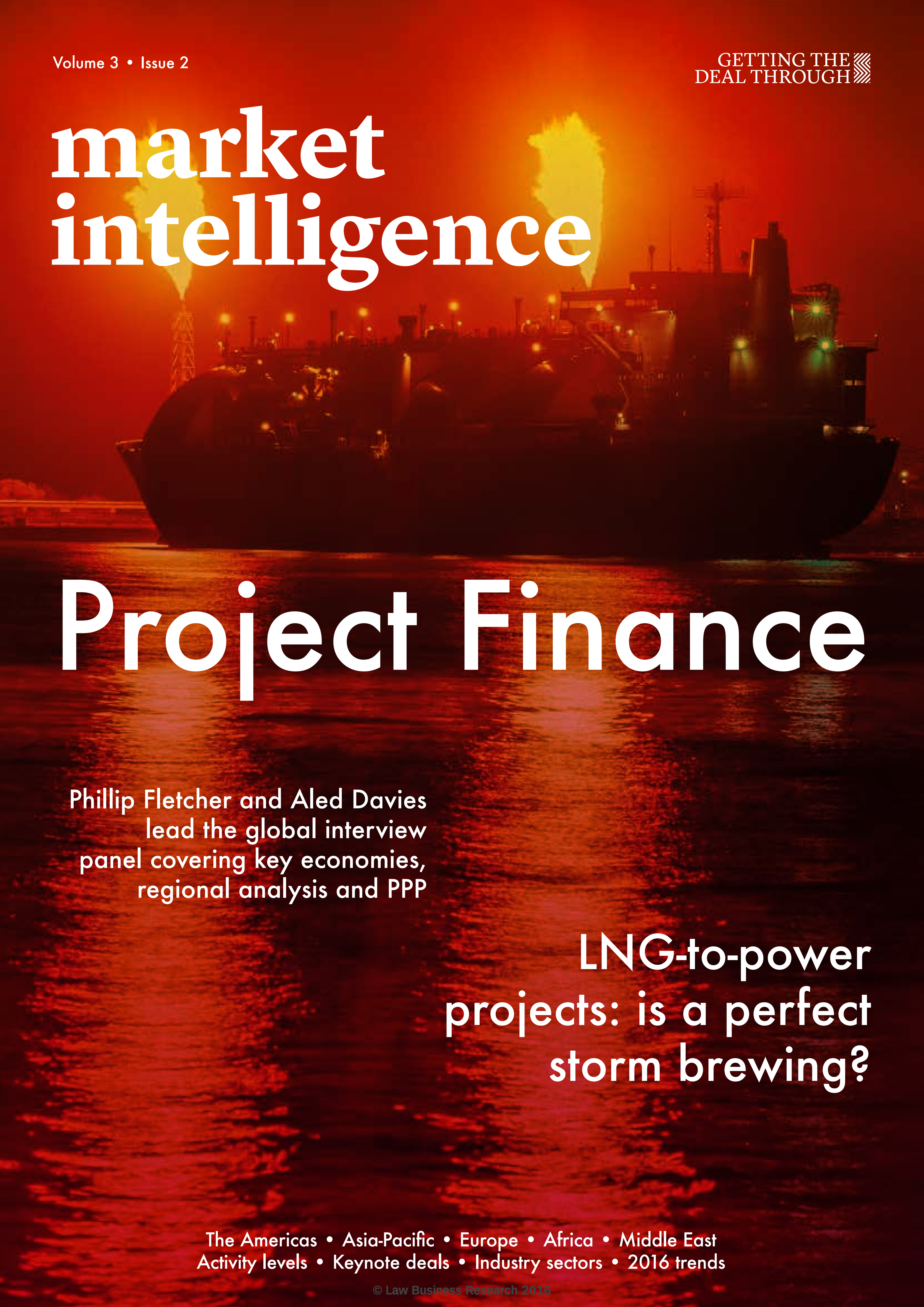

Volume 3 • Issue 2

GETTING THE DEAL THROUGH

market intelligence

Project Finance

Phillip Fletcher and Aled Davies lead the global interview panel covering key economies, regional analysis and PPP

LNG-to-power projects: is a perfect storm brewing?

The Americas • Asia-Pacific • Europe • Africa • Middle East
Activity levels • Keynote deals • Industry sectors • 2016 trends

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Getting the Deal Through invites leading practitioners to reflect on evolving legal and regulatory landscapes. Through engaging and analytical interviews, featuring a uniform set of questions to aid in jurisdictional comparison, *Market Intelligence* offers readers a highly accessible take on the crucial issues of the day and an opportunity to discover more about the people behind the most interesting cases and deals.

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In this issue

GLOBAL TRENDS

PHILLIP FLETCHER & ALED DAVIES OF MILBANK, TWEED, HADLEY & MCCLOY LLP

Phillip Fletcher is a partner who practises in the London and Washington offices of Milbank, Tweed, Hadley & McCloy LLP and is a member of the firm's project finance group. Phillip's experience includes representing parties in the development and financing of oil and gas, natural resources, independent power, satellite and other infrastructure projects in the Middle East, Africa and Europe. He has been recognised as a leading project finance lawyer by a number of publications, including *Chambers UK* (which designated him among the top 100 commercial lawyers in London and in the first tier of project lawyers in both the London and Middle East markets), *Who's Who Legal: Project Finance* (which designated him the global project finance lawyer of the year for two consecutive years), *Euromoney* (which recognised him as among the top 35 project finance lawyers in the world) and *The Legal 500*. Phillip is on the advisory board of the *International Financial Law Review (IFLR)* and is a member of the Council on Foreign Relations. He is a solicitor of the Supreme Court of England and Wales and is also admitted to practise in New York and Washington, DC.

Aled Davies is a partner in the Tokyo office of Milbank, Tweed, Hadley & McCloy LLP and a member of the firm's project finance group. Based in Tokyo for almost 20 years, Aled regularly represents key stakeholders, including sponsors, lenders and export credit agencies, on the development and financing of, and acquisition of interests in, large-scale infrastructure and energy projects throughout the world, including major LNG, refinery, power and mining projects. Aled led the team representing the sponsors on the Ichthys LNG project and is currently advising on LNG project developments in the United States, Papua New Guinea and Canada, integrated LNG to power projects in Indonesia and Chile, a petrochemical facility and a coal-fired IPP in Vietnam as well as a number of geothermal power sector projects.

Aled is listed by *Chambers* as a first-tier lawyer in both Japan and the wider Asia-Pacific region and as a leading lawyer by *The Legal 500 Asia-Pacific*. He has also been included in *IFLR*'s top 35 project finance lawyers in the world. His published works have appeared in *Infrastructure Journal* as well as publications by the Japan Overseas Investment Organisation.

Project finance in 2015 played out against a backdrop of falling commodity prices. Despite the low prices, four out of the top 10 global project finance transactions were in the oil and gas and petrochemicals sectors (Corpus Christi LNG trains 1 and 2, Petro Rabigh II, Sabine Pass LNG train 5 financing and trains 1, 2, 3 and 4 refinancing, and Freeport LNG train 3). However, these were generally 'historic' projects, where sponsors were closing transactions that had started development in prior years and, in the case of the LNG projects, were structured as tolling arrangements and so were insulated from commodity price risk. However, it was inevitable that activity tailed off as 2015 progressed and financial investment decisions (FIDs) for a number of oil and gas or mining projects were deferred or permanently cancelled as continuing low prices forced sponsors to slash spending on capex programmes. This is reflected by debt financing for oil and gas projects falling in 2015 by more than 14 per cent, and this followed a year-on-year fall of 28 per cent in 2014 (*note: unless otherwise stated, financial data in this overview compiled by IJGlobal: '2015 Full Year League Tables Analysis'*). Having said that, there are a number of large LNG and petrochemical projects that remain in the planning or development stages in East Africa, Papua New Guinea, Australia, Indonesia and North America, which, although possibly subject to deferral, remain likely to come to market in the forthcoming years.

Taken as a whole, although the number of project finance deals in 2015 was up from the previous year by more than 10 per cent to 859, total project finance debt raised in 2015 only increased to US$309.1 billion from US$308.4 billion in 2014. The increased deal count can be explained by the healthy activity in the general infrastructure (transport in particular) and renewable energy generation sectors where, on a worldwide basis, total debt of US$73 billion (as compared to US$50 billion in 2014) was raised for over 430 renewables projects and about US$82 billion (as compared to US$52 billion in 2014) for 124 transport projects. As expected in view of the low commodity prices, total project finance debt raised in the mining sector fell from about US$31.5 billion in 2014 to about US$14 billion in 2015. Although debt volume also fell in the telecoms sector from about US$9 billion to US$3 billion, there were increases in the social and defence sectors (from about US$11.5 billion in 2014 to about US$19 billion in 2015) and the water project sector (from about US$3 billion in 2014 to about US$6.4 billion in 2015).

Interestingly, competition and advances in technology in the renewables sector in 2015 led to a noticeable reduction in the pricing for renewable energy projects, especially solar projects and projects in emerging markets. Extremely competitive tariffs were seen on projects in South Africa, Dubai and India. A number of significant financings were sought in 2015 for large offshore wind farms in Europe, including Galloper in the UK and Gode 1 in Germany, and the number of participating lenders increased to support a core group of experienced lenders in the offshore wind project sector.

In 2015 the UK government rolled out plans for nuclear new-build power plants, and optimists look forward to groundbreaking activity in the near future. However, it was not a good year for traditional combined cycle gas turbine (CCGT) plants, other than those fortunate enough to be able to source shale gas at low prices in certain US markets. Looking at the conventional power sector as a whole, although the number of projects worldwide remained the same as for 2014 at 107, total debt raised declined more than 25 per cent.

A key aspect of activity in 2015 was that liquidity in the bank market provided sponsors with the opportunity to refinance projects at lower pricing and on more favourable terms and conditions. The Ijmuiden sea-lock PPP project in the Netherlands is one such example of a project that maintained the downward movement in pricing stemming from the re-emergence of long-term commercial bank debt in the project finance sector.

NORTH AMERICA AND THE CARIBBEAN

Project financing in North America remained active with total debt financing in the region rising from about US$85 billion in 2014 to about US$98 billion in 2015. However, there was a shift in activity from the huge LNG export projects that were financed in 2014 and the first half of 2015 to renewables and transport projects, as well as new gas-fired power projects capitalising on access to new shale gas production. This resulted in total debt raised for oil and gas projects in North America in 2015 dropping by a fifth from 2014 to just over US$30 billion.

The three LNG export projects that reached financial close in 2015 were structured on a 'tolling basis', similar to the precedent deals of 2014. Corpus Christi LNG is noteworthy for being the first greenfield LNG export terminal to be financed in the US, and also for the absence of any export

> *"Four out of the top 10 global project finance transactions were in the oil and gas and petrochemicals sectors."*

credit agency (ECA) support. Although the first wave of LNG export project financings has now been completed, a number of greenfield and expansion projects are still progressing albeit on a more cautionary basis as markets for the purchase of LNG remain a challenge and low pricing affects overall project economics. We are also likely to witness increased exports of LPG and ethane (both as a by-product of shale gas) in 2016 leading to the creation of new markets, potentially in the Asia-Pacific region in particular. The widening of the Panama Canal will spur on this development.

Increased shale gas production, and the consequent drop in natural gas pricing, opened the door in the US to more downstream project activity in both the chemical and more importantly power generation sectors. Examples of some of the gas-fired power projects that closed in 2015 are the US$730 million Salem Harbor 700MW gas-fired power project and the Carrol County gas-fired power project. Salem Harbor was unique as being the first merchant power project financing to access the new ISO New England capacity award regime. Another example of a project whose financing was structured based on capacity revenues generated was the Bear Swamp Pumped Storage Facility financing in Massachusetts. Therefore, a trend seen in 2015 is that of commercial banks financing quasi-merchant power projects.

North America witnessed its strongest ever year in 2015 for renewables projects, ascending one place to become the second biggest sector, with 153 deals closed totaling US$47.5 billion (*note: data compiled by IJGlobal: 'Data Analysis: US Renewables Financing Surges', published 21 December 2015*). Over two-thirds of the projects comprised solar and onshore wind. The US$290 million project financing of the 30MW Block Island offshore wind farm was noteworthy as it was the first offshore wind farm in the US to achieve financial closure. Development on the only other offshore wind project, Cape Wind off the coast of Massachusetts, did not proceed in the face of political opposition. Future prospects for this sector may depend in part on whether the US Congress continues to afford it tax-incentive benefits.

"A trend seen in 2015 is that of commercial banks financing quasi-merchant power projects."

In the petrochemical sector, a landmark project was the development of a world-scale US$1 billion methanol plant and associated dimethyl ether production facility in Trinidad and Tobago, and similar large-scale methanol production projects remain under development in the US; these have been taking advantage of low feed-stock pricing.

A notable project in the telecoms sector was the US$500 million project funding for Seaborn Network's Seabras-1, the first direct point-to-point subsea fibre-optic cable system between New York and Brazil. It was also significant for being the first ever ECA-backed project financing of a subsea cable system. RAM Telecom International and NEC closed a financing for a cable project connecting with the SEA-US submarine cable project, a 15,000km submarine cable directly connecting Indonesia with the US. In satellites, there was the US$525 million ECA financing for the ViaSat-2 high-capacity Ka-band communications satellite to be manufactured by Boeing and launched by SpaceX, and anticipated to be the highest-capacity satellite in the world.

As in the case of Europe, the transport sector in North America grew significantly in 2015, moving up two places from 2014 to become the third-largest sector. An example of a notable project within this sector was the US$5.6 billion ITR concession company acquisition. It was also an important year in particular for PPPs in the US in that they facilitated the implementation of certain key transport infrastructure projects. The project to replace the Central Terminal Building at New York's LaGuardia Airport was noteworthy for being the first time that the PPP model was adopted in the aviation sector in the US. Examples of other significant infrastructure PPP projects in the US in 2015 were the US$2.1 billion Elizabeth River Tunnels project between Norfolk and Portsmouth in Virginia, Florida's largest transportation project the 'I-4 Ultimate' (widening and reconstructing 21 miles of highway running through Orlando), and the Commonwealth's I-66 Outside the Beltway project (building of Virginia's additional express lanes along 21 miles of Interstate 66). Although the Fixing America's Surface Transportation (FAST) Act, which was passed on 4 December 2015, is a welcome development in the infrastructure space in that it sets aside US$305 billion in transportation funding for the next five years, this amount should be seen in the context of the big US infrastructure backlog.

Canadian infrastructure projects have generally been moving away from social infrastructure (eg, hospital and school PPPs) to transportation projects such as highway and light rail transport (LRT) PPPs. In order to raise more financing for the increased costs of these large-scale projects, publicly listed bond financings are becoming noticeably more prevalent in

Canada than private placements since the former attract more investors than the latter. Examples of publicly listed bond financings being used to finance transportation infrastructure projects in Canada in 2015 are the C$5.3 billion Eglinton Crosstown LRT project in Toronto and the C$4 billion New Bridge (availability-based payment) PPP project for the St Lawrence Corridor.

LATIN AMERICA

After a drop in 2013, project finance debt volume in Latin America increased for the second year in a row from about US$34 billion in 2014 to about US$37 billion in 2015. Deal count also rose by 12 per cent to 112 in 2015. There was generally less activity in the power sector save for renewable energy projects. One highlight was the US$196.7 million Conejo 122MW solar project in Chile financed only by commercial lenders; this was notable in that traditionally renewables projects in Latin America, in particular those with merchant elements, usually feature the participation of multilaterals. Further examples of renewables projects in the region were the US$472 million Chapada 1 and 2 wind local project bond deals in Brazil and the US$205.5 million Tres Mesas wind farm Overseas Private Investment Corporation financing in Mexico. Separately, a US$197.6 million financing was obtained for the Charrua Transmission Line project in Chile and a US$2.1 billion financing for the US$6.2 billion CSP Ceara steel mill project in Brazil.

In addition, a number of infrastructure deals were successfully closed in Latin America, in particular in the transport sector. For example, an US$847 debt financing was raised for the El Dorado Airport in Columbia and a US$3 billion construction loan was put in place for the New International Airport of Mexico City. Peru was also successful in putting in place a US$258 million financing for the Lima Metro Line 1 project and the US$5.836 billion Lima Metro Line 2 project. For satellites, Hispasat closed a €140 million ECA financing for Amazonas 5 to be manufactured by Space Systems Loral, and to provide coverage over Latin America and Brazil.

Notwithstanding the allegations of corruption affecting the major construction and infrastructure companies in Brazil and the fall in commodity prices, the oil and gas sector saw some activity with 16 international banks providing debt finance, with insurance cover from four ECAs, for the Cidade de Saquarema FPSO in Brazil. However, a lot of the story in Brazil revolved around restructuring of various offshore project assets. Fundamental regulatory changes to the energy industry in Mexico in 2015, including the oil and gas sector, should lead to new opportunities for the development of new oil and gas blocks, which were awarded to international consortia. Round One, once completed in its entirety, will have licensed a huge tract of land for exploration and production activities and so there is scope for major project development in the near future.

"Notable infrastructure projects included the US$3.6 billion Thames Tideway tunnel project."

EMEA

Europe

Like North America, project finance activity in Europe remained active, with total project finance debt rising from US$80 billion in 2014 to about US$92 billion in 2015. This activity was principally focused on the transport sector, which increased significantly to become the largest sector in terms of project finance debt raised, with renewables (mainly offshore wind farms) following next. Conventional power was a small shadow of its 2014 self.

Notable infrastructure projects included the US$3.6 billion Thames Tideway tunnel project, which successfully incorporated aspects of the UK water utility framework in conjunction with the public-private partnership model. The Netherlands saw the Ijmuiden sea lock PPP project, noteworthy for being the biggest lock PPP project to date to achieve financial close. France saw the €900 million Calais Port project financed with the longest dated project bonds witnessed so far in the European infrastructure market. Other standout infrastructure deals were the €1.6 billion Milan Metro 5 PPP project, which was financed by a combination of institutional investors and commercial banks, the US$3.8 billion Autoroutes Paris-Rhin-Rhone (APRR) refinancing and the US$4.65 billion acquisition of Fortum's Swedish regulated power grid by Borealis and Swedish pension funds. The latter brownfield project was notable for obtaining one of the cheapest infrastructure loans of 2015 in Europe (sourced from as many as 19 banks), for its high leverage in a very competitive infrastructure M&A market and for most of the debt being denominated in Swedish kronor rather than in one of the standard global currencies. Turkey also saw some significant infrastructure sector financings as set out below.

Offshore wind dominated activity in the renewable sector in Europe. The 336MW Galloper project was the first large-scale UK offshore wind farm to be financed in 2015 (by £1.37 billion of project debt) and was quickly followed by two more UK wind farms adopting the same scheme. Galloper was also the first UK project to be backed by the €315 billion Investment Plan for Europe.

DONG Energy's 330MW Gode 1 offshore wind farm in the German North Sea represented Europe's first offshore wind project to be financed with a project bond despite the traditional reluctance of institutional investors to finance greenfield offshore wind projects, while the €540 million Baltic 2 project was the first offshore wind holdco financing in Germany. Further examples of offshore wind projects in Europe were the £2.5 billion Beatrice offshore wind farm in the UK and the Hohe See offshore wind farm in Germany. The fact that bond and institutional investors are now willing to finance these large offshore wind structures suggests that the construction risks have become more palatable, as an increasing number of these projects have been successfully completed. Operating issues, however, are beginning to appear which may make bond and institutional investors become more cautious.

Turkey is worth singling out for special attention in view of the number and variety of project financings in the country in 2015, which included energy and infrastructure sector projects. The €1.2 billion Bilkent hospital (availability-based) PPP is the largest hospital in Turkey's pipeline of hospital PPPs and was a departure from the Turkish project finance market norm in that €890 million financing was provided solely by commercial lenders who were predominantly local banks. Other noteworthy infrastructure projects were the US$6.5 billion Istanbul Third Airport PPP project, the €1.2 billion Etlik hospital project and the US$6.4 billion Gebze-Izmir toll road Phase III PPP project. An example of a significant energy project in Turkey in 2015 is the €970 million Efeler 123MW geothermal project, which involved the European Bank for Reconstruction and Development and is the biggest stand-alone geothermal project in Turkey to date.

The bond market was also tapped as a source of financing in Europe, particularly in the infrastructure sector. In addition to the bond issuances for the Milan Metro 5 PPP project and the Calais Port project referred to above, Ireland's first project bond was used to finance the €248 million M11 road PPP project. The project bond market in Spain, for its part, was initiated through the US$200 million refinancing of the A66 Sociedad Concessionaria Autovia el la Plata deal. The bond markets also feature in the €550 million 10-year issuance for Transport et Infrastructures Gaz France and the US$508 million Gwynt y Mor offshore transmission owner (OFTO) bond in the wilds of Wales.

Middle East and Africa

After a decline in 2014, project finance debt volume and deal count rose in both the Middle East and North Africa (MENA) and Sub-Saharan Africa in 2015. Total debt volume rose from about US$21 billion to about US$24 billion in MENA and from about US$4.5 billion to US$7.2 billion in Sub-Saharan Africa. Nevertheless, it is evident that continuing low oil prices have had a detrimental impact on the budgets of the Gulf Cooperation Council governments and in some instances this has acted as a stimulus in 2015 to certain Gulf states passing PPP laws and developing PPP frameworks to assist with the funding of future infrastructure projects.

Despite the falling oil prices, we saw some activity in the oil and gas sector. Petrochemical deals included the US$8.1 billion Petro Rabigh Phase 2 Expansion (comprising a 17-year project financing totaling US$5.2 billion) and the US$1.2 billion Chevron/Nigeria National Petroleum Corporation joint venture financing (believed to be the first international joint venture oil financing in Nigeria for both onshore and offshore oil fields). Another noteworthy project was the US$2.1 billion air separation unit (ASU) project for Aramco's Jazan refinery (under a 20-year build own operate concession) significant for being the biggest industrial gas project and one of the largest 100 per cent Islamic project financings to date. However, plans for a number of potential projects such as the Shell QP joint venture to develop the Al Kharaana petrochemical plant were scrapped.

Setting aside petrochemical projects, the majority of the projects in MENA comprised power and water plants. Power plant developments included the US$1.8 billion Hassyan 1,200MW coal-fired power project, which was the first coal-fired IPP in the Gulf region, using supercritical and ultra-supercritical technology. Other IPPs and IWPs in the Gulf region were the US$250 million Qurayyat IWP and the US$620 million Salalah 2 IPP, both in Oman, Salalah 2 being the first IPP to close in Oman since the financial crisis without having any ECA cover. There remains ongoing activity in Oman and a number of new potential power and desalination projects in Kuwait.

Further afield in Africa, the Maamba Colleries 300MW coal fired IPP in Zambia raised US$830 million of commercial bank financing with support from Sinosure. Sinosure again supported the lenders providing US$515 million of project financing for a fluidised bed, coal-fired mine mouth power plant in Zambia, which is intended to supply 20 years of power to the Zambia Electricity Supply Corporation. The successful US$900 million financing of the Azura IPP in Nigeria is expected to be the first of many IPPs in the country.

Renewables projects in the region covered both wind and solar technology. Examples of projects under South Africa's Renewable Energy Procurement Programme (REPP) were Mainstream's 140MW Khobab wind farm project in the Northern Cape and the Ilanga1 100MW parabolic trough plant with a thermal energy storage system (the latter being one of the first concentrated solar power projects under the REPP and forming part of the 1,100MW Karoshoek Solar Thermal Park). A US$260 million financing was closed for a 200MW solar scheme in Dubai; we also saw the development of the US$2 billion Noor 2 and 3 350MW solar projects and the US$180 million Khalladi 120MW wind farm project, in each case in Morocco, and the financing for the US$170 million Shams Ma'an solar PV project in Jordan. Egypt also became active in promoting new projects in the renewable sector so, coupled with potential oil and gas sector projects to be developed off the back of significant oil and gas reserve finds, we can look and see if Egypt will now perhaps witness the greatest level of project development since the pyramids!

In the satellite industry, O3B Networks secured US$460 million in incremental financing, including ECA support, to increase its medium earth orbit constellation from 12 to 20 satellites, with satellites to be manufactured by Thales Alenia Space and launched through Arianespace.

Refinancings were a significant work stream for lenders in 2015 as sponsors in the EMEA took advantage of falling loan margins. Notable examples are the refinancings for the BTC oil pipeline project from Azerbaijan to Turkey and the Dolphin gas pipeline project in the UAE.

> *"Australia is worth highlighting as a market where deal flow in 2015 remained healthy across all sectors."*

ASIA PACIFIC

Although Asia Pacific saw project finance debt volume in 2015 decline for the second year in a row from about US$82 billion in 2014 to about US$52 billion in 2015, it was still an interesting year in Asia Pacific as a number of groundbreaking projects were implemented in the region. Pride of place goes to the US$4.4 billion financing of Mongolia's Oyu Tolgoi copper and gold project for which the financing documents were finally signed in December 2015 despite the huge plunge in commodity prices. It is one of the world's largest mining projects ever (having the potential to account for up to one-third of Mongolia's GDP) with approximately 13 commercial lenders, three ECAs and two multilateral banks participating. The Multilateral Investment Guarantee Agency also stepped in to provide political risk insurance for the commercial banks. The recent signing and scheduled closing in early 2016 may now open the door to more activity in the project finance sector in Mongolia as they strive to implement new power generation and infrastructure projects. The project also demonstrates that if sponsors have confidence in their project and have a group of supportive lenders, then mega-projects can still be implemented even amidst the current low commodity prices. The project participants are anticipating that copper prices are likely to rebound before project completion (full production is expected to be achieved in 2021).

Although there was a cooling-off in activity in the oil and gas sector in the region, with very few debt financings reaching financial close, the power sector remained active. Noteworthy power projects included Malaysia's Jimah East (Malaysia 3B) 2,000MW coal-fired IPP, where US$2.14 billion of debt was raised by a sukuk bond issuance. The Philippines, which essentially has a merchant power market, also saw a number of new power plants being developed after many years of limited activity in the project finance sector. The US$1.22 billion San Buenaventura 455MW power project stands out for being the country's first supercritical coal-fired power plant and for raising the largest all-peso financing in the Philippines to date. Also in the Philippines, December 2015 witnessed the successful closing for the US$400 million debt financing for a 300MW coal-fired power project in Bataan province, while the onshore bank tranche of the approximately US$1 billion Kauswagan 4 x 135MW coal-fired power project in Mindanao, Lanao del Norte province closed in September 2015, with closing of the offshore tranche in January 2016. In Myanmar, the successful bidder was appointed for the US$300 million Myingyan 225MW gas-fired IPP (to be implemented on a build-operate-transfer basis), the country's first internationally competitive tendered power project under a 22-year PPA and will set a benchmark for future projects in the country. Although Myanmar has generated considerable excitement in terms of prospects, the challenge in realising such opportunities remains as a suitable framework for implementing projects in a timely and bankable manner is developed.

The transport sector saw signs of activity in 2015 but, unlike North America and Europe, there was no marked increase in deal count or financing volume. Examples of such transport sector activity were the Sydney Light Rail PPP project, the Toowoomba Second Range Crossing (availability based) PPP project in Queensland and the US$740 million Mactan Cebu International Airport PPP project in the Philippines, the first successful airport PPP in the Philippines.

Australia is worth highlighting as a market where deal flow in 2015 remained healthy across all sectors. However, the nature of the deals tended towards M&A, refinancings and smaller greenfield projects. The largest transaction in the Australian

"Project finance sponsors and lenders can look forward to continued activity adjusting to the ever-changing shift in economic and political dynamics that impact the development and financing of massive projects."

market in 2015 was the US$7.4 billion sale of New South Wales electricity distribution company TransGrid to the Spark Infrastructure consortium.

However, the project bond market is still finding its way in the Asian region. Notable exceptions were the US$2.14 billion project sukuk bond issue for the Jimah East IPP in Malaysia and three bond issues for projects in India (onshore issuances for CLP Wind Farms and the SP Jammu Udhampur Highway annuity based payment project, and an offshore issuance for Delhi International Airport Ltd).

PREDICTIONS FOR 2016

Project finance has proved itself a resilient way to fund essential infrastructure and commodity projects and there is no reason to believe that this will not remain the case despite bank regulatory changes dampening the appetite of lenders to provide long-term finance.

We would expect the worldwide slowdown in the number of project-financed oil and gas deals, especially LNG, to continue in 2016 as the current state of oil prices, which appear as if they will remain low for the foreseeable future, force oil companies to cut back on capex spending and delay the declaration of FIDs for projects. Low commodity prices may put stress on commodity based projects and could lead to a number of restructurings in 2016. The current market will certainly contribute to financiers being more cautious about lending to such projects. The caution in the debt markets, coupled with the fact that capital expenditure for these projects has begun to be constrained, should lead to a slowdown in new deals. However, as has been the case in past cycles, in the face of falling deal count, engineering, procurement and construction contractors will start to face stiffer competition to win deals, reducing capex costs for sponsors. Experience demonstrates that commodity prices will inevitably rebound – and the question is when. All these factors combined may result in the development of new and innovative features to address the cyclical movement of commodity prices and otherwise address sponsor needs for debt raising. Despite the challenges, the project finance players are likely to be dynamic in their response to an ever-changing marketplace. Their involvement is likely to extend beyond the narrow scope of greenfield project finance to advising on (and financing) acquisitions of existing infrastructure or commodity projects or in providing additional finance (or face restructuring) of others that have cashflow constraints.

We would also anticipate the trend in asset sales to continue in 2016, potentially leading to terrific opportunities for those with access to capital (including funds) to acquire assets either in auctions or from distressed sellers. The US and Europe have been active and indications are that good acquisition opportunities now present themselves in Latin America and Asia. However, there may well be a price gap on many of these deals between sellers' expectations and buyers' projections of future value. The project structures of highly leveraged shale gas producers in North America will likely come under increasing stress, and we would therefore expect further insolvencies in this sector.

Activity in the North American market is likely to remain with a steady flow of infrastructure and renewable energy projects as well as projects capitalising on shale gas production. Across the pond, the Juncker plan's European Fund for Strategic Investments (EFSI) vehicle could potentially lead to more activity in Europe.

The pipeline for power projects in the Asia Pacific region will likely continue to be strong with bidding for a variety of IPPs with novel features currently taking place.

One significant development which will impact the power sector (in particular in Asia and parts of EMEA) arises from the agreement in November 2015 upon the OECD new rules on official export credit support for coal-fired power plants by the participants to the Arrangement on Officially Supported Export Credits. Under the new rules, which come into effect on 1 January 2017, financing will still be allowed for (i) 'ultra-supercritical' plants irrespective of their size; (ii) up to medium-size (ie, up to 500MW) 'super-critical' plants in countries facing energy poverty challenges; and (iii) smaller (ie, less than 300MW) 'sub-critical' plants in poorer, developing countries. This development (as intended) will curtail coal-fired power plant development. After the recent COP21 agreement, governments also are under pressure to reduce carbon emissions so it is inevitable that there will be a shift in the type of power generation plants being developed in response. This combination of factors means there is potential to see further substitution of gas for coal and hence an increase in LNG-to-power projects worldwide; this may create a perfect storm as LNG producers seek to create new markets for their product as a result of the expected growth in worldwide LNG supplies from the US, Australia and East Africa. Many banks are also reviewing policies associated with financing coal-related projects (both mining and power generation). An interesting feature globally has been the increased presence of Chinese companies and financiers, who may not be bound by such policies, in implementing and funding coal-fired power projects.

In the satellite sector, there are a number of low-earth orbiting 'smallsat' satellite constellations that, considering the capital expenditures required for these projects, may seek export credit financing to complement other financing sources, including the approximately 700-satellite constellation from OneWeb, SpaceX's announced 4,000 microsat constellation, UrtheCasts 16-satellite imaging constellation and others. Upcoming project financings of geostationary satellites have also been reported: Azercosmos of Azerbaijan, Pasifik Satelit Nusantara of Indonesia and others are reportedly teed up for this year.

There are indications that the US dollar is strengthening. A sustained strong US dollar may well expedite the process of Chinese contractors becoming significant players on the worldwide EPC stage, as well as give Japanese and Korean contractors a competitive advantage over their US rivals. A strong US dollar could also potentially offset some of the effects which falling prices have been having on energy exporters and make capital goods exports from Asia more competitive.

Although the deal flow for renewables will also likely continue in 2016, governments such as that of the UK are beginning to reduce their support for renewables projects and there seems to be a slowdown in government financing using private finance initiative and PPP as a means of implementing and financing major projects. Proposed changes to net metering policies in the US could potentially have a negative impact on solar projects in certain states, but recently agreed that five-year extensions of tax credits for solar and wind projects may help them to remain competitive with other forms of energy projects in the US for longer. The renewables sector may also likely be adversely affected by the drop in thermal energy prices. The renewables sector worldwide, towards the end of 2015, faced a significant development when Spain's largest renewables energy company, Abengoa SA, filed for preliminary protection from creditors on 25 November. Whether or not wide-ranging cuts to renewable power support in Spain in 2015 were a major contributing factor is open to debate. The outcome, however, is that there is now uncertainty over approximately 250 of Abengoa SA's projects spread throughout 50 countries; existing project financings face problems but this could result in distressed sales of many of its solar and wind farm assets in 2016, depending on the outcome at the end of the pre-insolvency protection period.

Iran also has the potential to be a market for project finance due to its huge energy resources and infrastructure requirements, but the legal and regulatory framework may need further development and relaxation in the sanctions regime must of course become settled. Another potential market to look out for is Mexico, where the Fourth Tender (focusing on unconventional resources in the upstream energy sector) is scheduled to take place towards the end of 2016. This in turn could lead to a rapid increase in project development in the midstream and power sectors which, along with ongoing growth in wind and solar renewables, would result in in Mexico becoming one of the major energy players in Latin America.

So project finance sponsors and lenders, and the legal advisers featured in this publication, can look forward to continued activity adjusting to the ever-changing shift in economic and political dynamics that impact the development and financing of massive projects that are essential to meet social needs and the global economy's demand for commodities.