

## **I. Overview**

### (1) Overall strategy of Red Corporation (“Red”)

Red, as the Trade Development Public Corporation of Negoland, hopes to grow its tourism industry into one of its main industries, as well as making further advancements in areas of resource development.

Regarding the Negonium project, considerable demand is expected for Negonium. However, it is impossible to make an accurate forecast of output, price, and mining expenses without going through full-scale investigations and feasibility studies. Therefore, it is crucial to collaborate with Blue Inc. (“Blue”) in order to disperse risks, and to establish the Negonium market ahead of the rest of the world.

Regarding the Geopark project, Red hopes to obtain the Geopark status by 2025 by conserving the national park and delivering successful results in attracting tourists, especially from Arbitria. At present, facilities and infrastructure for tourists are not sufficiently developed in the vicinity of the national park, so it is necessary to proceed with the construction as quickly as possible with Blue’s cooperation and support.

### (2) Overall goal of negotiations

In the field of resource development, Blue possesses very high technology and know-how. Therefore it is an indispensable partner in this resource development project.

Moreover, in order to obtain the status of Geopark, increasing the number of tourists from Arbitria, a neighboring country with a large population, is crucial. Therefore, it is important that we obtain the cooperation of Blue, which is active in the tourism industry in Arbitria.

Specifically, we will try to achieve our goal to obtain the Geopark status before 2025 by accepting Blue’s ideas for luring tourists, as well as its assistance and cooperation in the construction of facilities.

### (3) The order of the negotiation

Red’s priority is placed on the Negonium project, because it is possible for Red to enlist cooperation from domestic companies (a railway company and a hotel chain) instead of Blue regarding the Geopark project. Since we are not yet sure how positive Blue will be toward it, it may be difficult to reach an agreement just by discussing the Geopark project alone. Therefore, after we first identify each other’s basic positions regarding the resource development project, we will move on to discussing the Geopark project.

In addition, if necessary, we will try to obtain a larger degree of cooperation from Blue by effectively making concessions on the issues of the resource development project or by offering Blue a bonus distribution of Negonium.

## **II. The Negonium Project**

### (1) Negotiation target

Since this is the world’s first Negonium mining project, it is possible that we may have to terminate the project or that unexpected additional expenses may arise. Therefore, it is necessary to have Blue invest in the project and bear the risk to a certain degree. However, we also wish to secure a certain proportion of the produced Negonium

for Negoland's manufacturing sector, in the case that we proceed to the full-scale development. Specifically, we aim to secure about 65% of the Negonium, and in order to do so, we would like Blue to promise to sell a portion of the Negonium distributed to Blue to Red or other Negoland companies when requested by Red.

Regarding the valuation of Blue's technology, we would like to value it in the form of a license fee, since treating it as an investment in kind would lead to a dilution of Red's share of Negonium.

We will try to manage the risks involved in this project by including provisions such as a termination condition in the contract.

## (2) Negotiation Strategy

### ① Amounts to be invested in the project

TOP: Red assumes 60% of the costs for the project

BOTTOM: Red assumes 80% of the costs for the project

Since the investment ratio is directly related to Blue's degree of responsibility and commitment in this project, we will request Blue to assume more than 30% of the total investment. However, the more Red invests, the more Negonium Red will be able to obtain, so it may be beneficial for Red to increase its investment. Therefore, if discussion stalls in other issues, we may try to extract concessions from Blue by offering to increase Red's investment.

### ② Valuation of Blue's technology

TOP: A license fee of US\$1 million per year (for 2 years)

BOTTOM: A license fee of US\$3 million per year (for 2 years) OR US\$5 million as an investment in kind over the 2-year period

Red wishes to value Blue's technology in the form of a license fee while Blue wishes to treat it as an investment in kind. For Red, treating it as an investment in kind would lead to a dilution of Red's share of Negonium. Therefore, we will try to persuade Blue to accept our offer to pay a license fee by discussing other issues together and making proposals that are beneficial to both parties. However, if Blue strongly insists on treating the technology as an investment in kind, we will accept to do so for an appropriate amount, and try to extract concessions in other issues.

### ③ Sale of the Products

TOP: Get Blue's promise to sell 30% of their Negonium to Red or other Negoland companies

BOTTOM: Try to obtain concessions in other issues

It may be difficult to obtain Blue's consent regarding this issue, since Red would be restraining Blue's discretion about their sale of Negonium. Therefore, we will offer to pay an extra price over the average sales price as a premium for the additional supply and consider making concessions in other issues. First, we will request Blue to sell 30% of their Negonium, and considering Blue's interests, we will make further proposals regarding the

amount and price of the additional supply, combining other issues as well if necessary. If Blue strongly objects to Red's request, we will not persist and aim to obtain Blue's concessions regarding issues ① and ②.

If Red goes below the bottom line stated above, we will in principle move on to negotiating with our BATNA, the other 6 companies that we have shortlisted.

### (3) Risk hedge provision

This project has to be terminated if the expenses for Red exceed US\$200 million (within the first 2 years at the stage of research). Moreover, since Red can only invest US\$35 million in the first year, expenses that exceed that amount shall be discussed with Blue. If Negonium is discovered in other countries such as Arbitria, there is a risk of Blue exiting this project to join other business which is more profitable, after gaining the know-how during the 2-year research and feasibility study. In order to avoid these risks, we will suggest to include risk hedge provisions in the agreement.

If following risk hedge provisions are discussed, they shall be added to the agreement.

- Renegotiation: The specific business strategy shall be decided in further negotiation.
- Exit clause: When one party intends to cancel the contract, they shall inform to the other party beforehand.
- Avoid competition: Applying similar projects shall be prohibited for a certain period of time.
- Secondary use of information: Secondary use of information obtained shall be prevented in this project for other projects for a certain period of time.

## **III. The Geopark Project**

### (1) Negotiation target

Red's goal is to obtain cooperation from Blue, which is "experienced in the tourism industry in Arbitria", for the construction of facilities in order to attract many tourists, especially from Arbitria. We will also ask for their cooperation in the PR of the national park. We will try to obtain as much cooperation as possible by making concessions in the issues of the resource development project if necessary. Overall, we will focus on 4 issues: donations from Blue, development of transport infrastructure, construction of accommodation facilities, and public relations.

### (2) Negotiation strategy

#### ① Blue's donation for the enhancement of facilities at the national park

TOP: To obtain Blue's donation of US\$100,000 per year for 3 years.

BOTTOM: To obtain Blue's cooperation in the construction of facilities instead of donations

The donation shall be the symbol of Blue's cooperation in the Geopark project. We will try to diminish Blue's reluctance toward donations by presenting the donations as being beneficial on Blue's part as well, because it will lead to an increase in Blue's recognition in Negoland. We will also clarify the use of donations, for example, installing information boards and promenades in the park.

However, if Blue can actively support the construction of facilities, obtaining donations is not a must.

#### ② Construction of Facilities to attract more tourists

TOP: Have Blue finish the construction of hotels by 2020 and develop domestic transport infrastructure

BOTTOM: Obtain Blue's cooperation in the construction of hotels

We will proceed with the discussion by taking into account Blue's interests in developing Negoland's transport infrastructure and hotels. However, since Red prioritizes the international transport infrastructure between Arbitria Lake and the national park as stated in issue ③, it is not necessary to persist with domestic infrastructure if we can obtain cooperation there.

Regarding the construction of railways inside Negoland, due to the budget limitation of the Geopark project of US\$200 million, we will request Blue to make the full investment. We can agree to a partial investment, but only on condition that Red promises to construct fully funded hotels.

Because the construction of hotels is an urgent issue, if Blue can guarantee their construction by as soon as 2020, we will be able to compromise on issues of the Negonium project and the distribution ratio of Negonium.

### ③ Ideas for luring tourists to the area

TOP: Obtain cooperation in developing infrastructure between the national park and Arbitria Lake, and for public relations

BOTTOM: Obtain cooperation for public relations

In order to increase the number of tourists from Arbitria, we will first aim to raise the national park's recognition among Arbitrians. For example, we will propose the branding of the park, spreading information through media, and holding study trips in the park. Next, we will suggest to plan a tour in order to make the national park more attractive. We will ask Blue for ideas that meet the content we wish to promote and can also utilize the know-how that Blue earned through the resort development business in Abu-Nea.

Furthermore, we will request Blue to cooperate in constructing the transportation between Arbitria Lake and the national park so that people in Arbitria will have less physical obstacles to visit the park.

If Red goes below the bottom line stated above, we will in principle move on to negotiating with our BATNA, a hotel chain and a railway company in Negoland.

### (3) Risk hedge provision

If following risk hedge provisions are discussed, they shall be added to the agreement.

- Delay of the performance: The compensation of the delay of the opening date of the facilities shall be decided.
- Environmental assessment research: The environmental effect of construction shall be researched.