

At a stretch?

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John Robson has been Chairman of the Export-Import Bank of the United States (Exim) for three months now. Robson was picked by George W. Bush to head the agency and, like many of the new administration's personnel, served on the earlier Bush team, as Deputy Treasury Secretary. Financiers are eager to know whether the new head will continue the expansion started under his predecessor, James Harmon. Harmon, unusually, stayed on at Exim whilst the appointment was finalised, and has made it clear that he was comfortable working with Dubya's business-friendly cabinet.

Very early into his tenure, however, Robson was called on to testify before the House Appropriations Subcommittee on Foreign Operations. The subject was the proposed 25% cut in Exim's budget that was raised by the administration in the first few months of 2001. Exim has become a more frequent subject of political comment, both for its close work with the energy industry and for those who see it as a branch of the United States' corporate welfare network (a term which offended Harmon). It finds itself, more immediately, at the nexus of US energy, environmental and social policy.

Indeed, in a little-reported move, President Bush rejected an agreement on common environmental standards for ECAs put to G-8 countries at Genoa. This would have left individual agencies free to set standards, whilst the US wants them to move closer to the stringent World Bank guidelines. It is an interesting counterpoint to the US position on the Kyoto Treaty, where the US was painted as the villain on emissions levels, and Exim is conspicuous by its absence from most of the more controversial hydro-electric schemes.

The main issue for sponsors is whether the host of new products, either launched or under consideration, can make up for proposed budget cuts. Robson's testimony essentially laid out how much, in terms of exports covered, could be achieved using the suggested figure, \$633 million plus \$90 million left over from cancelled programmes. Exim's estimate is that \$11.4 billion can be supported using the budget, whilst it places demand on its services in the \$11.9 billion to \$14.5 billion range.

The above figures incorporate an ability to do more with existing capacity, and this could be stretched still further by raising fees and lowering its transaction coverage level below 85%. Cofinancing might spread some of the money further, but much of the debate over the role of Exim is still driven by the idea of trade distortions and the threat of an arms race with other ECAs. Nevertheless the three main initiatives that involve the bank's project finance division ? the forthcoming risk-sharing programme, an examination of the uses of arranger roles and capital markets products and geographical focus on Russia and Sub-Saharan Africa ? are promising for sponsors.

Exim's project finance deal book is a little lighter this year than for the previous 12-month period, when an unprecedented \$2.5 billion was booked. Barbara O' Boyle, Exim's vice president for project and structured finance, estimates that roughly \$1 billion will be booked this year. Of this \$8 million comes from three micropower projects sponsored by Caterpillar, announced last year but booked this year, and \$176 million for the Rio Polimeros plant in Brazil, for which US-based ABB Lummus Global is the main EPC contractor.

The largest chunk, however, has been taken up by the Hamaca heavy crude project in Venezuela, a \$4 billion monster sponsored by Texaco, Phillips and PDVSA, of which \$628 million in financing features a comprehensive guarantee from Exim. The agency won a new set of admirers by getting through the deal within the same time-frame as the banks. The phrase ?acting like a commercial bank? was uttered more than once, and Exim has gone out to 17 years in tenor. The three previous projects ? Sincor, Petrozuata and Cerro Negro ? were financed with a mix of bank and bond debt.

Exim's other recent headline deal has been the Chad-Cameroon pipeline, where participants were forced to go through one of the most exhaustive environmental and social consultation processes yet encountered. Funds accrued by the host governments were to be transparently channelled to acceptable uses, in large part because of the World Bank's involvement. Big-ticket financings in emerging markets will use such conditions as a template for future talks.

The reason for the lightness of the deal book is Brazil. Exim, along with Opic and several other agencies, has been examining a number of power projects in the country. Some of them even had close dates posted for this year. Probably nearest to close now is the El Paso-sponsored Araucaria project, which was approved as Project Finance went to press. The rest wait upon the creation of a pricing formula with which sponsors can feel comfortable, which could come, regional meltdown notwithstanding, in 2002. The other region on Exim's radar is China, where several sponsors have opened discussions on the huge oil and gas concessions that they've been awarded.

PF: How do you see US Exim's project finance activities going forward and is there going to be a marked change in how you go about your business? What sort of importance do you think project finance is going to have at Exim bank now?

Robson: A lot of importance. From my discussions I think that many countries, for instance Russia, are beginning to be more conservative about how much sovereign debt they want to incur both at the federal and at the sub-sovereign level. That's something that we understand very well in this country because we've got the Office of Management and Budget and my old department the Treasury scrutinising us 25 hours a day and watching what we do. So the policy direction that we're trying to go in is perfectly rational, particularly for a country that's at the stage that Russia is.

I have said to interested countries that I am open-minded to creative ways in which to finance transactions and I'm not going to say no to anything until I've studied it. And so, we've encouraged our own people to look at creative ways to do transactions in places where there are strictures of one sort or another, and to keep the flow going. I'm hopefully going to Russia in a month's time or sooner and we'll be exploring that area further and coming up with some ideas.

PF: And some of this is going on within the changing context of what Exim Bank is able to do, in terms of things like comprehensive completion cover and....

Robson: I'm not looking at modifying any of these recent developments. What I'm really thinking of is better and more creative ways to do responsible financings that meet our obligations, including a reasonable assurance of repayment. The question of insuring risks, working with other ECAs, and working with the private sector are all things that I'm entirely open-minded about and think we ought to pursue.

PF: One of the big initiatives was the risk sharing programme that you were working on with Citibank...

Robson: Yes, we're still working on it and I'm hopeful that we can get it done reasonably soon.

PF: Are there any specific avenues where you will be looking for change aside from those we've gone over already? Are there any ECAs, say, that you're particularly interested in working with, or any currencies that you'd like to extend guarantees in?

Robson: My goal is to change things that I think can be improved, and where they're just fine, my goal is to expand them. I've been here all of two-and-a-half months and we're in the process of trying to change things, to expand them, and to make them better. I have encouraged people here to be creative and I've made the point that innovation is rewarded ? but that has been my management style wherever I've been.

PF: One of the big issues that comes up when talking to most ECAs is the pressure to become more obviously commercially-minded, whether this is in terms of taking on arranging roles or going out far more aggressively into the

private sector. Do you have an opinion on how far Exim should go and are you looking at getting round any political obstacles to doing this?

Robson: In terms of being more ?commercially minded?, I would say I'm looking at ways to create product that people want and that is defensible from the real obligations that we have and defensible from the standpoint of its financial suitability. So, if that's what being commercial means then the answer is, yes, we're trying to design a product that I hope would be responsive to marketplace demand.

Second, if commercial means that we're out chasing deals and have essentially a sales group, I don't see us in that role. If commercial means always working with all sides, including co-financiers, to get a deal done, my answer to you would be yes. If commercial means trying to deal with the exogenous forces that are playing on us, and indeed all ECAs, and all people that are in commerce today, then we're going to have to deal with those in a world that has changed. We see these in part manifested in the streets of Genoa, the kinds of issues that are inspiring scrutiny and in some cases protests against global capitalism. These are ones that we have to deal with just like corporations and everybody else.

PF: To try and narrow down the issue of commercialism to the idea of the arranger and the example of the Canadian Export Development Corporation, where they can act pretty much like a commercial bank...

Robson: Well they say they can act like a commercial bank with a market window. We're in the process of trying to pull together credible data on what exactly market windows are doing. And when we have enough to convince us that we know what we're talking about we will see what we should do about it. You can either do nothing or you can get into an arms race or you can try and suppress the full extent of those kinds of institutions through the OECD machinery.

PF: Do you think that the OECD machinery is up to the job, or do you think that there are more and more ways to attempt to bypass it?

Robson: Well, there are other multilateral organisations around, but not very many that deal with trade issues. Right now the principal ones are the OECD, which has been around a long while and has compiled a pretty good library of experience, and the WTO. At this point I would not particularly want to see those issues folded into the WTO without a fair amount of guidance on how to handle it. The WTO has a fair number of issues that it's dealing with at this point. The OECD, while not perfect, has done a pretty respectable job.

PF: Are there any particular industries where you think Exim could step up its activity, or should be trying to look at stepping up, or just diversifying?

Robson: If you proceed on the assumption that if you have respectable project finance deals, you have a need for pre-identified sources of revenue, you need a project that can satisfy that condition. By and large that means businesses like telecommunications, power and energy, where the ability to predict the future, while imperfect, is a lot better than it would be in the underwear business.

PF: Are there any sections of US industry that you trying to reach out to? One example that's been mentioned in the past would be working with telecoms equipment exporters. Are there any other sections of US industry that have been asking you for more help recently?

O'Boyle: As I've said earlier, we had dedicated some people to work on telecoms. Since most of our business is in the power sector, we've got good expertise to build upon there. That's probably something we'll think about more in the coming years as we look more at other industries.

Robson: But you need businesses that have a reliable revenue source, where you can look at future demand over the length of the payback period and figure that there's some reliability that that's going to happen.

PF: One of the big priorities that we've seen recently, with the Chad-Cameroon pipeline, has been Sub-Saharan Africa. This is where a development role comes into the stated aim of promoting exports. Do you want to continue with this, if not concentration, then increased attention to Africa, and are there any other regions?

Robson: We have already said that we are going to focus on Sub-Saharan Africa and try to increase the number of deals we do there. A Chad-Cameroon pipeline or a big sale of aircraft are really one-offs in Africa and you're not going to get annual repetitions of those kinds of transactions. I'll probably, at least in the beginning, try to focus our attention on places where we have the greatest prospect of getting transactions which, putting aside Chad-Cameroon and aircraft sales, tend to be small. You burn a lot of calories on smaller transactions but in the long run it's the only way to build a dealflow in a region like that.

PF: You started off mentioning working with Russia, and there's a huge amount of potential there in commodities, mining and metals and oil and gas. Again, will you be looking to step your activities there, or is there a certain amount of structural work to be done first?

I am an optimist about the ultimate success of Russia on the economic front. Russia has enough people, enough size, enough resources, enough education and enough technological capacity to be able to pull it together. What it doesn't yet have is a tidy, smoothly operating, open market capitalist system that is functioning just fine, and has all the other attendants that define a country that is functioning well economically. The banking system, the legal system, transparency, an orderly democracy, etcetera. One of my roles as deputy treasury secretary was to administer economic reform and economic assistance to all of the Iron Curtain countries as they emerged from the Cold War. I was in those places a lot and on the ground and saw how their politics and economic system emerged and as you'd expect it wasn't a tidy process. There were mistakes and setbacks, but ultimately they've moved forward and that is what Russia will do.

PF: Another big issue is the application of ECA and multilateral insurance to capital markets products. Is it something that you'd be interested in examining?

Robson: We're trying to get as much reinsurance into our lives as we plausibly can. We're working with our counterparts and have memoranda of understanding with the Canadians and the UK, and I'd like to see that expanded. I think that ECAs are going to want to find collaborators. We'll be looking for them both in the private sector and the public sector. In fact we have deals that we've done that have multiple capital sources ? the Bajio deal is one example.

O'Boyle: We are actively internally looking at talking to the Opics and the monolines to figure out if there is a product that we can put together that would make sense for capital markets.

PF: There were issues involved with local content on some of the deals that you've done. Are the legal and statutory frameworks in place to deal with any of the new products you want to do or do think some alteration will be needed?

Robson: My feeling is that we can probably figure out a way to deal with our own statutory limitations. Part of it, as is always the case with a new movement, is cultural. Part of it is legal. Part of it is political in the sense that things like local content are elements of what we do that have a great deal of resonance on Capitol Hill and elsewhere. But I'm also optimistic enough to think that we can figure out ways to deal with it and go forward with respectable deal flow and transaction structures.

PF: You're in the process of trying to hammer out an agreement on the budget for Exim Bank going forward. This hasn't been completed yet. What kind of position are you coming from on this?

Robson: The position I took in my testimony in front of Congress is that under our traditional multiplier the president's budget would allow us to support X level of exports. Our projections four months ago for the year involved are from Y to

Q with L being in the middle and then I gave them what level of programme budget is going to be necessary to support those levels of exports. If those levels of exports come in above what the president's request is, or whatever congress gives us allows us to support them, then we will be shy of resources. At the moment I wouldn't hazard a guess as to what we're going to end up with. What I did was draw a road map and said that if this is where you need to get to in order to satisfy demand that actually comes in, then here's the resources it would take to get you there.

PF: In your testimony, have you been forced to consider the changing circumstances of the US economy?

Robson: It's on the front page every day, now, and one of the centrepieces of the budget debate between the democrats and the republicans is what can you do to energise the domestic economy? There's considerable debate and disagreement about how you do that. I think that the resolution of the overall national budget is going to be a very big battle before it's all over. I believe it's altogether likely that it won't be over soon.

PF: Looking at downturns elsewhere, Exim Bank has often been at the forefront of attempts to bring countries out of financial crisis. Do you foresee Exim taking a similar role if it happened again, such as in the recent events in Latin America, or do you think your role has shifted?

If you look back historically at this institution since its creation in 1934 you'll find several places along the way where we were on the front line of significant issues, such as the Marshall Plan. One of the things that the bank was involved in recently was in providing short-term insurance cover in Korea in the middle of the Asian crisis. I would be overstating the matter if I said that that alone pulled it out of the ditch, but what it did do was provide some sense of assurance that everybody wasn't throwing in the towel on Korea. In fact, most recently, I've said to the people on the Latin America desks that if we can be helpful within our own statutory restrictions in Argentina we'd be delighted to do so. Offering a vote of confidence does have some impact although it's very hard to quantify.

PF: How do you see your relationship with the commercial lending community changing, especially with the creation of the comprehensive completion guarantee, which has been immensely reassuring to lenders? Are you keen to keep these ties fairly strong and are you working with them on the new programmes?

Robson: The answer to your first question is absolutely. I want to keep those ties as strong as we can possibly have them. We are working with them on a number of programmes, including the risk-sharing programme that you mentioned earlier. I've invited them to come over and explain to us good programmes for us look at, and that we can work together on.

PF: Looking at the other side, are you hoping to cut down on some of the money that you spend on outside advisors?

Robson: I'm looking to cut money spent on any outside expenditure that I can. We are sharing advisors as a way to minimise expenses. On the other hand I'm the last guy to take a decision that is not based on appropriate professional input.

O'Boyle: Just to clarify that, most of our advisors are paid for by the sponsors. But there is a money cost there.

PF: From what you've seen in the last three months are there any transactions coming out of the project finance group that you've seen as good examples of how Exim Bank should be doing business?

Robson: It's my sense that the project finance transactions are getting more complicated. More parties and slipperier patches of ground to operate on ? just more difficult. On the other hand, the demand for us to do these deals seems to be growing, and I would expect it to continue to grow. When you look, for example, at the oil and gas deals and the untapped resources across the world, the job of getting there and extracting and distributing energy is huge. And so people and big companies that are going in and doing this kind of exploration and production are looking for partners. I

expect that we're going to see more opportunities to do those kinds of things. I'd hate to say one structure is the preferred way to do something, because I don't think there's going to be a cookie mould approach. All I'm certain about is that the old model of not proceeding without a sovereign guarantee is gone.

PF: Do you think you'll have to use an element if not of coercion, then of persuasion, to make sure some of the countries that you deal with do have an adequate framework? Chad-Cameroon is one example of this approach.

Robson: That was approved before my arrival, but it has environmental aspects to it that were carefully looked at by us and the other participants. But these issues are precisely the ones that I've said are on the minds of those on the streets, and we have to deal with them. We are not up here at 50,000 feet as benign policy makers. We're down on the ground doing a transaction with identifiable consequences on a location, rivers, lakes and people. Everyone who is scrutinising these things doesn't have to look at it in the murky framework of a global treaty. Your vision becomes pretty good.

PF: Do you think that you'll have to work far more closely and far more extensively with non-governmental organisations?

Robson: Yes. I have an open door policy, and NGOs are availing themselves of that opportunity. I've met with a few of them already and I'll see more over the next few weeks.

PF: Are most of your discussions with them on social or environmental issues?

Robson: Environmental, human rights, labour, displacement of indigenous tribes, fossil fuel activists. It's complex but it's what the world is today. This agency has enjoyed a long period of comparative quietude as a very snappy boutique on a side street, and we are now sitting in the middle of the highway and getting run over by the same stuff that's hitting multinationals. That's part of the new challenge.

PF: Have you been drawn into any of the discussions on US energy policy?

Robson: Yes and no. We didn't craft the vice-president's report. We have actually three or four recent episodes that bring us into the middle of those issues. For example, one of the things I'm trying hard to do is improve and increase our activity in renewable energy exports. In that respect we've been working with the energy department and others. There are a number of people in congress who would happily see us out of fossil fuels, although we're not their sole target. We think, though, that spectacular demand growth will have to be satisfied by fossil fuels, although we still should be trying to increase the fraction in renewables.

PF: Do you think that there will be a growth in the frequency and complexity of project finance deals that you'll do in the medium to long term?

Robson: If we're going to stay in the game we'll have to play on the project finance field, especially as emerging markets look for ways to satisfy power demand, to extract natural resources, build telecoms systems, and leap the two or three generations that old democracies have already been through. You'll see a lot of that accomplished through project financing. I would say, though, that you can't look at it year-to-year, but more on a trend line. n

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