Export-Import Bank of the United States

Board of Directors

Closed Meeting

Tuesday

September 29, 2020

The Board of Directors convened via webinar at 10:30 a.m., Kimberly A. Reed, President and Chairman, presiding.

Present

Kimberly A. Reed, Chairman
Spencer Bachus, III, Director
Judith Delzoppo Pryor, Director

Staff Present

James Fletcher, Help Desk Analyst
Masud Hasan, Senior Environmental Engineer
Smaro Karakatsanis, Loan Officer
Isaac Lyumkis, Counsel
Stephen M. Renna, Chief Banking Officer
Paula Swain, Loan Officer
David Trulio, Counselor to the Chairman and Senior Vice President for the Program on China and Transformational Exports

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Proceedings

(10:37 a.m.)

Chairman Reed: Welcome back, everyone. We now will continue the meeting. May I have a motion to close the meeting?

Director Bachus: This is Director Bachus. I move to close the meeting.

Chairman Reed: May I have a second?

Director Pryor: I second the motion. This is Director Pryor.

Chairman Reed: Thank you. All in favor, say aye.

(Chorus of aye.)

Chairman Reed: Any opposed?

2-5. Minutes of Board Meetings for approval

The motion carries. May I have a motion to consider Items Number 2, 3, 4, and 5 on the agenda?

Director Bachus: This is Director Bachus. I move to consider Item Number 2: Approval of the Board Minutes of August 27th, 2020; Item Number 3: Approval of the Board Minutes of September the 8th (AM), 2020; Item Number 4: Approval of the Board Minutes of September 8th (PM), 2020; and Item Number 5: Approval of the Board Minutes of September the 9th, 2020.

Chairman Reed: Is there a second?

Director Pryor: I second the motion.

Chairman Reed: Any discussion? Hearing none, all in favor, say aye.

(Chorus of aye.)

Chairman Reed: Any opposed? The motion carries. May I have a motion to consider Items Number 6A and 6B on the agenda?

6A. Country: Mexico - AP089365XX and 6B. Country: Mexico - AP089366XX

Director Bachus: Yes, this is Director Bachus, and I move to consider Items Number 6A and 6B from the Structured & Project Finance Division. First, 6A, Country: Mexico, AP089365XX; Foreign Buyer: Pemex Exploracion Y Produccion; Borrower: Petroleos Mexicanos, Mexico City Mexico; End-User: Petroleos Mexicanos, Mexico City Mexico; Product Description: Oil & Gas Field Development.

The total financed amount is 335 million dollars. NAC Review is August 26, 2020. Public notification expiration date was September 25th, 2020. Congressional review expiration date was September 21st, 2020. The decision required is approval.

6B is the second one, Country: Mexico, AP089366XX. The applicant again is Pemex Exploracion Y Produccion; Borrower: Petroleos Mexicanos, Mexico City Mexico; End-User: Petroleos Mexicanos, Mexico City Mexico. The product description is oil & gas field development.

The total financed amount is 65 million dollars. NAC Review is August 26, 2020. Public notification expiration date was September 25th, 2020. Congressional review expiration date was September the 21st, 2020, and the decision required is approval.

Chairman Reed: Is there a second?

Director Pryor: I second the motion.

Chairman Reed: Thank you. Thank you to the deal team members Paula Swain, Lisa Geberth, Isaac Lyumkis, Masud Hasan, Matthew McCombs, and Stephen Renna. Mr. Renna, please introduce yourself for the record and present Items Number 6A and 6B.

Mr. Renna: Thank you, Chairman Reed, Directors Pryor and Bachus. I'm Steve Renna, the Chief

Banking Officer, and I believe today that substituting for Paula Swain will be Lyman Trey Armstrong as Paula is not available. Of course, the Board is quite familiar with Trey Armstrong from his Mozambique LNG fame and he will do a more than capable job filling in for Paula in the presentation to the Board. And of course, the Board has been extensively briefed on these two applications.

It goes without saying that the oil and gas sector along with the transportation sector, particularly the airline sector, have been the two hardest hit economic sectors as a result of the COVID pandemic and the resulting economic shutdowns. So the oil and gas sector around the world and the airline sector have largely been suffering from such a significant demand drop. I saw today on the morning news that airline travel is off between 65 and 75 percent, and that obviously has a direct effect on -- demand on oil and gas products and everything else that's associated with transportation.

So here we are as our export credit agency dealing with largely government imposed economic shutdowns and having to lean in as the export to countries as a credit agency, on behalf, in this case, of companies in our oil and gas sector that are looking to export their goods and services to Mexico. And as you'll see and Trey can highlight for you, there's a significant list of exporter and supplier companies that are in the appendix to the Board report that you have. So there are a lot of companies in the United States that are very dependent on the ability to be able to execute on these exports and for Pemex to be able to execute as a purchaser of these exports.

Of course we have challenges in our principle source of repayment here, Pemex Corporation. This is the corporate obligation. As I mentioned, it's fluctuating prices of oil. Pemex has faced a declining oil production and reserve base.

Pemex is very leveraged in the world and Mexican government has shifted with election of their new president and changes to their overall energy reform strategy and how that's creating some confusion and consternation with respect to Pemex and the government's overall approach for tenders and overall towards payments. These are all things that Trey will talk about. I guess he'll conclude the same.

This is a very important sector for us to be participating in. Fortunately, we have a lot of experience with this applicant, Pemex who we've navigated challenging experiences in the past. We'll have more challenges going forward.

But I think this is an appropriate transaction, both the transactions for the Board to approve. So with that, I will turn the microphone over to Trey and then we'll have Trey to turn the microphone over to others on the team that will have comments as well. So with that, Trey?

Ms. Swain: Actually, surprise, surprise. It's Paula.

Mr. Renna: Oh, Paula is back. All right.

(Simultaneous speaking.)

Ms. Swain: -- available.

Mr. Renna: Glad to have you back, Paul. Okay. Glad you are available.

Ms. Swain: I could try to speak in a deeper voice and act like I'm Trey.

Mr. Renna: Remember what I said about Trey, though, Paula.

Ms. Swain: So thank you for this opportunity to speak and make this presentation to the Board. First, I want to thank all the team members that have supported this effort. We have maintained our relationships with Pemex during the period where we didn't have a Board quorum, but we were all a little bit rusty. And I think everybody did a really exceptional job, and I really appreciate their participation in this particular transaction.

So since I last presented this financing opportunity, there have been a few changes. And one change I think is very important, the total financed amount will continue to be 400 million. But Pemex asked for an increase in the small business facility by 15 million and a reduction of 15 million to the general facility. So now the small business facility will be 65 million and the general facility will be 335 million.

For each of those facilities, there'll be two different tranches. One will be a nine-year tranche to take into consideration the extended reach back. And then the other tranche will be a four-year tranche.

Additionally, I had communicated in the last information that went to the Board that Bank of America was the guaranteed lender. In fact, that was incorrect. Bank of America will be the agent, and PEFCO will be the guaranteed lender. So those are the major changes to this transaction since last presented this to the Board.

In the time frame since that last presentation, we received four sets of comments through the Federal Register notice. The first comments received were from Mercatus Center. We also yesterday after the comment period had closed received comments from Friends of the Earth and an individual by the name of Kermit Kibutz. And there was also an anonymous comment that was off topic.

That information has been shared with the Board. And if I may summarize, the comments of both Mercatus and Friends of the Earth and, for that matter, Kibutz were very similar. They dealt with these particular -- these specific topics, one being corruption, another being worker safety, another being oil and gas market, Pemex's financial condition, and comments that we would define as additionality.

And each one of those topics were reviewed as part of our standard and very thorough due diligence. And the results of that due diligence are detailed in the

Board memo. However, because of the nature of the environmental comments, I would like to give Masud Hasan an opportunity to address those. Masud?

Mr. Hasan: Can everybody hear me?

Ms. Swain: Yes.

Mr. Hasan: Yes, good morning everybody. This is Masud Hasan, Engineering and Environment Division. One of the comments that we already had in the past that Pemex is a highly polluting company, that's partially true because Pemex has a lot of old refineries that pollutes a lot.

They have improved some of them, but not all. But our project, our support is in the oil and gas exploration and production which is not a big source of pollution. Only one refinery that we supported in 2006 and '07 was a modern refinery, Minatitlan refinery. That's doing good, and there was no complaint against that refinery.

Pemex is improving their pollution scenario every year and regarding greenhouse gas and SO2. Sulfur dioxide, they have a plan to reduce it year by year which is satisfactory. So only thing I can tell you that we keep a very close eyes on the operation that we support. And so far, we are okay with the pollution of our projects. Thank you.

Ms. Swain: Thank you, Masud. Additionally, we were contacted this morning by the State Department specifically about concerns that they have about statements that were recently made by President Lopez Obrador. It was described as a decree, but it appears to be a memo that was issued between various Mexican government agencies. And the concern is that the information goes to the president's intention that any investment in Mexico must be for the benefit of Pemex of CFE -- CFE is the electric utility, of course, Pemex is the national oil company -- and that this could have an impact on private investment.

As you will recall during the briefings and in the Board memo, there is a great deal of discussion about energy reform and that occurred in a prior administration. And the current president, Lopez Obrador, during his campaign, he was firmly against private investment in the energy sector. And he's taken certain actions and made certain pronouncements that could impact that private investment.

Additionally, the State Department shared again that Pemex has past due payments that are owed to U.S. companies. That is true. Prior to the last presentation, I had conversations with the major oil field service companies that do business in Pemex mainly, Halliburton, NOV, Fluor, Baker Hughes -- I'm forgetting somebody -- Weatherford. And in all of those conversations, they acknowledged there were past due payments that they were owed but they were receiving payments. And they had communication with Pemex.

I spoke this morning with the president of Baker Hughes Latin America. He said that Baker Hughes is continuing to be paid, that they still have access to management executives at Pemex. In fact, last week, last Tuesday was the most recent conversation that Baker Hughes had with Pemex and they're continuing to do business with Pemex.

So I think it's important to understand that while there are past due payments that are owed, Pemex is continuing to make payments to these companies and those companies are continuing to do business with Pemex. And it's also important to know that those services that are provided by U.S. oil and gas service companies are critical to Pemex's production. So if the situation becomes so difficult that those companies no longer do business with Pemex, it would have a dramatic impact on the development and production of oil and gas which has been described in the memo as critical to the Mexican government.

So at this point, I believe that there's a reasonable assurance of repayment. And staff recommends Board approval of this transaction. And I'm happy to answer any questions that anyone may have.

Chairman Reed: Thank you very much to the deal team. I really appreciate it. Thank you for your presentations. I understand there are no further comments from other agencies. Do my fellow Board members have any comments? Director Bachus?

Director Bachus: Thank you, Chairman. One question I did have is who was the lender. And it's PEFCO on both these transactions, 6A and 6B?

Ms. Swain: Yes, sir. It is. And I'm sorry for that confusion. When I had spoken with Pemex, I asked which lender they had picked and I assumed they meant guaranteed lender. So they picked Bank of America who will actually be the agent and PEFCO will actually be the guaranteed lender of record.

Director Bachus: Oh, that's fine. In fact, I think that reinforces our decision to extend our relationship with PEFCO. I think it reinforces the wisdom of that decision.

Ms. Swain: If I may add, Director Bachus. I talked with PEFCO on Friday, and they told me that they had been contacted by ten banks that had responded to Pemex's RFP for the agent role. So everyone reached out to PEFCO rather to understand what that funding option would be for Pemex.

Director Bachus: Thank you, Paula. I was concerned -- since Paula and I sort of talking right now, I was concerned over the slow payment of our U.S. suppliers. You've addressed that. And in that regard, our Texas and Oklahoma delegations, our two senators in Texas, and are they aware of the importance of our support for the oil and gas industry in Texas?

Have you had any communications with them? I know we've had no Congressional objections. But I'm just wondering if Senator Cruz and Senator Connolly, if they are aware of the importance of this transaction to their local industries.

Ms. Swain: I haven't had any communication with those offices.

Director Bachus: Do you know if the companies involved -- I think it's always important for them to keep their Congressional delegations apprised of the importance of some of the -- our support for exports. And --

Ms. Swain: Well, sitting in --

Director Bachus: -- I know --

Ms. Swain: Yeah, sitting in Houston, I do know the importance of EXIM Bank because EXIM Bank supports more jobs in the Greater Houston area than we do anywhere else in the country. So when we lacked a Board quorum, that was something that the U.S. exporter community here was very focused on. And I do know and I think that you recall with your visit to Houston and the Chairman as well is that Pemex was always the topic of conversation no matter who you were visiting with. Pemex does have a large procurement office here in Houston as some of the other national oil companies do. But I think it was in the last meeting with the Greater Houston Partnership, the Chairman Bob Harvey I think made mention of the importance of Pemex to Chairman Reed.

Director Bachus: Well, I know John Cornyn has been supportive in the past. So I just -- I think maybe it is important that our governmental chain reaches out to the Hill on these matters. I was concerned about the Mexican president's statements which you referred to which obviously I think is a negative for the Mexican economy going forward.

However, I guess in a backhanded way, he identified the importance of Pemex and financing there. Yeah, we have -- we've offered -- with this deal, we're offering substantial support for Pemex. And as I asked before when we discussed this, gave preliminary approval to it, there's no sovereign guarantee.

There is guarantee by divisions of Pemex, but I'm just wondering, going forward, we should seriously consider a sovereign guarantee. I know that our history of our relationship is very important and we continue our good relations with Pemex. I don't want to threaten those. But it is a concern for me.

I noticed we did a cover which -- a cover sheet which the loan officer, you signed and the vice president, Lisa Geberth, signed. I noticed our attorneys had not signed that -- not signed or initialed that. And a lot of times, all the principal transaction team puts their initials on there.

Could we get that? At some point, could that be done? Or is there any reason why maybe our attorney and -- I know Masud had just spoken. I'm not as concerned about him because he has spoken out. But we hadn't heard from our attorney.

Ms. Swain: So it's a technological issue more than anything else. But Isaac, I think he's got access to this. Can you address Director Bachus' question, please?

Mr. Lyumkis: That cover sheet somehow got out without my signature. And I can supply it at any point in time.

Director Bachus: Now is this Masud or Isaac speaking?

Mr. Lyumkis: No, this is Isaac.

(Simultaneous speaking.)

Mr. Lyumkis: This is Isaac with OGC.

Director Bachus: Right. And I realize and I think you had stated and I agree with you that this is support for our domestic industry and their exports. It isn't as much about Pemex. And I was very encouraged by Masud's statements that the environmental progress that's been made. And I think that our support has been a positive there.

And I know it's a concern for Mercatus. It's a concern for Friends of the Earth. It's a concern for us. But I think that we've been a positive in helping them modernize and address some of their pollution problems.

And I know their oil is -- from an environmental standpoint, it's not the best. But I believe our nonparticipation would actually be a negative for the environment going forward. So I was very happy to -- Masud, to hear your remarks about our contribution to actually addressing the environmental problems. I think that's an important message that we need to get out too.

So I plan to support this project. I said that. The price of oil has improved. Pemex still has tremendous liquidity problems. They have -- they are behind on their payments. But this is just a too important region of Mexico for us to vacate the field.

And I'll close by saying that China is -- I believe it was -- excuse me -- one of our teams noted that they have made an offer to finance some of this project. And so I think it's important that we -- we have a charge from Congress to compete against China in this regard. So the last thing we want is Chinese influence on the Mexican -- on Pemex.

So thank you very much. So I appreciate your remarks. And I'd give the State Department -- I would say to them and their representatives, we are concerned about what they're concerned about and if they would keep us in the loop for any further development. But I'm comfortable that there's a reasonable expectation of repayment.

As I said 100 times, we operate on the edge. We operate when there is risk. And that's where we're supposed to be, not in a transaction where there is no risk, because if there's no risk, there's private financing. So thank you very much to the team. Job well done.

And let me close by just saying to James Fletcher -- it's a little different situation. But James has been pretty much preoccupied for the last two months and holding my hand on some of the technology. And James, I want to commend you in front of all the leadership for your patience with me. And you've been a great help and me sort of trying to catch up with my lack of being able to utilize a lot of the technology. So thank you, James. And that concludes my remark.

Chairman Reed: Thank you, Director Bachus. Directory Pryor, any comments or questions?

Director Pryor: Yes, I have both. Thank you, Chairman Reed. Paula, thanks for the update and to the team for the briefing when this first came to Board. It's good to see the small business facility amount has increased a bit. I guess since this involves reach back a full two years, it's probably a little easier to determine the mix the U.S. small versus larger companies. But either way, this is a good start.

One housekeeping item, I wanted to assure Chairman Reed I've since read the statement I asked our interagency colleague from Treasury to read into the record during our last meeting when we voted to notify Congress on the transaction. And I just wanted to share again that I appreciate the issues he raised.

What was clear to me is that Pemex has many relationships with other official ECAs, and EXIM's charter mandates us to ensure American exports are fully competitive with those foreign backed ECAs. Just as my colleague, Director Bachus, mentioned, we also have a mandate to compete with China. I think it's really important we continue to encourage free, fair, and robust trade with our neighbors to the north and the south and continue develop solid relationships with those who share our borders and I mean that. They are our neighbors.

As I mentioned in my remarks at the last Board meeting, I was really happy with the additional time I was about to have to review this project as we waited on the CM to come back to us from Capitol Hill. I was also hoping to learn more what our friends there had to say about it. But Paula, you mentioned a secondary comment to a member of Congress. But since then, they didn't have anything specifically related to the transaction. That's correct, right?

Ms. Swain: Yes, ma'am.

Director Pryor: Okay. So just as an aside here, this is my friendly reminder that our own internal best practices state the Board should have at least five days to review any public comments that come through from the Federal Register or for Congress. So in this case, it would've been nice to have had at least a day to discuss those comments that came in through the Federal Register with the team.

But I understand the timing doesn't always make due. But just a friendly reminder that it would be much appreciated if we could, excuse me, consider this moving forward. Paula, could you, just for the record here again today, please summarize the team's points that make you confident of a reasonable assurance of repayment?

Ms. Swain: Okay, certainly. So number one is our long and successful relationship with Pemex. We've done business with them for -- since 1944 and we've never had a default with Pemex.

Pemex continues, and more so today than was the case a year or two years ago, to be a significant engine within Mexico. MLO, the current president -- I should be more respectful. President Lopez Obrador views Pemex as the national patrimony and of particular importance to the sovereign from a financial perspective and as important to the future of Mexico.

As it stands now, the Mexican government actually owns the reserves. And Pemex until energy reform, had the exclusive right to develop and produce those reserves with energy reform. Private sector investment came in to allow them that same opportunity. But as I stated earlier that energy reform appears to be being rolled back by the president.

I think what -- Director Bachus is right. It puts Pemex back in the most important position. So from a credit perspective, it only reinforces the importance of the government view of Pemex. So I think that's critical in the way we review this credit.

Pemex does export a great deal of crude to the Texas and Louisiana Gulf Coast where we have refineries that can process that heavier grade crude. So they're continues to be important U.S. trade with Pemex. Additionally, Texas Natural Gas to the tune of about 6 BCF a day is imported into Mexico because they lack the ability to produce the necessary gas to support their industry as well as their power systems. So that's an important relationship that we have supported historically.

Comments about the current state of the oil and gas sector, it certainly has been hit hard by COVID-19 and the lack of economic activity. But prices have stabilized in the lower 40 range. The Mexican basket yesterday was I think 38.75. So the price of oil is still above Pemex's cost of production. So for all of that and the importance of our support of the oil field services industry, I firmly believe there's a reasonable assurance of repayment.

Director Pryor: Okay. Thank you. And I know we talked in detail about a lot of these issues and just restated clearly for the record once again. I thought that was important. So thank you for indulging me.

Okay. Moving on, I read an article in the clips a few weeks back about Pemex's continued inability to upgrade its facilities to limit carbon emissions and that even smaller regional players, not just the super majors, were starting to do this. It was a while back. It was entitled, Mexico's Pemex Tests Limits of Investor Influence on Climate Change.

I wanted to dive just a bit deeper. Honestly, with all the good and all the things you just described, this transaction is not a slam dunk for me. So I've spoken with the embassy. I've spoken with you, Paula, and the team in our briefing. I've called Isaac Lyumkis at home. Thank you, Isaac, for taking my call on a Saturday. And I've also spoken with some former colleagues at the DFC about their interactions on the ground with both Pemex and other projects that they're working on. Just crossing all my t's here, folks.

So during my conversation with Isaac, I mentioned the article that I had read in the clips. And he said, of course -- and I know this to be true. He said our environmental team has done a great job of ensuring Pemex complies with our standards and that the article was talking about which are not part of our funding. So maybe this question is for Masud. Just confirming here, Masud, that the refinery we did finance was back in 2006. Is that right?

Mr. Hasan: Yes.

Director Pryor: There were no complaints?

Mr. Hasan: No, no. That never been -- that refinery's name, Minatitlan refinery, which is a modern refinery. And to my best of my knowledge, it never came to any news. And the way it was designed, we reviewed the pollution control equipment. It should beat our standard and international standard. It's a modern refinery.

Director Pryor: Okay, okay. And then Masud, you also mentioned -- you said that they're improving -- they have a plan to improve emissions and that they're improving each year. Could you just talk about that a little bit? What -- I mean, what kind of plan, one that meets our standards and that we are comfortable with? I read the appendices in the paper.

But if you could just restate for the record, talk a bit more about their year-over-year improvements in this area.

Mr. Hasan: Regarding greenhouse gas which is mainly carbon dioxide, the main source in our project which is offshore and onshore drilling and production, is flaring. So they have been reducing flaring every year slowly. And also overall Pemex pollution is our project have a small part.

The main parts are the oil refineries, chemical plants, and sulfur. So they're also trying to reduce the overall emission of pollutants year-by-year. For example, I think I mentioned that in the Board memo that they are reducing the greenhouse gas 20 percent by 2021.

So they are reducing it. And every year, we visit. As you know from 2002 till 2015, we have visited Pemex's facilities every year. And we particularly look into the hazardous waste management, pollution control, flaring, other emissions, their safety mechanism, and so forth. So we have been seeing some improvement every year in their corporate policies and their corporate health and safety protocols.

Director Pryor: Okay, okay. All right. Thank you. So then just taking that a step further, could you review with us worker safety and how they monitor this? I understand also from the paper, we didn't talk about worker safety but we did talk about Pemex's fatality rate and that it's steadily declining these past five years.

So two questions, just talk to me a little bit about worker safety and how we monitor this. And then if we can talk about the fatality rate. And over the past five years, the paper -- you indicated in the paper that rate has been declining five years in a row or since 2015 I think it said. So how does this compare to industry averages, please? Two questions.

Mr. Hasan: If I could get the numbers. The industry average that is incident -- lost time incident per million hours worked and that's called LTI, lost time incidence.

Director Pryor: Okay.

Mr. Hasan: Industry average is 0.4 to 0.5. They are somewhere in between lately. So to conclude, they are not the best in the industries, not outstanding. But they are not at the bottom too.

Director Pryor: Okay.

Mr. Hasan: And generally speaking, they are in the middle and they are improving every year. And also the comment that was made in the news media about their safety, yes, they had some safety issues and they inform us, time to time, according to our loan governance conditions. But verily, it is in our platform, in our facilities that we have supported. It's mainly in the refineries, chemical plants, and pipelines that we did not support. So our projects are, to some extent, safer than other operations.

Director Pryor: Okay, okay. Thank you for that -- clarifying that. That's important. I appreciate that. Okay. All right. Now turning back to --

Participant: Hello?

Chairman Reed: Director Pryor, we can't hear you.

Mr. Fletcher: I am checking to see. It looks like she might have gotten disconnected from the meeting. All right. Let me see if I can -- I will try to see if I can reach her.

Chairman Reed: This is Chairman Reed. I'm happy to wait until Director Pryor rejoins us. Or I'm happy to start with my questions. Should we wait maybe just one more minute, and then I will start? Hi, Director Pryor. Did we just hear you again?

Director Bachus: Chairman Reed, this is Director Bachus. I thought your idea of going ahead and asking questions until --

(Simultaneous speaking.)

Director Bachus: -- would be a good idea.

Chairman Reed: Okay. Let's -- hopefully we'll have Judith back with us soon, and we will get back to her when she returns. But we have -- this is a large discussion. So let me ask you. This is, again, Chairman Kimberly Reed. As you may have seen, there have been local media reports from Mexico that President Obrador may seek changes to the rules and regulations that seek to curtail competition for Pemex. Should this come to pass, what will it mean for this transaction and EXIM's relationship with Pemex?

Ms. Swain: Sure. I'm happy to address that. As I stated earlier, Pemex is a national oil company of Mexico. Our support of them has always been on a corporate basis, not on a project finance basis. So I don't see any particular negative impact on our relationship with Pemex as I addressed in my comments to Director Pryor and Director Bachus.

Director Pryor: I'm back by the way. Sorry. Okay. Do you want me to go ahead?

Chairman Reed: Thank you, Director Pryor. Director Pryor, I just went ahead and asked a question. So Paula is just answering my question about what -- should President Obrador seek to change rules that curtail competition of Pemex, if this passes, what will it mean to this transaction and EXIM's relationship with Pemex? So Paula, if you could --

Director Pryor: Thank you.

Chairman Reed: -- go ahead and answer that, then we'll go back to --

Director Pryor: Yeah.

Chairman Reed: -- Director Pryor.

Director Pryor: Okay, yeah. Thank you. Sorry, folks. I'm not sure what happened. But I'll be on mute until

Paula finishes. Thank you, Paula and Chairman Reed.

Ms. Swain: So to the extent that private investment is limited, it will not impact from a credit perspective our view of Pemex. Pemex is a national oil company. If anything, this just confirms the importance of Pemex to the sovereign. So I don't see any impact in our relationship with Pemex should President Lopez Obrador take those actions.

Chairman Reed: Thank you. Director Pryor, back to you.

Director Pryor: All right. Thank you, Chairman Reed. Apologies, team. I'm not sure what happened. I could've been waving my hands around and it hit my phone. We'll never know. I do that a lot here. Okay. So I was midstream on or halfway through. I don't know where I quite dropped about.

If you wanted or if the legal team wanted to comment any further about the steps they took and/or are taking to address corruption. I was implying that sometimes I think we're in these transactions to help, right, to help make things better, to move the needle a little bit in the right direction. I just wondered if anybody wanted to comment any further on that based on the headlines. No? Okay, okay. You can still hear me, though, right?

Ms. Swain: Yes.

Director Pryor: All right. Okay. All right. So in that vein, I think this is more of a redundant question. But does EXIM and other U.S. government agencies -- should we be focusing our conversations with Pemex on making American exporters whole? Should we have that conversation before the next round of EXIM financing perhaps?

I know the State Department would like us to. But we're here representing EXIM and talking about a specific transaction. But sometimes I feel at the end of the day, we need to have these conversations. It's about protecting American exporters.

And just maybe this is a question for Steve Renna moving forward. I would like to even encourage senior management maybe even before those of us on the Board to engage more seriously -- or to engage seriously, excuse me, at a higher level with Pemex and appropriate ministry if it becomes clear that we need to do so because I do want to be clear. I do believe it's appropriate and very important to continue our relationship with Pemex and more broadly as I indicated earlier with our North America neighbors.

I just also believe we need to have the tough conversations without feeling like they'll just jump ship and head to China for financing. So I'm sure that there are folks here on the management team that are thinking about these things and you're talking with State. We all have our role to play. But I just wondered, I don't know, Steve, maybe you'd want to comment. Do we ever talk about this with them? Do you think we should?

And I'm talking not putting the burden on the underwriter but perhaps on the leadership team at the bank to have this tough conversation, that we want to continue to be supportive. But we need to keep moving the needle. So I guess my question is, is the needle moving in the right direction quickly enough considering our very long relationship with them and where they're at today as a company?

Ms. Swain: If I may offer some history before Mr. Renna speaks to this. I think it might be helpful. So there has been a history of EXIM Bank speaking to Pemex at the highest levels, whether it be the CEO and, of course, the CFO but also with Hacienda.

Part of our standard due diligence when we approach Pemex is after we do the walkthrough with Pemex, we always have a conversation with Hacienda to talk about issues and engage from those conversations, the attitude that Hacienda has towards Pemex. I had that call this year just I've had in years past. And I was quite clear that the due diligence this year was much more challenging than in previous years, that Pemex's financial condition was as challenged as I've ever seen. And I've followed this national oil company for 25 to 30 years and that the Board has serious concerns.

And I said, there may be talk of sovereign guarantee, so you're hearing it early. And we were extremely concerned, but it was important that we had clear communication and frank and candid conversations about our continued support. So the message at my level to the appropriate level at Hacienda has been made.

There was a time during the previous administration where Pemex had taken -- or the government had taken a dividend, for lack of a better term, from Pemex. It was pretty shocking to the market. They did it and it was after an EXIM Bank approval. And we were very concerned about it because, at the time, Pemex had a negative net worth.

Of course, they were still leveraged and we thought it was a pretty shocking action. The then chair of the bank, Fred Hochberg, wrote a letter to the Finance Minister. And in fact, I think we got in some trouble for that because that was an area that Treasury believed was their area of influence.

But nonetheless, there was a frank and candid conversation that Fred Hochberg had with the ten Finance Minister Videgaray. Previous to that, there was an acting chair, and I'm sorry that I can't remember her name. It was during Bush 2's administration.

She was very concerned about the leverage, and I know that there were discussions with Hacienda at the highest levels then. So there is a history of this, and I would certainly encourage that. And I'm happy to make arrangements to have conversations with Pemex and then at the higher level with the Ministry of Finance.

Director Pryor: Okay, Paula. Thank you. I appreciate you. I know that -- I mean, if these conversations go back 25, 30 years, I know -- and I'm not trying to date you here, my friend. But I know you've been around for a long --

(Simultaneous speaking.)

Director Pryor: -- time and no one is better equipped to have these tough discussions with Pemex. I didn't mean to imply otherwise because I truly, truly value your underwriting experience and what you bring to all of us at EXIM. It's good to be reminded of the history.

But one could argue we're having conversations over and over and over and over again. And I guess I'm answering my own question by saying we just need to keep having the conversations. Okay. So thank you for that. I'm almost done here --

(Simultaneous speaking.)

Ms. Swain: And I didn't mean to cut off Steve. I didn't mean that at all. Just I didn't think he was aware of that history.

Director Pryor: Yes, so thank you. And I wasn't either. Steve, please, if you'd like to comment any further, please go ahead.

Mr. Renna: Thanks, Director Pryor. And a short answer to you is yes, I believe we should have conversations at higher levels within Pemex. I appreciate Paula's context and perspective on what we've done in the past. They are an important trading partner and an important country to the United States.

We have a situation too with two important factors that are affecting Pemex right now. One obviously the pandemic and the overall softening of demand in the oil and gas sector which is significant. It's not an excuse. It's a fact, and that's very important.

And the second is the changing of administration in

Mexico where we have President Obrador with a different perspective with respect to energy reform and creating kind of an uncertainty and transition in that and whether it was exactly all of that. So I think yes, after this transaction and anything going forward, we have to have as high a level of communication as possible because of the importance of Pemex as a company that buys from our exporters. Mexico as a country, that's an important trading partner of ours and also subject to the USMCA.

Yes, we should do all of that and we will do all of that. Paula has got a good history of those two parties in the Mexican government and in Pemex that we can have these conversations with. And we'll work with our colleagues at State and Treasury to make sure that we're making the appropriate approaches from a USD standpoint through proper ways.

Director Pryor: Okay. All right. Thank you, Steve. I think you know why I'm just bringing this up and asking these questions. It seems like we're always or can be in a position where we're sort of damned if we do and damned if we don't. And not that I really care about people that comment on the actions that we take as an agency or as a Board when they're not informed. But nonetheless, it's good to have our ducks in a row and make sure that we're making sound decisions and we're planning in place for the future. So thank you for that.

All right. So folks, just a couple more points that I want to make, and I'm going to go back again to carbon emissions. As you all know, I take this very seriously and I feel it's super important for Pemex to continue to take this very seriously and perhaps they do. Certainly, Masud, you've indicated we're comfortable with the actions that they've taken. That's good to see.

It does seem like they still continue to lag behind but not because we're not trying to pull them along. So that is good. Perhaps they're just not a good enough position to be able to finance any of these upgrades. But doesn't a future where Pemex uses American technology to reduce their carbon emissions look like a good future?

I know our mission is to grow job through exports. But it's not only about quantity. It's about how we do things. We also have the responsibility to look at these projects and ensure they're upholding the environmental and social standards that we and our fellow OECD members follow.

Along with the multi-lats and DFIs and others who also play by these rules, so they're designed to make our world a better place, we used to say pretty regularly when I was at OPIC. Now the DFC development is hard. It's hard work. And you are doing that work day in and day out, and I thank you for that.

So last, as I indicated when this first came before the Board on our reach back policy, please keep me informed on any discussions or policy changes that occur regarding that. Now that we have a working Board, there's really no reason why we should reach back a full two years, though it's clear why it's been done in this case. What I'm most confident in, of course, is the ability of our fabulous staff to do what's right for American workers. Thank you for indulging me.

Chairman Reed: Thank you, Director Pryor. And Director Pryor, I hear you loud and clear on our processes. We've worked so hard to reopen the bank and do everything that we can to get our agency going again. And if there's ever a time that we do need more time as a Board to review things, know that I'm committed to making sure we have that time. These comments came in at the very last minute. And again, you have our commitment to do even better with timing to be thoughtful on every deal that we consider.

So I'm going to ask a couple questions that probably we discussed already. But I think it's important that we create a good record for the future on all of this. So can we talk about -- would you go into detail, please, on Pemex worker safety records?

Ms. Swain: Masud?

Mr. Hasan: Yes, as I mentioned, their safety record a couple of years back was not outstanding. But lately, they have reduced their lost time injuries. And now they're in the middle of international standards.

So just to summarize, they are not outstanding or the best in the industry sector. But they are not one of the bottom. They are somewhere in the middle, and they're improving. They're trying to improve and they're improving every year.

Some exception, they have -- like, sometimes they have some fire at some refineries or in a pipeline. That increases their lost time injuries. But as a whole, I believe that they are trying to improve their safety record, and they are doing so.

Chairman Reed: And so you review many different transactions and companies' safety records. So would you say that this history's record is abysmal?

Mr. Hasan: Yes, it's average standard in the industry.

Chairman Reed: Okay. So I said is it abysmal, and you said average. So not abysmal?

Mr. Hasan: What do you mean by abysmal actually?

Chairman Reed: Abysmal, horrendous, horrific.

Mr. Hasan: No, no, no. They are not horrific. They are not outstanding. They are not outliers. They are somewhere in the middle.

Chairman Reed: Okay. Thank you for that. Does our Office of General Counsel have a legal basis to conclude that Pemex is not a responsible party?

Mr. Lyumkis: Yeah, that's the decision that the OGC has reached.

Chairman Reed: So is Pemex a responsible party?

Mr. Lyumkis: Well, we have no legal basis to conclude that they are not a responsible party at this time.

Chairman Reed: Thank you. What is our credit analysis of Pemex?

Ms. Swain: This is Paula Swain. Certainly they have lost money for the last several years. Their oil and gas production is down. They were downgraded by two of the respective credit rating agencies.

But all of the rating agencies believe that the government will continue to support Pemex through its implicit -- it would be an implicit guarantee because of the importance of Pemex to the country. And that combined with our experienced staff believes that we will have a reasonable assurance of repayment, though I can't say that their financial condition or their credit is good. But I think it's been thoroughly analyzed, and the full picture is detailed in the Board memo.

Chairman Reed: Thank you. So we do not have -- I believe we do not have David Trulio, our SVP for our Program on China and Transformational Exports on the EXIM meeting today. But if we think back to when we did --

Mr. Trulio: Chairman, I'm here if you can hear me.

Chairman Reed: Wonderful, wonderful. So Mr. Trulio, during our initial consideration of this transaction where we voted to send the notification to Congress, you spoke about China competition when it comes to Pemex and all of that. So just if you could reiterate again any key points you'd want to make on our mandate to counter China and how we feel about our neighbors to the south in Mexico and this transaction.

Mr. Trulio: Yes, absolutely, Chairman. Thank you for the opportunity. Well, I'd like to pick up on some of the comments of your fellow directors. Mexico is not only a neighbor. They are a friend.

The world is watching. Our neighbor and friend is watching how we treat them, and that comes in a context where China globally and in our hemisphere and next door is challenging American power, influence, and interests. And they would love to erode American security and prosperity.

And part of how they do that is through investments in infrastructure and in key industries in countries that are our friends and allies and partners of the United States. So there's the -- there's always the specifics of any given transaction. But in that broader context, this opportunity has resonance beyond the individual terms in dollars and cents of the actual transactions.

Chairman Reed: Thank you. Thank you. And then again, we sent this to Congress. And again, we did not receive comments from Congress, correct?

Ms. Swain: This is Paula. There was a comment from Representative Babin on a matter that didn't impact us that was related to Pemex. Aside from that, I'm not aware of any comments.

Chairman Reed: Okay. Thank you very much. So I will just say, Paula Swain on October 2nd of last year invited me to Houston where I toured the Port of Houston and met with the Greater Houston Partnership and heard loud and clear from Paula directly about Pemex and from all of the participants there. And so I know that we've worked hard over the past year to ensure that our bank is filling our role and our mandate. And we judge every application based on its own merit. Can we go over, please, our environmental review of this potential transaction?

Mr. Hasan: Masud Hasan, Engineering and Environment.

Chairman Reed: Yes, please.

Mr. Hasan: We have started reviewing this many years back. I personally got involved in 2002, 2003.

We visit these sites. We do not tell them where we want to go. We just tell them a day before so that they cannot organize our trip and show us the best site.

We have visited almost -- I think all the platforms and almost all the onshore activities. We have visited their hazardous waste management center, waste management center. We have reviewed their health safety procedure and protocol and simulation of safety and emergency incidents.

And also we have reviewed their monitoring of their sensitive areas that they are far away but they do monitor. They have engaged in local independent university to monitor the water quality, the air quality, and ambient air quality around their operation. So when we visit, they present those data to us.

And most of these operations, whether offshore or onshore, are remote. So not many people lives around these areas and the impact on the local population is minimal. The negative news that we get about Pemex is that it's the refinery.

As I mentioned before, they have a lot of old refineries near main cities, near Mexico City that pollutes a lot. But we haven't financed or been involved with any of this refinery or any of this establishment. This project that has about 20 cities.

They have done the operation and other activities for the last many years in the same geographical location, same type of work. So every year, we get the incremental information whether they have increased any pollution, wastewater, or any other issues that they have came across. So this is Category B.

Since we looked into it for many years, we looked into their corporate polices, their compliance record. And again, we review that every year. So we became confident and we are confident today that they are meeting in general our procedure and guidelines and our requirement and running this oil company at least from production and exploration to the standard of any other international oil companies.

Chairman Reed: Thank you very much.

Ms. Swain: If I may add something because I just want the record to be accurate, EXIM Bank did, in fact, support some work in refineries that are owned by Pemex in the early '90s. Specifically, that was the Cadereyta refinery, Madero, and Tula. But since those projects, a portion of the work associated with those refineries, they have long since paid off.

Mr. Hasan: Yeah, that's way before my time.

Ms. Swain: I know. I'm older than you, Masud.

Chairman Reed: Thank you again, Masud. Very, very, very much appreciated this and everyone's work on this. So that concludes my questions. And again, Paula, I know that you have examined Pemex for many years now. And just to close this out, you believe that this is something that is very important for U.S. jobs and we will be protecting the taxpayer while furthering our mandate. Is that correct?

Ms. Swain: Correct.

Chairman Reed: Okay. Thank you very much. I now call these items for a vote. Director Bachus?

Director Bachus: This is Director Bachus. I vote aye.

Chairman Reed: Director Pryor?

Director Pryor: I vote aye.

Chairman Reed: I vote aye. Items Number 6A and 6B are approved. Thank you. May I have a motion to consider Item Number 7 on the agenda?

7. Working Capital / Supply Chain Finance Guarantee – AP089370XX

Director Bachus: Yes, this is Director Bachus. I make a motion to consider Item Number 7 from the Business Credit Division, Working Capital/Supply Chain Finance Guarantee: No. AP089370XX; Obligors: Freeport LNG Marketing, LLC; Products: LNG Development and Distribution; EXIM Liability: 45 million dollars; Review Required: NAC (NAC Reviewed on September 25th, 2020). And the decision required of the Board is approval.

Chairman Reed: Thank you very much. Is there a second?

Director Pryor: I second the motion.

Chairman Reed: Thank you. Thank you to the deal team members, Smaro Karakatsanis, Steven Freshour, Nicole Wharton, and Stephen Renna. Mr. Renna, please introduce yourself for the record and present Item Number 7.

Mr. Renna: Thank you, Chairman Reed. I'm Steve Renna, Chief Banking Officer. I know in the interest of time here, I'm going to be very brief in listing two findings about this upcoming transaction. One, the LNG export industry and the trajectory it had been on fine prior to COVID was clearly going to be the number one U.S. export which as the country's U.S. export credit agency, we foresaw us being engaged with LNG exports around the world in a very significant way.

Up until this transaction came to our attention, we had many discussions with companies in ways we could engage with them such as financing LNG offtake facilities in foreign countries that would be necessary to receive LNG exports, supporting the credit standards of countries and other state-owned utilities from the standpoint of being able to enter into long-term contracts for LNG uptake. And we even discussed with LNG companies potentially financing domestically the development of faction facilities.

None of those three areas came with any significant fruition up to the point of COVID. But then comes this transaction application from Freeport in which they have about 11 percent of the faction capability that was not committed and long-term phosphate contracts. And instead they're trying to use this capacity and simply ask for a limited basis.

However, in order to do that, they need immediate funding paid for the two primary inputs that go into the faction, one, the gas that they need to provide from the pipes, and two, the electricity they need to run the compressors in order to liquefy the gas. And that's where we've been able to enter into this, somewhat unexpectedly by using our supply chain finance capabilities. And it's very much like getting a working capital loan, sort of approximately like spiking finance and working capital.

And we're very excited that this is an opportunity, particularly during the COVID depression of our economy, particularly in the oil and gas sector, to be able to provide export assistance with this transaction structure. So with that, I will turn it over to Smaro. He's done a fantastic job presenting this transaction to the committee and something that we obviously were in agreement about. Smaro, I'll turn the microphone over to you and the rest of the team.

Ms. Karakatsanis: Thank you so much. Good morning. This is Smaro Karakatsanis of the Business Credit Division for Item Number 7 on today's Board agenda. Greensill Capital (UK) Limited of New York, New York is requesting a 50-million-dollar, 12-month supply chain finance transaction at a 90 percent guarantee for borrower and exporter Freeport LNG Marketing out of Houston, Texas, the finance receivable due to its U.S.-based suppliers stemming from the sale of excess LNG capacity.

The guarantor is Freeport LNG Development who's also the 100 percent owner of Freeport LNG Marketing and is also the operating entity. Freeport LNG Marketing is a sales, marketing, and financing arm responsible for the sale of excess LNG capacity. The supply chain facility will support an estimated

400 million dollars in export sales per year while maintaining 200 jobs at Freeport for the EXIM jobs calculator, while Freeport has projected to support over 24,000 jobs, directly and indirectly, through their LNG supplier networks.

The structure of the proposed supply chain transaction is not a traditional one that we will normally see which would entail discount purchasing a receivable to the suppliers by the lender. In this case, there is no discount purchasing of receivables from the suppliers. Instead, Freeport presents supplier invoices to Greensill upon which Greensill makes payment to Freeport at 100 percent of the value of the supplier's invoice.

Freeport then pays the suppliers and agrees to remit payment back to Greensill by their original due date on the invoices. This type of structure is called an installment payment agreement. This agreement simply is a bilateral financing agreement between Greensill and Freeport LNG Marketing.

The main difference between a typical supply chain structure and an IPA is the party that bears the financing cost. Under a typical supply chain finance transaction, the suppliers bear this cost in the form of taking a discount whereas under an IPA, this cost is borne by Freeport in the form of adding the cost of financing on top of the invoice value. This structure does emulate working capital a bit in terms of advancing on invoices to pay suppliers. However, this transaction is purely cash flow-based and not asset-backed as a working capital transaction would be, nor is there collateral-based for disbursement.

It's important to note that this transaction is a hybrid of those structures. It is very unique and therefore has been classified as supply chain as it's characterized as more a supply chain transaction than it does a working capital transaction. Staff has worked diligently with a lender and borrower to make this transaction work under this unique structure for all parties involved.

Greensill has security interest in the bank accounts its proceeds from foreign buyers coming into. They also have a security interest in the inventory and receivables of Freeport LNG Marketing that was taken as abundance of caution and for recourse if needed. Also we have the operating entity Freeport LNG Development corporate guarantee.

Freeport LNG suppliers base are mostly if not all mid to large import suppliers and operators. Therefore, there will be no significant small businesses utilizing a utilization under the facility. This is allowed due to our COVID flexibilities in which we relaxed the 50 percent small business target without which Greensill and Freeport would not have been able to take advantage of our supply chain program. Most of their suppliers operate and employ nationwide or they are a foreign-based entity that have U.S.-based -- some U.S. based operation. So the main states that will benefit from this transaction will be Texas, Louisiana, Oklahoma, Arkansas, and Mississippi.

Greensill Capital (UK) Limited is located in New York, New York and is headquartered in the UK and it's rated one of the industry’s top independent financing firms specializing in supply chain with access to a deep and diverse pool of capital performance programs. They've made 150 billion dollars of financing available to a pool of over 8 million customers and suppliers in over 175 countries which makes Greensill the leading non-bank provider of supply chain finance worldwide. Freeport LNG Development and its subsidiaries were incorporated in 2002, and they are a liquefied natural gas and regasification facility based on Houston, Texas.

As a result of the shale gas boom and a greater supply of natural gas in the United States, Freeport began to design and build one of America's first LNG exporting liquefaction facilities in 2014, consisting of three LNG trains. As of today, all three trains are operational. Two were operational starting in late 2019 and the third one was operational in May 2020.

Freeport has strategically positioned itself to be a strong competitor in the global LNG marketplace. This is the sixth LNG facility built in the United States, and it is also a green facility as it runs on electricity versus gas. So to touch on the trains and their financing arrangements, all three trains has individual intricate debt and equity structures.

The offtakers include BP, Osaka, Jera, SK in total. Most of them have equity interest in the trains and also active corporate guarantors under their respective debt structures. Total financing for these trains amounted to over 13 billion dollars. The financing came from JBIC, NEXI, over 50 bond investors, and over 30 lenders.

So these offtakers contracted 89 percent of Freeport's LNG capacity under 20-year take or pay agreement. Regarding the supply chain facility, Freeport LNG Marketing will only utilize the facility for the remaining 11 percent excess capacity and it's specifically marketed towards contracted cargo and merchant spots -- orders. These are short-term contracts, contracted cargos arranged from one to three years. Spot or merchant orders are 60 to 90 days.

How it would work is that Freeport would receive a confirmed order, then they would order supplies and a commodity input. They would then remit the supply invoices to Greensill for payment. Greensill will pay 100 percent of the invoice back to Freeport LNG, and Freeport LNG will remit payment back to the supplier.

The supply chain facility will be repaid first from Freeport LNG Marketing's revenues from the sale of contracted and merchant cargo, and secondly, from any residual cash flows from trains if there is any shortfall. In the event of a default and claim payment to Greensill, EXIM Bank will pursue payment from Freeport LNG Marketing and subsequent corporate guarantor, Freeport LNG Development.

As far as COVID's effect on the industry, the industry in general has seen many cargo cancellations and lower demand due to fall in commodity price of an oversupply. Freeport has stated that they are very fortunate and have not been materially impacted by the pandemic and industry. It had cargos cancelled. But because of the take-or-pay nature of the agreements with the offtakers, buyers were still obligated to pay. Freeport was deemed essential, so it remained opened and everyone at the facility was still working. They have had no layoffs fortunately.

Regarding their financials, they have revenues generated at the end of 2018 was only about 20 million dollars. But because of the recent start of LNG production in late 2019, revenues showed tremendous grow at 2019 at 121 million dollars. In the first six months of 2020, it amounted to over 800 million dollar. Operating expenses improved and depicted an operating profit at year-to-date after two years of losses. And because of this EBITDA, although it remains negative, i\t has also substantially improved in the past year.

It's important to understand that if somebody did take a high amount of construction debt that has not only paid out more in terms of interest expenses but also in terms of derivative lapses. Derivatives such as interest rate swaps that are utilized to hedge debts undertaken by each train. This has led to the overall net losses, although it has improved over the past year.

Regarding their negative equity position, according to the company, they'll probably show negative equity for quite some time due to the accumulative net losses, the project structure, their funding requirements, and their use of derivatives. The accounting does depict a an accrual method and it's not cash flow-based and does end up showing large impacts accumulated year-over-year which will be ultimately allowed over time according to the company.

However, looking at their projections for each of the three trains, each of the trains are projected a positive cash flow and from increased revenue in financing and a strong debt service starting this year and into the next year. Another point to make is that any issues of debt or cash flow from these trains, those issues will be isolated to that particular train and a respective offtaker. It will have no effect on the supply chain's ability as the supply chain's ability will only be used as a need-only basis from separate and specific foreign contracted merchant orders and will be repaid from the proceeds of the specific order.

Regarding additionality, Freeport does have a complicated ownership structure which prohibits until it generates sufficient funds to support on-time payment of suppliers. The company is also not rated given its private ownership and recent operations into LNG which also gives some suppliers some hesitation to provide credit terms. In addition, Greensill cannot lend or retain this type of risk without any enhancement or government-backed guarantee.

They've had two credit insurance look at this transaction pre-COVID, but they had backed out on the onset of the pandemic due to not being able to take on more exposure. They did not want to add any more capacity -- or they did not have any more capacity to take on this transaction.

Despite the loses in 2019 and year-to-date, the company has sufficient liquidity and positive debt service under each train, improved EBITDA, long-term reputable offtakers and liabilities are mostly long term in nature. The company insofar as limited interruptions, the contracts are structured to limit losses if and when cargos are cancelled during COVID-19 pandemic as well as during any normal course of business.

Staff believes that there is a reasonable reassurance of repayment for the short-term tenor of this facility. And a side note, Greensill is looking at participating at 90 percent of the supply chain facility to PEFCO. If this is does pay enough, Greensill does have their own affiliated bank in Germany who is willing to step in if PEFCO is not available. Greensill will ultimately retain 10 percent risk on its balance sheet and will maintain and administer the facility.

Based on its rising market position, long-term revenue gross forecast, creditworthy buyers, experienced management, and overall satisfactory operational performance, staff reasonably concludes that Freeport LNG Marketing is capable of meeting its financial obligations, including accounts receivable obligations to its suppliers. Therefore, staff finds reasonable assurance of repayment for a 90 percent guarantee on a 50-million-dollar supply chain finance facility for a term of 12 months to Greensill Capital to finance eligible accounts receivable due from Freeport to its U.S.-based suppliers.

Before I finish, I want to thank staff who provided invaluable assistance to this transaction to help push it over the finish line, Nicole Wharton, Sami Nassar, and Steve Freshour. I'm happy to take any questions you may have.

Chairman Reed: Thank you so very much for that very, very thorough briefing. Director Bachus, any questions or comments?

Director Bachus: Yes, and I apologize for this question because it probably shows my lack of ability to understand. But what is the connection between Greensill Capital, which I think was originally I thought to be the lender, and PEFCO?

Ms. Karakatsanis: So Greensill Capital is the lender of record and they're looking at PEFCO to provide the funding for --

Director Bachus: Oh, okay.

Ms. Karakatsanis: -- 90 percent of their transaction, yeah.

Director Bachus: Okay. Yeah, that's what I thought, but I just wanted to make sure. And I apologize for probably not being able to conceptualize that on my own. Still supports 24,000 jobs indirectly, I'm sure that nothing has changed there.

Ms. Karakatsanis: Well, nothing has changed.

Director Bachus: Yeah, okay. Yeah, I've looked at this. I made a few little notes. I get quite a bit of comfort. The fact that oil or LNG prices may decrease because of the underlying contracts, they don't release the customer from paying its obligations because they're taking pay. And I think you did a good job of highlighting that. And the offtakers or the customers are all investment grade companies, so I think that gives us a great deal of comfort.

Yeah, I guess my two concerns are the debt levels that have been accrued building the facility and the net losses. But we discussed those in our last briefing. And I'm satisfied with the answers I got there.

As I said, I think that the fact that we have investment grade offtakers and there's very little exposure, maybe no exposure with the contracts that exist as far as direct commodity exposure. And I'm not concerned that the supply base -- the supplier base is, I think, more than adequate. So yeah, it is somewhat uncertainty. But I can't imagine anyone would cap a well where they could sell the product.

So I'm actually very pleased with this project. I think it's tremendously sound. I don't really have any problems with it. I'm excited about it, and I'll yield back my time. And I want to thank the team. I thought you all did an exceptionally good job as did the Pemex team also. So good project, good opportunity for EXIM to support our economy. Thank you.

Chairman Reed: Thank you, Director Bachus. Director Pryor?

Director Pryor: Thank you, Chairman Reed. And I would second Director Bachus' comments. So thank you for this, Smaro, Jim, Steve, and Nicole, and for the great briefing we had last week as always. Each of you came prepared for my many questions, so I'm appreciative of that.

So I understand this is our first transaction supporting Freeport LNG and also our first transaction with Greensill Capital. So it was great to read about both of their successes. They're well respected. They're both highly experienced. And new customers are always good for EXIM, right?

Clearly, we're very helpful to U.S. exporters and lenders who need us to assist during a liquidity crisis such as it is. And I know I've commented on previous occasions it's also really good to see we're not always needed, that there's a thriving commercial market providing working cap guarantees and supply chain financing. We really do supplement the commercial market, not supplant it.

And when we're needed, like now, we can show our support. But it'll also be okay when they don't need us any longer because the private sector will again be able to step up to the task at hand and continue to support U.S. exports. And go team for putting the exporter first in your thinking since this transaction as you've described it and as we talked about, Smaro, doesn't quite fit in the supply chain bucket or the working cap bucket.

What it is doing is helping Freeport maintain 200 American jobs, and that's the most important thing. So I don't have any questions other than to say thank you again for bringing this transaction to board and for briefing me on its finer points. And I too am pleased to support this today.

Chairman Reed: Thank you, Director Pryor. And we covered most everything yesterday in our Board briefing discussion. And I'm just so thrilled that we have this transaction and so excited. Again, could you speak again about the supplier networks that we discussed yesterday, please?

Ms. Karakatsanis: Yes, I'm sorry. You wanted to know the supplier rate?

Chairman Reed: The supplier networks, we talked about the 24,000 jobs and --

Ms. Karakatsanis: Yes.

Chairman Reed: -- just if you could go into a little bit of detail again on the supplier networks.

Ms. Karakatsanis: Oh, so the supplier basis, it consists of mid to large commodity and input suppliers. They're also large international entities like BP, Total, Tenaska, Occidental Energy. That is what basically comprises of their supplier base. So what Freeport did is estimated how many of their U.S. jobs will be supported directly and indirectly with this transaction.

Chairman Reed: And again, can we reiterate the states this transaction will benefit from as far as employment? Could we list the states again?

Ms. Karakatsanis: Oh, sure. It is -- let me go back. It is -- sorry about that -- Texas --

Chairman Reed: Louisiana, Oklahoma, and Arkansas.

(Simultaneous speaking.)

Ms. Karakatsanis: -- Mississippi. Yeah, sorry. Yes, there's five --

Chairman Reed: And Arkansas.

Ms. Karakatsanis: -- main states. Five main states will benefit. Although they did say that those are the main states that will benefit from the transaction, there will be residual beneficiaries further down the line. But those were the main states that'll benefit.

Chairman Reed: Well, I think this is great and very excited. And thank you again. I join Directors Pryor and Bachus to say thank you to everyone. And with this, I call this Item Number 7 for a vote. Director

Bachus?

Director Bachus: This is Director Bachus, and I vote aye.

Chairman Reed: Director Pryor?

Director Pryor: I vote aye.

Chairman Reed: I vote aye. Item Number 7 is approved. And I have a new gavel from the Court of Justice of the European Union that I got last week in Luxembourg so you hear this. Ethics says I can have this gavel.

So with that, I want to say thank you to everyone. We will be reconvening at 1:00 o'clock for our Advisory Board meeting, the first for the 2020-2021 cycle. Have a nice lunch break. Thank you, Directors Bachus and Pryor, for your working so hard today with all of our team. Looking forward to joining everyone in a few moments. Bye-bye.

(Whereupon, the above-entitled matter went off the record at 12:13 p.m.)