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PUBLIC INTEREST COMMENT

IS THE EX-IM BANK BAILING OUT ITS FAVORITE BORROWER?

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Application for Final Commitment for a Long-Term Loan or Financial Guarantee in Excess of $100 Million: AP089365XX and AP089366XX
Agency: Export-Import Bank of the United States
Comment Period Opens: August 31, 2020
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I appreciate the opportunity to submit a comment with respect to two applications received by the Export-Import (Ex-Im) Bank "for final commitment for aggregated long-term loans or financial guarantees in excess of $100 million." The obligor is Petróleos Mexicanos (Pemex), and the guarantors are Pemex Exploration and Production, Pemex Logística, and Pemex Transformación Industrial.

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Mexican state-owned oil firm Pemex is either the Ex-Im Bank's biggest borrower or close to it. Its precise ranking is not easy to confirm, since despite a proclaimed commitment to transparency, the Ex-Im Bank stopped disclosing the identities of its largest borrowers in its annual reports a few years ago. Before 2017, however, and going back at least 15 years, public records indicated that the Ex-Im Bank had more loans outstanding to Pemex than to any other borrower. In 2015, these loans totaled nearly $7 billion.[1]

On August 27, 2020, the Ex-Im Bank's board of directors voted unanimously to notify Congress of its intent to provide Pemex with $400 million in new financing. According to the press release accompanying the board vote, the Ex-Im Bank's relationship with Pemex started 76 years ago and continued until a 2015 lapse in the Ex-Im Bank's authority to issue loans greater than $10

1. Veronique de Rugy, "Top Foreign Buyers of US Exports Subsidized by the Export-Import Bank," Mercatus Center at George Mason University, March 12, 2015.

million.[2] Now that the Ex-Im Bank has regained authority to make very large loans, it appears to be returning to business as usual with Pemex.

The relationship with Pemex is hard to reconcile with the Ex-Im Bank's express goals of becoming the linchpin in the US government's economic response to China's economic ascendancy. Pemex is a state-owned company with a market capitalization of $105 billion. Although the company has serious financial troubles, it could raise capital to finance the purchase of American exports without being subsidized by American taxpayers. In addition, working with Pemex has posed a reputational risk to the Ex-Im Bank for decades. Pemex has been steeped in corruption since its founding in 1938, as its oil revenue, which is the source of almost a fifth of Mexico's budget revenues, has served as a vehicle for Mexico's political classes to fund government operations and dole out party patronage.

REASONS FOR CONCERN OVER PEMEX

While the risk of having Pemex as its top borrower never deterred the Ex-Im Bank from lending to the company in past decades, recent news about Pemex makes an already ugly relationship look even worse.

CORRUPTION

In July 2020, a former head of Pemex was arrested in and extradited from Spain, where he had been hiding to evade a Mexican arrest warrant. He is now a protected witness in an expansive bribery scandal involving three of Mexico's former presidents, four former finance ministers, two presidential challengers, two state governors, and a number of legislators. Among other things, the alleged bribes were paid to ensure passage of energy sector reforms under the prior government to open the sector to foreign investment. Unsurprisingly, the left-leaning current government is exploiting the scandal to divert attention from corruption allegations against itself, and it is also expected to use the scandal as justification to reverse the energy sector reforms. Last October, the *Wall Street Journal* reported that the US Department of Justice and the SEC are undertaking a broad-ranging investigation into corruption at Pemex.

All policymakers, regardless of party affiliation, should therefore be concerned about the Ex-Im Bank's continued assistance to Pemex.

WORKER SAFETY

Pemex's worker safety policies especially should raise eyebrows with any policymaker who claims to be concerned about domestic companies that provide poor working conditions for their employees.

The company's history of worker safety is abysmal: during 2009–2017 (the Obama years), when new Ex-Im Bank lending to Pemex totaled some $8.5 billion, the *Guardian* reported that more than 190 Pemex workers were killed and 570 were injured as a result of fires, explosions, and collapsing offshore oil rigs. This sad record continues today during the COVID-19 pandemic, with more than 300 Pemex employees dying from COVID-19, more than the rest of the world's major oil companies combined and the largest number of deaths for any company in the world. Workers on

2. Export-Import Bank of the United States, "EXIM Board Votes to Notify Congress of Two Potential Transactions Totaling $400 Million to Support an Estimated 1,700 U.S. Jobs, and American Small Business Exports," news release, August 27, 2020, https://www.exim.gov/news/exim-board-votes-notify-congress-two-potential-transactions-totaling-400-million-support.

Pemex oil platforms were more than twice as likely as other Pemex employees—and 10 times as likely as the average Mexican citizen—to die of COVID-19.

CLIMATE CHANGE

Those legislators who claim to be concerned about how domestic companies, and domestic oil and gas companies in particular, affect global climate should have a hard time reconciling this concern with their support for Pemex, considering its poor history in this regard. Between 1965 and 2018, among energy producers, Pemex was the ninth-biggest emitter of carbon and methane globally and the biggest contributor of such emissions in Latin America. Institutional investors told *Reuters* in August 2020 that Pemex is not taking their concerns about investing in cleaner energy seriously, even as privately owned companies such as BP, Shell, and Repsol are building strategies to cut their carbon emissions. Mexico President Andres Manuel Lopez Obrador is reportedly pushing against calls to curb carbon emissions, moving instead to invest scarce state resources to expand oil and gas production in a gambit that may never pay off but will be subsidized by American taxpayers.

DISTORTION OF OIL AND GAS MARKETS THAT DISADVANTAGES US PRODUCERS

Ex-Im Bank support for a foreign parastatal that makes production decisions based on governmental directives rather than market signals cannot be good for US-based producers, especially in the down oil market that those producers are facing now. See the following sections for more on the dysfunctional nature of Pemex's investment decisions.

PEMEX IS BLEEDING CASH

Beyond the worsening reputational risks is the growing risk that Pemex itself could collapse. A pandemic-induced drop in oil prices combined with years of mismanagement have left Pemex technically insolvent. For the first quarter of 2020—before the pandemic-induced oil crash—Pemex reported a loss of $23 billion, or 2 percent of Mexico's gross domestic product.[3] Mexico's oil production is stuck at 1979 levels, with Pemex's six plants operating at about one-third of capacity. Yet the government of President Obrador is spending $8 billion to build a seventh plant (to be located in his home state of Tabasco).[4] Pemex is already the world's most indebted oil company and one of the largest issuers of debt in Latin America. Almost 90 percent of its $107 billion in debt is held by bond investors, making the company especially vulnerable to investor sentiment.[5] Tens of billions of this amount is due for repayment over the next four years. By last April, both Moody's and Fitch had downgraded Pemex's bond rating to junk status.[6] Just a few weeks ago, the deputy governor of Mexico's central bank said that Pemex could become an "incurable cancer" if the government does not address its deep-seated structural problems.[7] In a situation like this, conventional wisdom suggests that the Mexican government stand ready to bail out the state oil

3. Carlos Caminada, "AMLO's Big Pemex Rescue Plan Hobbled by Record $23 Billion Loss," *BloombergQuint*, April 30, 2020.
4. Amy Stillman and Jose Enrique Arrioja, "Lopez Obrador Says Mexico to Build an $8 Billion Refinery," *Bloomberg*, December 9, 2018.
5. Stefanie Eschenbacher and Simon Jessop, "Mexico's Pemex Tests Limits of Investor Influence on Climate Change," *Reuters*, August 31, 2020.
6. Stefanie Eschenbacher, "Pemex Debt Slashed to Junk as Moody's Downgrades Battered Mexico Oil Company," *Reuters*, April 17, 2020.
7. "Mexico Central Bank Vice-Governor Warns: Pemex will soon go from being a migraine for the government to an incurable cancer," *LaPolíticaOnline*, September 10, 2020.

company. The growing risk for Mexico, however, is that Pemex could collapse and drag down Mexico's sovereign rating with it.

WHAT'S IN IT FOR THE EX-IM BANK?

Given the growing problems at Pemex, there are several possible motivations for the Ex-Im Bank's continued lending to Pemex—none of which bode well for American taxpayers.

THE EX-IM BANK'S MANDATE TO COUNTER CHINA

The Ex-Im Bank press release notes that the new Pemex financing "would help counter financing competition from foreign export credit agencies, including from China."[8] But what was the motivation for subsidizing Pemex all the years before China's economic ascendancy? Furthermore, Congress did create the Program on China and Transformational Exports in the Ex-Im Bank's reauthorization last December.[9] Congress specified 10 sectors for the program, such as artificial intelligence, renewable energy, water treatment, and sanitation. However, oil and gas did not make the list. Nearly a quarter of the Ex-Im Bank's overall exposure is in the oil and gas sector, so the Ex-Im Bank's long-standing connections to the sector—rather than a desire to counter China—may be why the Ex-Im Bank continues to deepen ties with Pemex. As long as the Ex-Im Bank holds tight to its favored sectors, however, Congress should not expect major results in any transformational sectors.

THE EX-IM BANK'S HABIT OF MAINTAINING CLIENT RELATIONSHIPS BECAUSE THEY ARE LONG—NOT BECAUSE THEY ARE IN THE UNITED STATES' INTEREST

Recall the Ex-Im Bank press release highlighting that its relationship with Pemex stretches back more than 70 years. This dependency has manifested as well in the Ex-Im Bank's inability to separate from Boeing, notwithstanding the commercial lending market's growing embrace of the aircraft sector. And similarly, earlier this month, the Ex-Im Bank extended by 25 years the already-50-year-long relationship with PEFCO, a US-taxpayer-guaranteed funding mechanism for well-connected banks, even though that mechanism had outlived its usefulness.[10] This suggests that the Ex-Im Bank is fundamentally a backward-looking entity, which situates it poorly to address any of the economic or strategic challenges that Congress and the administration have planned for it.

FOR THE EX-IM BANK, PEMEX IS "TOO BIG TO FAIL"

As great as the Ex-Im Bank's exposure is to Boeing, its exposure to Pemex poses an even greater risk. Whereas the Ex-Im Bank's Boeing exposure is spread over loans to a number of foreign airlines, Pemex is just one foreign entity in hock to the Ex-Im Bank for several billion dollars. There is a banking proverb: "If you owe a little money to the bank, then the bank owns you; but if you owe a lot of money to the bank, then you own the bank." The Ex-Im Bank's willingness to continue lending to Pemex may come down to Pemex being too big to fail. However, if the Ex-Im Bank is lending to Pemex to help keep the troubled borrower afloat, then the situation raises many more questions about moral hazard.

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8. Export-Import Bank of the United States, "EXIM Board Votes to Notify Congress."
9. Export-Import Bank of the United States, *Program on China and Transformational Exports*, June 11, 2020.
10. Veronique de Rugy, "I Study Corporate Welfare. Even I Was Shocked by This Cronyism," *New York Times*, September 4, 2020.

WHERE IS CONGRESSIONAL LEADERSHIP?

Irrespective of the Ex-Im Bank's motivations, why would members of Congress on both sides of the aisle stand by while the Ex-Im Bank lends another $400 million to a state-owned oil company that is mired in corruption and debt and that disregards worker safety and the environment? Though the period for public comment on this loan closes on September 25, Congress still has time to conduct oversight on the Ex-Im Bank–Pemex relationship. If Congress decides to take a pass now, hopefully this case at least will attract enough bipartisan attention to awaken the next Congress, and possibly a new administration, to the need to examine more closely the Ex-Im Bank's ties to Pemex.