

>> Announcer: Ladies and gentlemen, we now have an armchair discussion with Brendan Bechtel on the importance of export credit in the global landscape. Please welcome our moderator, Matthew P. Goodman, senior advisor for Asian Economics Center for Strategic and International Studies. He's joined by Brendan Bechtel, chairman and CEO of the Bechtel Group.

>> Well, good morning everyone. Again, my name is Matthew Goodman. I do the international economics beat at CSIS. And delighted to be with you today. At CSIS for the last couple of years, we've been following a big story in Eurasia, the infrastructure build-out, the kind of new, competitive game that's going on, that not only China with its Belt and Road Initiative, but other countries. Japan, Korea, Russia, India, everyone is playing in this new, great game, as I call it. And we've got a big project at CSIS called Reconnecting Asia, which I commend to you if you go to our website, reconnectingasia.csis.org. You'll see a map of Eurasia and a database behind it of about 2,300 projects, hard infrastructure projects. So far, we're adding every day more projects, and analysis about what's driving this, and what it means for the region and for the United States. So against that backdrop, we're fascinated in the question of how American participants are active or not in this game, what challenges they're having, and what we're bringing to the table in doing that. Because China, for example, is bringing, by the most ambitious estimates, several trillion dollars to this Belt and Road Initiative. We probably aren't gonna spend that kind of money in that region. Fairly confident about that. But we do have great companies. We have other things that we bring to the table, and that's the purpose of this conversation. And I'm delighted to be joined by Brendan Bechtel, who you all know, chairman and CEO of the Bechtel Group. He's also a board member at CSIS. We're delighted that we get the benefit of his insight directly at CSIS. So Brendan, let me start by asking you about that competitive story, the landscape that you see out there. What, from a Bechtel perspective, what do you see? What's the landscape like, and what are you dealing with?

>> Sure. Thanks, Matt. So... I guess, just to maybe... Start by baselining the size of the market that Bechtel competes in. So the global infrastructure market broadly around the world has annual demand of somewhere between three and four trillion dollars of investment a year, depending on whose assessment you use. It is a globally competitive market, where both firms and capital and projects are mobile. So I think maybe what I'll do to help pictorialize the competition in the industry. If you all can put up my first slide, please, on the screen. I have a series of slides that talk about competition in our industry at home, abroad, and then globally, so let me just talk you through that. So these are the Engineering News-Record rankings of contractors. ENR is kind of our industry journal. They put these rankings out every year. They're based on revenue, and it's a pretty interesting way to look at change over the last decade and the competitiveness of our landscape and where that competition's coming from. So this first one is the U.S. domestic market. So this is Bechtel's engineering construction project management industry, and our competitors here at home in the U.S. So last year we were the number one contractor in the U.S. for the 19th year in a row. We were also, as you'll see in a minute, the top U.S. contractor working abroad, outside the United States. We were number one in three of our four sectors that we operate in. And the point of that is not to impress you with our track record, it's to say that, start with the assumption as we move into the global competition that we're a robust, generally successful competitor in a truly merit-based home market. Okay? As you can see, the trend here has been that ourselves and Fluor have been number one and number two pretty consistently over the last decade here in the U.S. market. But the rankings of, or the competitive positioning of the other companies bounces around. It's a highly volatile market, particularly here. Well, not particularly, it's a highly volatile market everywhere, but in the U.S. as well. And it gets more volatile the further you get down the value chain. So if you go to the next slide, please, this is where it starts to get a little more interesting, I think. So this is a ranking of international contractors. And what international means, it's the volume of revenue earned outside of the company's home countries. So think of this as a measure of how expeditionary, or export-oriented these firms are. In Bechtel's case, depending on the year and what's happening to the global economy, anywhere from 40-60% of our revenue is generated outside of the U.S. Okay? So look at the left side of this chart, and then look at the right side. And see who the winners and losers have been over the last decade. And it'll get even more interesting in a second here, but look at how the global competitiveness and the forces acting on the market have changed a lot. Look at what China Communications has accomplished in just four years. Now, it's... As I believe you heard earlier this morning from another one of the speakers, it's not all about China. Look at the presence of significant European E.U. firms on the right side of that chart as well.

And a very export-oriented approach to global markets. So, you know, Bechtel's held steady in that sort of number three to number six range. We've been a top-10 international contractor for 19 of the last 20 years. The other interesting thing here, if you look at the right side of the chart, other firms on that list are either state-backed, or they're publicly-traded. We're the only U.S. firm on this list, and we're the only privately-held firm on this list. So this is where it gets really interesting on the next slide. So top global contractors. So this is based on domestic plus international revenue. And obviously, if you have extremely strong supported domestic markets combined with really aggressive export credit and commercial diplomacy efforts, you'll be higher on this list. Look at how much the demography of this list has changed over the last decade. More state-owned enterprises. More Chinese firms. Fewer American firms. None right now on the list on the right. And look at how much the scale has changed. That's the incredible thing to me. The high end of revenue has tripled, and the low end has nearly doubled. So Bechtel has been a top-10 global contractor for 16 of the last 20 years, and we didn't even make the list last year. So this underscores for me, without whining about it. No whining. It's really not a level playing field globally when competing against state-owned or aggressively state-backed firms in our industry, which is why U.S. Ex-Im support is so important, along with commercial diplomacy and advocacy for companies like Bechtel who are competing abroad.

>> Well, I was gonna ask. That's really striking that... I mean, all of those Chinese flags on the right. And how much of that is, I was gonna say, how much of that is just natural competition, how much of this is the playing field is being tilted, and what's the role of financing? Why are we at this sort of position here?

>> Yeah, so, you know, it's very clear and very straightforward. Our customers, whether they're private sector customers abroad, other governments in the public sector. The decisions of those customers, it's driven by capital and procurement costs for these large, billion-dollar-plus projects. And as a company, and as a nation offering credit, we have to be competitive in all respects. Every other G20 nation has, I would say, a highly-functioning export credit agency. Investors are also weighing other kinds of procurement costs. But I would say that it's... So I'm just coming off a two-week trip through the Middle East and Europe, and people, our competitors and our customers don't talk about being an EPC solution anymore, or engineering, procurement, construction. I must have heard the term EPCF, with F standing for financing, and bringing a full package, when we're competing for work. So it's something we used to go market proactively to our customers. It's now something that they're demanding from us.

>> And, I mean, we do have an ECA. We have the Export-Import Bank, authorized and, in theory, running, but obviously with some challenges of governance and leadership, and which affects the ability to bring money to the table, which is, I'm sure, what most of the conversation of these two days is gonna be about. But what are we up against? Because China's putting a lot of money behind these activities, and Japan and Korea are as well. I think you have, I saw earlier--

>> Yeah.

>> You had a slide with some of those numbers. Do we have that in the queue?

>> Maybe if we put up the next slide here? We borrowed this from Ex-Im's 2016 report to Congress. So obviously, state-supported, state-sponsored companies in our industry have significant advantages. If part of the solution is EPCF, and they have access to very aggressive F financing, then that's gonna make our competitive situation even more challenging. So these are G20 ECA lending amounts. This is from the 2016 report to Congress from the Bank. You can see where the U.S. stands. Actually, I hate to admit it, it's pretty hard to see where the U.S. stands. And you can see who the largest lender is. And this is... I may be talking a bit out of school here, but these are just the official volumes of traditional lending. If you then think about other forms of untied investment support, and I'm giving you a rough order of magnitude based on what we learn out in the market, but if you think about over the past five years, Japanese and Korean ECAs have given more than 200 billion dollars in untied investment support, based on what we see. So on an annualized basis, call that 20-40 billion dollars a year. And then the Chinese have reported, and of course we can't verify this, to have given 300

billion dollars of similar support over the last three years. So compare that at 100 billion dollars a year, so something like two and a half to five X what the Japanese and Korean competitors are doing. So... I think... If you'll permit me a slight pivot here, Matt, I think this is where I would say, untied investment support versus traditional lending. I think it's really important, because one of the things that we hear a lot from critics of the Bank is that, that Ex-Im is a giveaway for large companies. It's just not true. There's no giveaway. It's not a grant. It's a loan. Some of our international competitors may do grants, or giveaways, but that's not how this works. It's a loan. It gets repaid. It's one of the few revenue-generating sectors of the U.S. government. It actually expands the Treasury. And a specific example we have of that right now for us, where we're in direct competition with a Chinese solution, is the motorway project, about a three and a half billion dollar motorway project in Kenya. And thankfully, we feel incredibly grateful for the support we've gotten from the Bank, from Commerce, from the State Department. But a large, transformative project for the nation of Kenya. A great opportunity to deepen U.S.-Kenyan ties. And financing from Ex-Im and OPEC is critical to that. And we're at a point where the project's really ours to lose right now, but if we can't get the financing together, then we can expect that a competitive solution is gonna be right there to take it.

>> Tied up with the corporate welfare argument is that, which I agree, clearly, if you just look at the numbers historically, the Bank has brought back money to the U.S. Treasury, so that's a difficult argument to make. But the argument that there is private finance available for infrastructure for big projects, why is private finance not the answer here? Why do you need an ECA?

>> I think, obviously, there are a lot of folks, we're just a construction company, but there are a lot of folks in the financial services sector here who could answer that question better than me, but when we talk to our friends in the banking sector, many of whom we collaborate with in the project finance world on other kinds of projects... Private banks will not fill the gap here, if export credit isn't available. There are some deals where maybe the private banking sector could step in and help, but if they could, they're already there. Right? And that's driven by constraints that these large financial institutions face now, in terms of internal exposure caps, post-financial-crisis regulations like Basel III, and then some of these private banks, they're not capable, or willing in some cases, to step up and make the kind of tenor commitments and ticket sizes that these large multi, in some cases, seven to 10 year commitments take. Which is why you see many of these large U.S. banks and other lending institutions actively supporting the re-authorization of the Bank, along with the exporter communities. And there's... So that argument doesn't really hold water for me, Matt. The other thing maybe to pick on while we're on the topic, is this idea that... What happens, what are companies like Bechtel forced to do, if there isn't the avenue of working with U.S. Ex-Im? And we and other companies like us are being very aggressively courted by other countries' ECAs, who are very flexible in how they wanna structure--

>> You mean like Canada or U.K.

>> Agreements with us.

>> Or others?

>> Canada, U.K., JBIC, others. Where... Generally... They want to find ways to work with us. And the consequence of that, of course, is that supply-chain decisions, where we would maybe traditionally be tapping into our U.S. supply chain, we're now having to look at... Whether it's engineering hours that would be in our Houston office, but instead might be in our London office. If it's picking a valve supplier from somewhere in the E.U. rather than down in the Gulf Coast, for example. And that's really where... The Bank's not about the big companies like a Bechtel, it's about the smaller businesses that make up, the tens of thousands of businesses that make up our supply chain for these big projects, where we're aggregating all this buying and service. And of course, what this means if companies like us have to... If we find ourselves in a position where we're going to lose a project unless we can go to a foreign ECA, that means... That means the U.S. is losing jobs. Potential jobs. Dollars. There's a whole soft power and influence element of this, too. So that's sort of... That's what we're wrestling with, that's what we're seeing out in the market right now.

>> I'm conscious we don't have a huge amount of time, and if I can I want to give maybe the audience a chance to ask one or two questions, so if you do have a question, get ready. But let me ask two more myself. One is the issue of the Belt & Road, and what China's doing out there. So it's a competitive challenge for you, but it's also an opportunity, right? And potentially, there're gonna be deals that you're gonna want to bid on. How do you see the opportunities, the challenges, the risks with this big initiative China's launching?

>> I think that the... I think if people are interested in hearing more about that, I encourage them to go to the CSIS website and watch the hour or so we--

>> Thanks! That was not a plant.

>> Spent talking about that.

>> I did not know--

>> No, no, no, but I think... I think that one of the reasons... I'll answer it maybe in a somewhat oblique way, which is, one of the reasons we love working with U.S. Ex-Im is that we're assured that there's transparency around the procurement and financing, and contrary to what the critics say, there's not a picking of winners and losers, there's a meritorious evaluation of all the competitive options. And I worry a little bit about that, with the other funding alternative. It's not been clear to me that the opportunities for us to compete exist. So I think that's... Yeah.

>> I see. Okay, and one more question, which is about... The financial piece, you've, I think, convinced us is critical to your package, but if it's just about money, it's gonna be hard for the U.S. to compete, again, with a trillion dollars, if that's what China's gonna ultimately spend, or Japan spending hundreds of billions as well. What else do American companies bring? I mean, you bring... You know, you don't pay bribes, you offer good products and services, and after service, you... You provide capacity, because a lot of these countries want to learn how to do this stuff. Those are elements as well that are important in this game, right?

>> Yes. So I think one of the things that we bring, and of course this is part of our value proposition in Africa right now with infrastructure projects, is that part of what we bring is a sustainable approach to these large development projects, where we're helping the people who live there actually be active participants in the process of developing their own nations. And so in our case, that means, to the extent we can, maximizing local hiring for the actual construction work. It means investing in training and up-scaling. But it also means that... It means tapping into a well-established small business U.S. supply chain. So I have two more; my final two slides just to give you a sense. So if you can put up the first one for Queensland LNG. So here's an example, not in Africa, Australia. So we had two... We had three major liquified natural gas projects in Australia that we've just recently completed. So these are actual spends, but this shows the diversity by state, and the volume of U.S. supply chain spend that we were able to create, with Ex-Im's support, for massive LNG projects that were in Australia. So this was over 230 million dollars of U.S. job creation, productivity, skilled manufacturing. And if you go to the next slide, so this was another LNG project right near the other one. You know, over 400 million dollars in U.S. economic activity stimulated by this one project in Australia. So I think it's... We're talking about significant levels of U.S. production and job creation here. And again, not... This spending is not, this isn't Bechtel per se, these are all the suppliers and service providers that we work with to deliver one of these mega-projects.

>> And if my math is correct on those two slides, adding together in the state of Pennsylvania you've got about three million dollars. Just to randomly pick a--

>> Yeah.

>> Randomly pick a state.

>> Brian: Yes.

>> Okay. With that, I think we're... We just maybe have time for one or two questions. If someone has a question, there are microphones in the audience. It's a little hard for me to see, so wave your arms if you do have a question.

>> And I'm gonna reserve two minutes after the question--

>> Okay, all right--

>> For a wrap-up comment.

>> Final wrap-up.

>> If I may.

>> If there aren't, we covered a lot of ground quickly, but I don't see anybody. If you wave your hands twice. All right, last chance. Going, going, gone. All right, Brendan.

>> Okay, great.

>> You wanted to say something.

>> Well, as you can imagine, we're pretty big on finishing on time, so... Thanks! So I guess just to wrap up, my being here today really is about showing, in a public way, our support for the Bank, and for its importance when it comes to a hyper-competitive global market that we're wrestling with every day, all around the world. The global competition is fierce, and it's getting fiercer and more competitive. And I think, you know, the way that I talk about the Bank's value proposition is that, one, it enables U.S. companies like us, and all the small businesses that we work with, to compete and win in a globally competitive market. Two, it grows U.S. jobs. Three, it actually generates revenue for the U.S. government. It's the old... It's the way you wish every annual meeting went, revenues exceeded expenses. And then fourth, and maybe the least publicly-acknowledged, is its really important role in promoting U.S. influence and interests abroad, in an increasingly important geopolitically soft-power context. We are right now, today, the only G20 country that doesn't have a functioning ECA that's able to actually work with companies. And so for U.S. firms like us, we're competing with one hand behind our back. And then, of course, it all comes down to that competitive U.S. export credit enables us to bring more U.S. suppliers with us around the world. And that stimulates U.S. spending, jobs, and tax revenues. That's all I got. Thank you very much for the opportunity.

>> All right, terrific. Please join me in thanking Brendan Bechtel! Thanks! Terrific. Thank you so much.

>> Thanks, Matt.