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Kodak Loan Debacle Puts a New Agency in the Hot Seat

A stumbling effort to prop up the domestic generic drugs sector underscores the challenges of a Trump administration industrial policy.

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At a virtual conference in September, Adam Boehler, chief executive of the U.S. International Development Finance Corporation, described his nascent agency as a bulwark against China's "economic colonialism" — with $60 billion in annual lending authority to counter Beijing's strategy of spreading its global influence with low-interest infrastructure loans.

But in recent months, Mr. Boehler, a former health care executive, has repurposed the international agency into something far from its intended role: a financing arm for projects inside the United States.

Working closely with Jared Kushner, the president's son-in-law and senior adviser, Mr. Boehler helped draft an executive order over the summer that, for the first time, gave the agency authority to issue loans to U.S. companies for projects on American soil. The move was billed as a way to boost President Trump's "Buy America" ambitions during a time of economic crisis.

Now, Mr. Boehler's agency is embroiled in controversy over its first domestic loan — $765 million for Kodak, which was intended to help the once-iconic photography company transform into a pharmaceutical firm that could lessen America's reliance on foreign countries for generic drugs and coronavirus treatments.

The Securities and Exchange Commission is probing allegations of insider trading by Kodak executives ahead of the deal's announcement, and the Development Finance Corporation's inspector general is looking into how Kodak got the loan. The funding has been put on hold and Mr. Trump, who hailed the loan as "momentous," has distanced himself from the decision.

The questions about the Kodak project highlight the risks inherent in the Trump administration's strategy to build American manufacturing by embracing the type of industrial policy that other nations have long employed — one that the United States has traditionally avoided in favor of free markets.

Mr. Trump has taken aggressive measures to prop up flagging sectors and companies, including supporting steel and aluminum by imposing global metal tariffs. He has funneled nearly $30 billion in subsidies to prop up struggling farmers who were hurt by his trade war with China.

And this summer, Mr. Trump's Treasury Department gave a $700 million stimulus loan to a struggling trucking company, YRC Worldwide, under the questionable rationale that it was critical to national security.

In May, the Trump administration found a new way to support domestic companies: The Development Finance Corporation. The agency had been created by Congress in 2018 to replace the Overseas Private Investment Corporation, which had encouraged American companies to invest in developing countries. Congress gave the new agency $60 billion to bankroll international infrastructure projects and a mandate to coordinate more closely with the State Department on loans that, ideally, would help to curb Chinese influence and support American foreign policy.

The agency has funded 80 overseas projects totaling $4.8 billion in places like Mozambique, Kenya, Colombia and Costa Rica this year. But top Trump officials had long been eyeing the agency's pot of money as a potential source of cash for domestic projects. In 2019, as Mr. Trump was seeking more funding for his wall along the Southern border with Mexico, Mr. Kushner approached Ray Washburne, who was then leading the agency as it began transitioning from the O.P.I.C. to the International Development Finance Corporation, to see if financing might be available.

"Can you give me a billion for the wall?" Mr. Kushner asked Mr. Washburne, who left the agency early last year, according to a person with knowledge of the exchange who was not authorized to reveal a private conversation.

Mr. Washburne spurned the request, citing the agency's international mandate. A spokesperson for Mr. Kushner said he had no recollection of the request.

As the coronavirus pandemic swept through the United States, Mr. Trump signed an executive order on May 14 that allowed the Development Finance Corporation to shift its focus from international to domestic investment.

The move was part of an effort by the White House to use American companies to make supplies like ventilators and hand sanitizer and to transport testing swabs. In many cases, it used the threat of the Defense Production Act to compel companies to ramp up production of personal protective equipment.

Some critics in Congress and development experts panned the move, arguing that the agency lacked the resources to accomplish its original mission overseas, much less rebuild American industry.

But Kodak, which filed for bankruptcy protection in 2012 and had spent years trying to reinvent itself as its core photography business weakened, spied an opportunity. Kodak made the case to administration officials that the company could help with producing generic pharmaceuticals to reduce American reliance on foreign drugmakers and potentially help produce treatments for Covid-19, according to a review of the deal the law firm Akin Gump carried out at Kodak's request.

The company had been producing some pharmaceutical ingredients for several years and had begun making hand sanitizer and face shields since the pandemic took hold. Kodak officials told the administration that the loan would be part of a larger corporate reinvention that entailed converting vast chemical facilities once dedicated to their print business to produce raw ingredients used in pharmaceuticals.

By July, after a byzantine application process, Kodak had won a “letter of intent” to receive government support.

Administration officials saw the loan to Kodak as dual victory — a way to both help restore America’s factory capacity and lessen its reliance on China and India for critical drugs.

In a White House briefing on July 28, Mr. Trump said the administration had taken “a momentous step toward achieving American pharmaceutical independence” and called it “one of the most important deals in the history of U.S. pharmaceutical industries.”

But critics immediately questioned why Kodak could not secure financing through the capital markets and were dubious the effort would help address the immediate health crisis.

“The Kodak loan didn’t seem directly relevant to the crisis that we’re in,” said Clemence Landers, policy fellow at the Center for Global Development. “This feels like part of the administration’s broader onshoring agenda.”

Scott Lincicome, a senior fellow in economic studies at the Cato Institute, noted that the effort to prop up Kodak “appears to be taking a page out of China’s playbook,” which the administration has criticized for helping “zombie” companies and politically connected firms, causing economic distortions.

A spokesman for the International Development Finance Corporation declined to comment.

Almost immediately after announcing the loan, the project unraveled amid accusations of insider trading.

Kodak had issued its chief executive, Jim Continenza, 1.75 million stock options on July 27, the day before Mr. Trump publicly announced the project. The company’s stock rose from $2.62 per share on July 27 to more than $60 on Wednesday, before closing at $33.20. Within days, Mr. Continenza’s new options were worth about $50 million.

Public filings also showed that Mr. Continenza purchased 46,737 additional shares on June 23, while Philippe D. Katz, a board member, purchased 5,000 shares on June 11 and again on June 23.

In a statement, Kodak said Mr. Continenza has purchased shares with his own money at nearly every available window since joining the company in 2013. He has not sold a single share during his time at Kodak, the company said.

The damage was done. The loan was put on hold and, in the following weeks, Mr. Trump and Peter Navarro, a trade adviser who helped coordinate the agreement, distanced themselves from the deal.

“I wasn’t involved in the deal,” Mr. Trump said on Aug. 4. “Kodak has been a great name, but obviously pretty much in a different business.”

Democrats, led by Senator Elizabeth Warren of Massachusetts, have been scrutinizing Mr. Kushner’s medical supply chain projects and his close ties to Mr. Boehler. They have raised suspicion that personal ties, rather than economic considerations, were the main factor in granting the International Development Finance Corporation a prominent new domestic mission. At Ms. Warren’s request, the agency’s inspector general is reviewing the loan process.

Mr. Navarro, in an emailed comment, said that “a key mission of the Trump administration is to bring home our medical supply chains.” He said the White House was “pursuing numerous projects to advance this mission, with Kodak now far in the rearview mirror.”