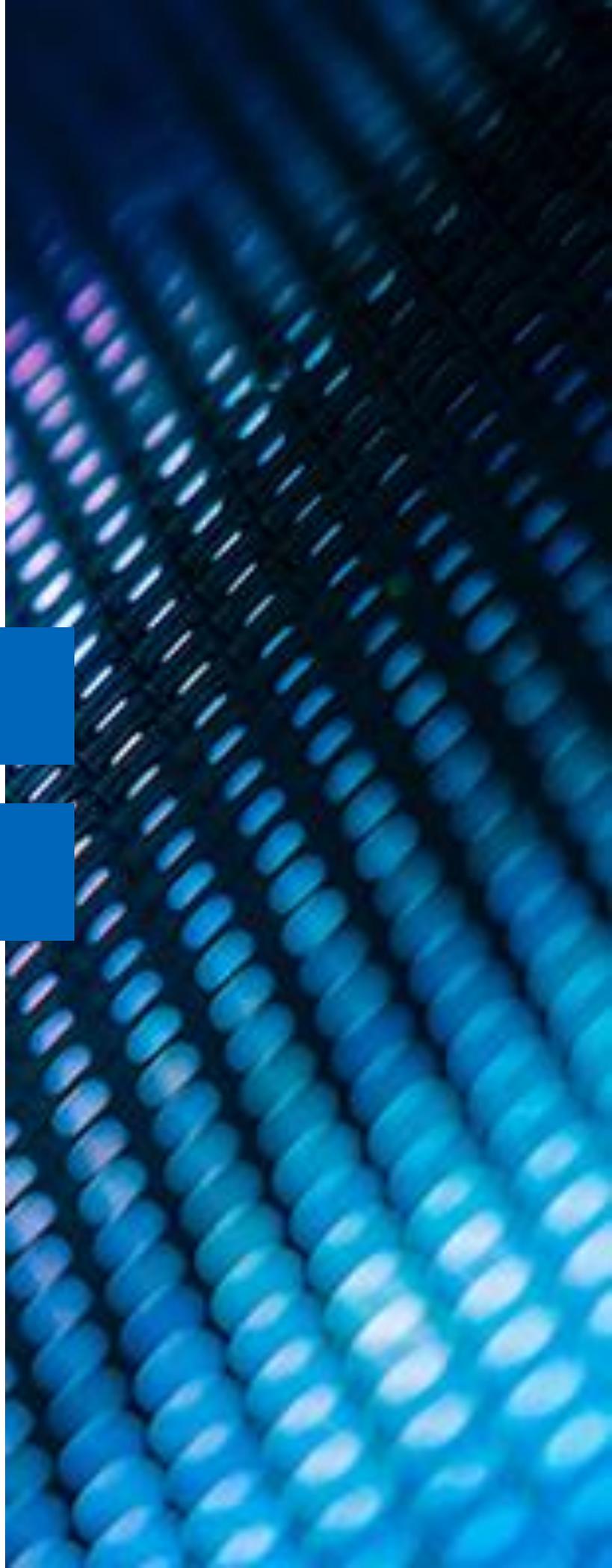
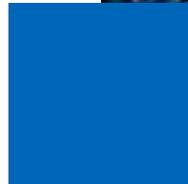


# Project Vault Sends Positive Signals To Stakeholders, But They Want More Details

By: Brett Fortnam

February 2026





The Trump administration's decision to use the Export-Import Bank to finance critical minerals stockpiles – an effort called “Project Vault” – sends positive signals to operators, investors, partner countries and even regulators that could help spur critical mineral production, industry analysts say, even as details on how the novel initiative might function remain scarce.

Ex-Im on Feb. 2 approved a direct loan of up to \$10 billion for Project Vault so it can provide “long-term financing to a partnership between original equipment manufacturers and private sector capital providers,” the export credit agency said. The funds will underpin the creation of the “U.S. Strategic Critical Minerals Reserve.”

Ex-Im Chair John Jovanovic said OEMs will dictate which minerals are stockpiled. The OEMs then will withdraw set amounts each year and replenish the minerals at the same prices at which they were withdrawn.

The creation of the stockpile has spurred “urgency” for miners and even regulators to get minerals mined and into the reserve, according to David Cabrales, a lawyer with Foley & Lardner. Project Vault, he said, “gives mining companies in the short run a good argument with local, state and federal regulators to clear the decks. Whenever this program comes together, there will be some urgency to get U.S. minerals mined and into the reserve. Mining companies are going to say [to the regulators that], ‘This isn’t business as usual.’”

The \$10 billion in Ex-Im-backed financing, augmented by almost \$2 billion in private-sector funds, creates the ability to purchase some minerals, “which will spur further mining activity even outside the U.S. once the buying begins,” Cabrales said.

Some overarching and still-unanswered questions about Project Vault involve which minerals will be stockpiled, where they will be kept and where they will come from, Cabrales said. The project will not have a single location, but it’s not clear whether each mineral would have a single stockpile or several, he said. “Does that mean one location for each [critical mineral] or just a bookkeeping entry?” he queried.

Cabrales noted that Jovanovic said mineral prioritization will be based on OEM demand, but said that does not answer whether a stockpile for every single critical mineral will be created.

Also, access to critical minerals addresses only one part of the broader supply chain issue, an industry source said. “Who is actually going to process this stuff?” the source asked. “By how much and when?”

Cabrales also called the move “another outward expression” of the Trump administration’s broad push to secure access to critical minerals, a point echoed by others.

Project Vault, the State Department’s Feb. 4 Critical Minerals Ministerial and the administration’s efforts to create a critical minerals trade zone are “all positive signals for the industry,” said Zahava Urecki, a senior policy analyst at the Bipartisan Policy Center’s energy program. The federal government’s willingness, in certain cases, to invest is a critically important sign to “folks who maybe were hesitant because of high capital costs and price uncertainty,” she added.



Establishing a mine or processing facility and developing a workforce to run it can carry “a fairly significant fixed cost,” said Mark Kennedy, the director and a senior fellow at New York University’s Development Research Institute. “You can’t make those initial investments and sustain those unless you have the financing to do so,” he said. “You can’t do that unless you have the offtake agreements. And you can’t get those unless you have someone to secure them.”

Project Vault’s pricing mechanism – the requirement that the prices at which OEMs purchase and resupply the stockpile remain constant – creates a demand signal, Kennedy said. Mineral commodity prices are volatile, he noted, and the Ex-Im financing can protect against that volatility by guaranteeing long-term support.

But that demand signal might not be strong enough to secure offtake agreements, Kennedy warned. Very few mines supply minerals to just one country, he noted, calling for a more coordinated approach among Ex-Im, the U.S. Development Finance Corporation and similar entities in partner countries.

State’s Critical Minerals Ministerial, which brought representatives from more than 50 countries to Washington, DC, was likely part of the administration’s push to coordinate with countries and establish a stronger demand signal, Kennedy contended. “Having those export credit agencies work in a coordinated way, that’s much more likely to activate a deal,” he said.

Project Vault is “a good measure,” Kennedy added, “but that doesn’t reopen mines, build a workforce that you need to have your own supply chain of miners and processors.”

Project Vault also should encourage industry stakeholders to prepare “execution-ready projects,” said Nathan Tshintu, a principal at the Boston-based Congo Investment Group advisory firm. The biggest challenge in frontier markets like the Democratic Republic of the Congo, Tshintu said, is readiness: Getting projects “execution-ready” won’t happen overnight, and Project Vault could encourage investors to take risks they might have otherwise avoided.

By virtue of its Ex-Im backing, Project Vault should have a well-structured framework and standards for investors to follow in frontier markets, according to Tshintu. Ventures affiliated with Project Vault will have to abide by standards that will allow investors to better track where their money is going, he continued.

Meeting those standards mitigates or reallocates financial risks, Tshintu said, when historically frontier markets like the DRC have been known to have substantial risk.

In essence, Project Vault is a form of political risk insurance, contended Edward Grattan, a managing associate at the FBT Gibbons law firm. The initiative, he said, “is more risk management than results-oriented.”

“I don’t view this as an arbitrage opportunity,” he said; instead, the administration is “trying to provide certainty in times of price destabilization or a supply issue.”

“The government is signaling to the private markets that they need to dig in a little more into their supply chains,” Grattan said. “At the end of the day, they need to understand the risks of who they’re buying from.”



'Not fully baked'

The administration, though, has not yet disclosed how Project Vault will work, leaving important questions about its functionality unanswered.

"It's not fully baked yet," Grattan said.

"There's still a lot of outstanding details about how it's going to work," echoed Urecki.

Who will run Project Vault is a key unknown. "I'm not sure we know that yet," Cabrales said. The initiative "looks like it will be run by OEMs that elect to participate," he contended. If that's the case, Cabrales said he expects Ex-Im to issue guidance describing the government's role in the program and what it wants from the private sector. Some rules would be set by the government, others by the market participants.

Grattan said he's still looking for more information on Project Vault's governance and the "operational mechanics" among the trading houses tasked with servicing the stockpile, the OEMs withdrawing and replenishing it, and the government. "There's a little bit of vagueness on how the operational mechanics are going to work."

He agreed with Cabrales that government and private-sector guidelines are likely. "If you have government dollars and Ex-Im, you're definitely going to have some semblance of guardrails or government regulations," he said, adding that OEMs and commodities desks also will want their own set of rules. -- *Brett Fortnam* ([bfortnam@iwpnews.com](mailto:bfortnam@iwpnews.com))

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