NO BAILOUT FOR FRACKING

by Lukas Ross, Senior Policy Analyst at Friends of the Earth, lross@foe.org

KEY FINDINGS

- **The financial instability of the fracking industry existed long before the coronavirus. At a time of unprecedented emergency, polluters are now poised to benefit from bailout funding in the Coronavirus Aid, Relief, and Economic Security (CARES) Act**

- **27 major fracking companies began the year "in the red" with negative free cash flow (FCF) and have over $26 billion in Total Current Liabilities due in 2020. This includes interest on debt and other pending obligations.**

- **The CARES Act contains at least $471 billion in lending authority from which frackers and other polluting industries could potentially benefit. Although there are hypothetical conditions attached to corporations receiving government aid, the Treasury Secretary has broad discretion to waive them.**

The coronavirus is an unprecedented public health emergency. Urgent human needs are going unmet and entire sectors of the economy are collapsing in real time. Resources to help frontline workers and the most vulnerable must be mobilized immediately.

In the United States, which now boasts the third highest number of COVID-19 cases in the world, all eyes are on Congress, where a final version of a $2 trillion stimulus bill has finally emerged. Although the CARES Act contains many important provisions providing direct relief to individuals and frontline workers, it worryingly contains a $500 billion corporate slush fund with insufficient guardrails to protect workers, taxpayers and the climate.

One industry certainly eyeing this slush fund very carefully is Big Oil, particularly companies heavily invested in fracking.

A BAD TIME TO BE SHALE

Even before the coronavirus, the underlying economics of hydraulic fracturing were looking shaky. Although the controversial drilling technique vaulted the United States to the number one oil producer in the world, the profits of the companies most engaged in the practice were elusive. Wall Street, which lent liberally to finance the capital intensive practice, was starting to lose patience. Oil prices were low, and late last year banks began cutting the so-called price stack, the rate at which oil and gas reserves are valued for lending purposes.[1]

By the beginning of 2020, the fracking industry was sitting on a colossal $106 billion mountain of debt. According to the Institute for Energy Economics and Financial Analysis (IEEFA), a cross-section of the 34 most prominent frackers ended 2019 with a negative cash flow of $2.1 billion.[2] The authoritative Haynes and Boone oil and gas bankruptcy tracker reported 41 filings in 2019 - more than double the total from the previous year.[3] This was long before the coronavirus became a global pandemic.

Two overlapping factors are poised to make 2020 much worse: the price war between Russia and Saudi Arabia and the total collapse in demand as coronavirus grinds the global economy to a halt. A gallon of gasoline could soon drop below a dollar.[4] Just last week ratings agencies snapped into action and downgraded the debt of major driller Occidental to junk with more downgrades expected to follow.[5] Prominent fracking firms like Chesapeaker, Pioneer and Antero are all scrambling to hire firms specializing in debt restructuring.[6]

Late last year oil and gas producers were surveyed on how they intended to raise capital in 2020. The most popular re-

1 https://www.reuters.com/article/us-usa-oil-lending/small-oil-and-gas-companies-get-cold-shoulder-from-large-banks-idUSKBN1X70BF
2 https://ieefa.org/wp-content/uploads/2020/03/Shale-Producers-Spilled-2.1-Billion-in-Red-Ink-Last-Year_March-2020.pdf
3 https://www.haynesboone.com/publications/energy-bankruptcy-monitors-and-surveys
4 https://www.marketwatch.com/story/gas-prices-could-soon-drop-to-99-cents-a-gallon-in-parts-of-the-midwest-2020-03-23
5 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/moody-s-rating-downgrade-brings-occidental-petroleum-to-junk-status-57671318
6 https://www.ft.com/content/c1be5ca0-695a-11ea-800d-da70cff6e4d3

sponse (28 percent) was cash flow from existing operations. The second highest (20 percent) was debt from banks.[7] But with the price collapse cutting into cash flow and debt downgrades cutting into credit availability, cash-strapped frackers are going to need to find money from somewhere to service their massive liabilities.

Cutting costs and selling assets are two options, but a quickly emerging third choice is federally subsidized loans and loan guarantees as part of the CARES Act.

THE CARES ACT AND FOSSIL FUEL

The CARES Act makes a colossal $500 billion investment in loans and loan guarantees to be distributed under the supervision of Secretary Mnuchin and the Treasury Department. Of this $500 billion, there are four separate sub-categories:

- $25 billion for the commercial aviation industry
- $4 billion for aviation cargo carriers
- $17 billion for "...businesses critical to maintaining national security"
- $454 billion to support eligible businesses, states and municipalities

Considering that the entire fossil fuel industry has long made dubious claims about its indispensability to national security, it must be assumed that the CARES Act contains at least **$471 billion** that could potentially go to the cash-strapped fracking industry and other polluters.

The single most problematic aspect of the CARES Act is the broad authority it grants to the Treasury Department. In theory, government aid comes with strict conditions limiting stock buybacks. However, the Treasury Secretary has discretion to waive these conditions "...upon a determination that such waiver is necessary to protect the interests of the Federal Government."[8] This incredibly broad language arguably makes Secretary Mnuchin the most powerful man in America.

If the CARES Act is implemented as a massive corporate bailout with few binding conditions, the fracking industry could be a major beneficiary. As traditional sources of cash and lending become precarious, this corporate slush fund is undoubtedly looking very good to frackers aiming to avoid bankruptcy.

METHODOLOGY

In order to gauge the potential value of a bailout to the fracking industry, Friends of the Earth reviewed the most recent annual SEC filings of the most prominent drillers. We began with the 34 companies in the IEEFA shale dataset and then eliminated the eight of them with positive total free cash flows in 2017, 2018, 2019. We were left with 27 companies with total negative free cash flow during those years. These are the companies most in "the red" and presumably least able to withstand economic shocks to either commodity prices or credit markets.

We then considered these comparatively vulnerable companies next to their total current liabilities for 2020. Total current liabilities essentially refer to all the bills coming due within the next calendar year. For oil companies, this includes things like interest on debt, derivative contracts hedging commodity prices, and agreements renting pipeline capacity.

Stock Ticker	Company	Total Free Cash Flow (FCF) 2017-19	Total Current Liabilities, year ending December 31, 2019.
FANG	Diamondback	-5,299,000,000	1,263,000,000
PE	Parsley A	-3,606,000,000	795,624,000
CHK	Chesapeake	-2,654,000,000	2,392,000,000
HES	Hess	-2,337,000,000	2,510,000,000
NBL	Noble	-2,167,000,000	1,969,000,000
GPOR	Gulfport	-1,875,000,000	962,269,000
QEP	QEP Resources	-1,858,000,000	338,100,000
MTDR	Matador	-1,810,000,000	399,772,000
CXO	Concho	-1,406,000,000	1,182,000,000

7 https://www.haynesboone.com/publications/energy-bankruptcy-monitors-and-surveys
8 CARES Act, Section 4003

WPX	WPX	-1,352,000,000	898,000,000
SM	SM Energy	-1,282,000,000	472,043,000
EQT	EQT Corporation	-809,000,000	1,345,902,000
AR	Antero	-658,000,000	1,040,139,000
APA	Apache	-553,000,000	1,855,000,000
LPI	Laredo Petroleum	-543,000,000	170,896,000
CPE	Callon	-498,000,000	652,247,000
HPR	Highpoint	-495,000,000	175,478,000
RRC	Range	-487,000,000	566,544,000
PDCE	PDC Energy	-440,000,000	361,230,000
PXD	Pioneer	-417,000,000	2,496,000,000
SWN	Southwestern Energy	-373,000,000	848,000,000
TRMLF	Tourmaline	-282,000,000	438,080,000
XEC	Cimarex	-281,000,000	758,621,000
OAS	Oasis Petroleum	-270,000,000	602,883,000
SPGYF	Whitecap	-267,000,000	216,590,000
PVAC	Penn Virginia	-235,000,000	129,274,000
WLL	Whiting	-195,000,000	550,414,000
		-33,801,000,000	**26,287,106,000**

The companies least able to cover the costs of their current business are heading into coronavirus with a grand total of **$26.287 billion in debt and other liabilities** due over the course of 2020. This is a veritable timebomb.

AGGRESSIVE OVERSIGHT AND IMPROVEMENTS NEEDED

More work needs to be done to ensure that coronavirus aid goes to support people and not corporations. There are currently insufficient protections for workers, taxpayers, and the climate as part of CARES Act. As negotiation continues on additional legislation responding to the coronavirus, Congress must be prepared to include tough new conditions to stop a runaway bailout of the fossil fuel industry. Oil, gas and coal must either be banned from seeking subsidized loans, or support must be conditioned on the phase-down of fossil fuel production and the guarantee of pension obligations for workers.

BAILOUT DANGERS BEYOND THE STIMULUS

Regardless of how the stimulus is implemented, polluters are not going to stop exploiting the crisis of the coronavirus for their own profits. Nearly $15 billion in annual direct subsidies from taxpayers are apparently not enough.[9] Some of the other giveaways Big Oil is angling to include as part general coronavirus emergency response include:

- **Buying oil to boost prices**. Secretary Mnuchin suggested that as much as $20 billion in taxpayer funds could be used to increase oil prices by making direct purchases for the Strategic Petroleum Reserve, the federal government's emergency supply of oil. Although the final version of the CARES Act eliminated a $3 billion provision originally appropriating funds for that purpose, it could return in later legislation.

- **Reductions in royalties for extraction on public lands and waters**. Given falling prices, reducing royalties would only further the glut on the market. But the industry is eager to exploit the crisis to lock in lower royalties for the future. This includes fourteen industry-aligned members of Congress who asked Interior Secretary David Bernahrdt to wave royalties for offshore drilling in the Gulf.[10]

- **Critical safety and environmental rollbacks**. The lobbying arm of Big Oil, the American Petroleum Institute (API), has requested that Trump and the EPA rollback critical compliance, safety and environmental regulations at a time when frontline communities are already at higher risk from the coronavirus.[11]

9 http://priceofoil.org/content/uploads/2017/10/OCI_US-Fossil-Fuel-Subs-2015-16_Final_Oct2017.pdf
10 https://thehill.com/policy/energy-environment/488740-lawmakers-ask-trump-administration-to-help-gulf-oil-and-gas
11 https://thehill.com/policy/energy-environment/489128-oil-industry-group-asks-trump-administration-to-lessen-regulations