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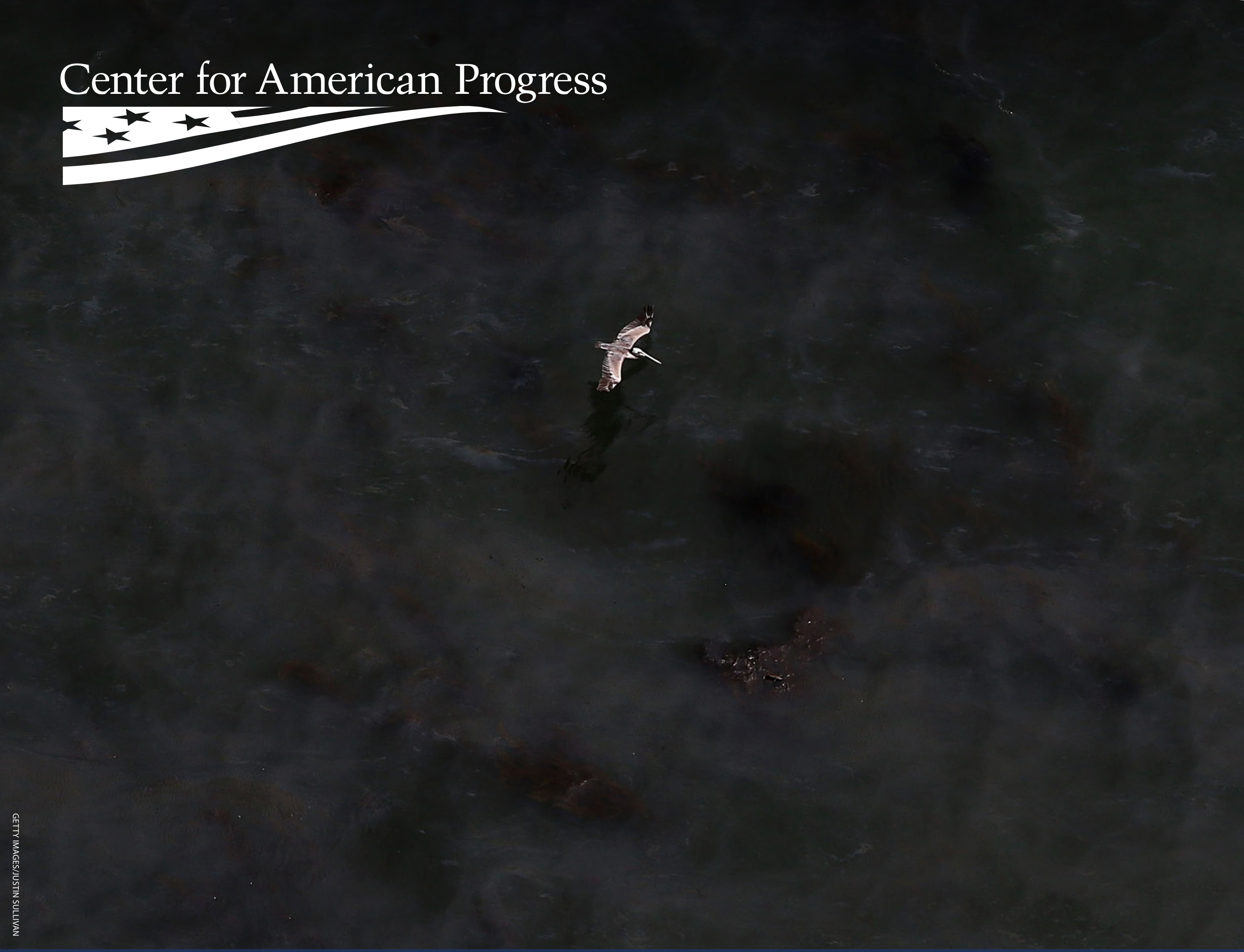

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The Fed's Oil and Gas Bailout Is a Mistake

Financial Stability, Public Funds, and the Planet Are at Risk

By Gregg Gelzinis, Michael Madowitz, and Divya Vijay July 2020

Contents

Introduction and summary

The coronavirus pandemic and the necessary public health response have significantly decreased U.S. economic activity, placing a severe financial strain on businesses and households. More than 30 million people were receiving unemployment assistance at the end of June, and gross domestic product (GDP) may have declined by more than 30 percent in the second quarter of 2020.[1] To help ease the economic impact of the COVID-19 crisis, the Coronavirus Aid, Relief, and Economic Security (CARES) Act appropriated $454 billion to the Treasury Department to support the Federal Reserve Board's emergency lending facilities.

The oil and gas sector, which was already facing serious financial difficulties unrelated to the coronavirus crisis, could be a key beneficiary of this relief. One of the Fed's emergency lending facilities, the Main Street Lending Program (MSLP), was established to provide emergency support to small and midsized businesses. Yet after extensive pressure from the oil and gas industry, its allies in Congress, and the Trump administration, the program was changed to scope in heavily indebted oil and gas companies that were struggling well before the current crisis. These changes throw good money after bad and put the public on the hook for the failed bets of fossil fuel speculators.

These changes to the MSLP are only part of the problem. The Fed has also established corporate credit facilities that can purchase bonds from individual companies directly or in the secondary market, as well as exchange-traded funds (ETFs) and customized financial products that hold or reference debt from multiple companies. Despite a long-standing practice that the Fed buy only high-quality debt, it has nevertheless permitted itself to buy junk-rated debt and junk bond ETFs—which may disproportionately include debt from troubled or bankrupt oil and gas companies. Importantly, none of these large corporate bailout facilities include any conditions for the companies receiving government support, such as restrictions on share buybacks and dividends, limits on executive compensation, or payroll maintenance requirements.

By propping up an industry that is intensifying climate change, which poses serious risks to financial institutions and markets, the Fed is refusing to align its emergency lending actions with its statutory mandate to promote the stability of the financial system.[2] Moreover, the programs' downside risk to public funds and financial stability is not mitigated in any way by strong benefits to workers, as these programs have either weak or nonexistent payroll maintenance requirements.

This report outlines the financial state of the oil and gas industry before the coronavirus crisis, explains the structure of the Fed's emergency lending facilities and the changes to the facilities that benefit oil and gas companies, and provides clear steps the Fed should take to align its emergency lending programs with its other mandates.

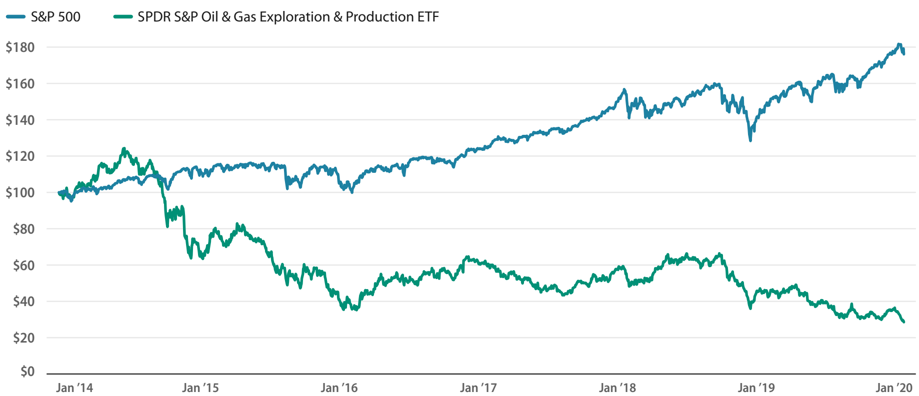
The oil and gas industry's problems are not new

The oil and gas industry was in trouble long before the coronavirus crisis, especially in the United States. The global surplus of oil, due in large part to the fracking boom in the United States over the past decade, has pushed down oil prices and kept them persistently low.[3] Increased competition from alternative clean energy sources such as wind and solar has started to take market share from fossil fuels.[4] Moreover, increased recognition from civil society and corporate America that the oil and gas industry has a diminished future has also contributed to a decrease in demand.[5] Collectively, these and other factors have driven the industry's financial struggles. The sharp drop in demand induced by the coronavirus crisis merely exacerbated these long-standing weaknesses.[6]

FIGURE 1

Oil and gas stocks have drastically underperformed the broader market for years

S&P 500 and XOP share prices, January 2014–January 2020



Note: Share prices are indexed to 2014.

Source: Yahoo Finance, "S&P 500," available at https://finance.yahoo.com/quote/%5EGSPC/ (last accessed July 2020); Yahoo Finance, "SPDR S&P Oil & Gas Exploration & Production ETF," available at https://finance.yahoo.com/quote/XOP/ (last acceessed July 2020).

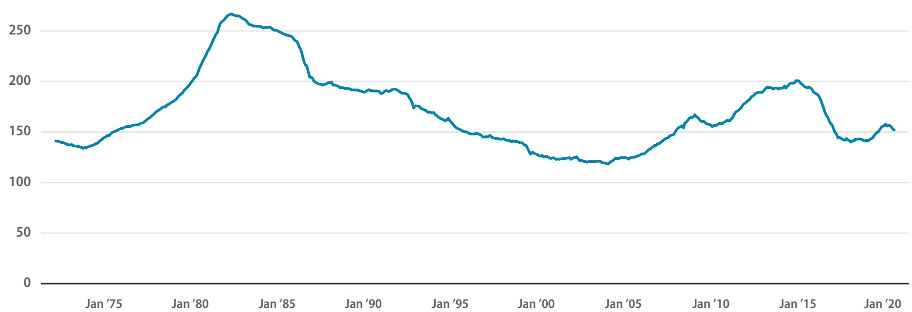
In the stock market, the energy sector has been the worst performing sector for more than a decade.[7] For example, in 2019, before the coronavirus had even hit, the stocks of oil companies continued to sag, despite modestly rising oil prices.

From 2014 to the end of January 2020, the S&P 500 was up 76 percent, yet a leading oil exchange-traded fund was down 72 percent.[8] (see Figure 1) Today, the energy sector constitutes only about 3 percent of the S&P 500 Index—down from roughly 10 percent 10 years ago and 25 percent in the 1980s.[9] The industry has also seen a declining trend in employment: Oil and gas companies employed only 150,000 workers in 2019—50,000 fewer than in 2014 and 100,000 fewer than during the industry's height in the mid-1980s.[10] (see Figure 2) As a result, financing for the oil and gas industry—much like financing for the coal industry before it—has increasingly shifted from equity financing to debt. In 10 of the past 11 years, the energy sector has been the largest issuer of junk-rated debt.[11] As of March 20, before the height of COVID-19-induced economic stress, oil and gas companies had $72 billion in junk-rated debt that was classified as "distressed"—a record high that had doubled since January 1, 2020, due in large part to geopolitical factors.[12] An analysis from the Institute for Energy Economics and Financial Analysis of a key cross section of 34 shale oil and gas companies found that the companies have collectively produced negative free cash flows over the past 10 years.[13] Many large oil and gas companies experienced poor financial results yet continued to reward shareholders and executives with buybacks and dividends. For example, from 2010 to 2019, five of the largest global oil and gas companies spent $536 billion on dividends and share buybacks while only generating $329 billion in free cash flows, meaning these companies sent more money to shareholders than they generated in profits from their core business.[14]

FIGURE 2

The oil and gas extraction industry has seen declining employment for years

Monthly employment in the oil and gas extraction industry in thousands of persons, January 1972–June 2020



Source: Federal Reserve Bank of St. Louis, "All Employees, Oil and Gas Extraction," available at https://fred.stlouisfed.org/series/CES1021100001 (last accessed July 2020).

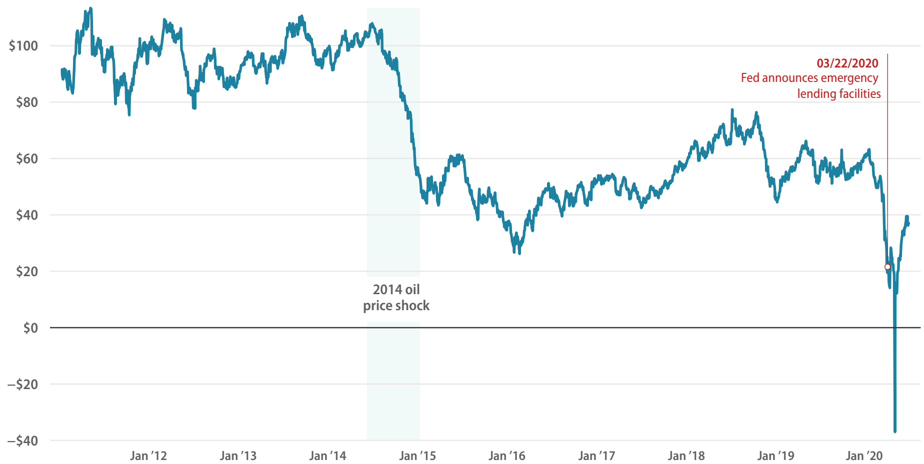
These industrywide fragilities have led to a substantial number of bankruptcies. Since 2016, more than 200 oil and gas companies have gone bankrupt, accounting for roughly $150 billion in debt.[15] According to a recent survey by the Federal Reserve Bank of Kansas City, almost 40 percent of oil and gas producers could go bankrupt this year if oil prices drop again to $30 per barrel—35 percent if prices remain $40 per barrel.[16] Many banks are pulling back their lending as a result, further straining the financial outlook of the companies that remain.[17]

The financial problems of the industry are likely to persist. There is such a surplus of oil, both in the United States and internationally, that oil and gas prices were persistently low going into 2019 and have stayed that way. These prices are unlikely to change drastically, even with the Organization of Petroleum Exporting Countries' (OPEC) recent agreement to cut daily production by 10 million barrels.[18]

FIGURE 3

Depressed oil prices date back to 2014

Price of oil per barrel in U.S. dollars, January 2011–June 2020



Note: Daily oil prices are based on West Texas Intermediate (WTI) crude oil, Cushing, Oklahoma.

Source: U.S. Energy Information Administration, "Cushing, OK WTI Spot Price FOB," available at https://www.eia.gov/dnav/pet/hist/RWTCD.htm (last accessed July 2020).

U.S. producers who use fracking to extract oil and natural gas are particularly vulnerable to the downward trend in oil prices. Fracking has much higher variable costs than does traditional oil, so declining oil prices make fracking production the first to become unprofitable. Moreover, because fracking extracts reserves relatively quickly,[19] fracking producers need to drill new wells just to maintain production.[20] As a consequence, frackers were highly indebted before the crash. Their financial leverage creates additional vulnerability to price shocks since declining cash flow makes payment of interest and principal more difficult. In addition, the production from existing traditional oil wells is unresponsive to prices, so the production cuts needed to balance supply and demand in the oil market falls disproportionately on frackers when oil prices fall, which shows up in the large job losses in the sector since 2014. (see Figure 2)[21]

Moreover, alternative clean energy sources are going to continue to develop, lower their costs, and grow, further encroaching on oil and gas market share over time. At the same time, civil society efforts to push businesses and the official sector to transition toward a greener economy are likely to continue gaining momentum. For example, banks and other financial institutions have begun placing some restrictions on their own fossil fuel investments in response to public pressure and targeted climate campaigns. Meanwhile, financial regulators internationally have begun to integrate climate risks into their policy frameworks.[22]

The Fed and Treasury established a lending facility for Main Street

In response to the dire economic situation caused by the global pandemic, the Federal Reserve Board established emergency lending facilities in conjunction with the U.S. Department of the Treasury to provide liquidity to the financial system and credit directly to the real economy.[23] The Treasury Department provides an equity investment in these facilities, which are structured as special purpose vehicles (SPVs). Then, the Federal Reserve uses its emergency lending authority under Section 13(3) of the Federal Reserve Act to lend to the SPVs on top of the Treasury's equity stake.[24] The Treasury investment would therefore absorb losses on the SPVs' loans in front of the Fed's investment. The CARES Act appropriated $454 billion to be used by the Treasury Department to capitalize the Fed's emergency lending facilities to businesses, states, and localities.[25] This structure enables the Fed to leverage the congressional appropriation roughly 10 times, meaning that the $454 billion appropriated amounts to $4.5 trillion in available emergency loans.

On April 9, the Fed announced the eligibility criteria and general terms for the emergency lending facilities targeted at small and midsized businesses, collectively referred to as the Main Street Lending Program.[26] The MSLP was initially broken into two separate facilities: one for new loans, the Main Street New Loan Facility (MSNLF), and one for expanding existing loans that a borrower has outstanding, the Main Street Expanded Loan Facility (MSELF). To qualify for the facilities, businesses had to have fewer than 10,000 employees or less than $2.5 billion in revenue. Operationally, commercial banks would make the loans to qualifying businesses and then the Fed would purchase 95 percent of the loan from the bank, leaving 5 percent for the bank to retain on its balance sheet as a means of preventing excessively risky lending.

The minimum loan for both programs was set at $1 million, and the maximum loan for the MSNLF was set at $25 million; meanwhile, the maximum loan for the MSELF was set at $150 million. Both facilities included leverage limitations, meaning businesses with debt levels above the program's leverage limits would not be eligible for these loans. The MSNLF debt limit was four times its 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA)—a common measure of business earnings—and the MSELF debt limit was six times EBITDA. These leverage limits work to prevent companies from receiving this public support if their financial difficulties existed before the pandemic.

Importantly, the Fed's term sheet outlined certain required attestations that borrowers had to make when accessing these government loans. Among other requirements, borrowers had to attest that they needed the financing due to the coronavirus pandemic, that they would make reasonable efforts to maintain payroll and retain employees, and that they would not use the funds to refinance existing debt or otherwise make interest payments on existing debt.

The goal behind these modest restrictions was to make sure the stimulus would be effective, pushing businesses to use the funds to maintain workers and continue operations. They were not meant to bail out creditors of these businesses by simply allowing the businesses to refinance old debts at a cheaper, publicly subsidized interest rate. That would merely shift risks from private creditors to the public, while doing nothing to help workers directly or stimulate the demand side of the economy.

The attestations also underscored an important feature of the emergency lending programs that was embedded in the CARES Act—that this government support was meant for businesses struggling as a result of the pandemic. It was not meant to prop up businesses that were already struggling before the COVID-19 outbreak.

The oil and gas industry sought major changes to the facility

After the Fed's Main Street Lending Program term sheet was released, the oil and gas industry, its allies in Congress, and the Trump administration lobbied for changes to the term sheet that would scope in more struggling oil and gas companies and better suit the needs of this troubled industry. They asked for five primary changes to the program.

First, they wanted companies accessing the facilities to be able to use the public funds to refinance preexisting debts and make interest payments on preexisting debt. The oil and gas sector was heavily indebted coming into this crisis, and these companies wanted to use cheap government financing to lower their ongoing debt burden, beyond the savings that lower interest rates provide corporate debt markets as a whole. In a comment letter to the Fed, the Independent Petroleum Association of America argued, "Allowing the use of loans provided by the Main Street New Loan Facility to pay off outstanding debts coming due before this crisis subsides will be the bridge to recovery for businesses that would have otherwise been able to meet their debt obligations, were it not for the virus."[27]

Second, the industry and its allies wanted to raise the leverage limit for the Main Street New Loan Facility. As Sen. Ted Cruz (R-TX)—an ardent supporter of the oil and gas industry—noted in a comment letter to the Fed, the four times debt-to-EBITDA limit excluded a range of midsized oil and gas companies that had crippling debt burdens prior to the onset of this crisis and that needed access to government liquidity to avoid bankruptcy.[28] However, these oil and gas companies were initially excluded for good reason, as their financial prospects were weak, those weaknesses were preexisting, and they continue to be weak to this day, making them a bad bet for government funds.

Third, they wanted to increase the maximum loan size of the Main Street Expanded Loan Facility to better suit the funding needs of certain oil and gas companies. The $150 million maximum size apparently would not provide a sufficient lifeline to some of the midsized oil and gas companies that were seeking aid. In an interview with Reuters, Energy Secretary Dan Brouillette stated that the maximum loan size would need to be $200 million or $250 million to support oil and gas companies in need.[29]

Fourth, the oil and gas industry and its allies did not want companies to have to attest that they need the financing due to the coronavirus crisis.[30] The oil and gas sector, especially the fracking-heavy U.S. firms, was in difficult financial shape prior to the crisis. As a result, many oil and gas companies would not have been able to make that attestation in good faith.

Finally, they did not want to have to attest that they would make reasonable efforts to maintain payroll and retain employees.[31] With oil prices down 50 percent between December and March, this claim would have strained credibility.[32] By doing away with it, however, the benefits of emergency loans could flow to executives and creditors instead of workers.

The Fed relented to industry demands

On April 29, with oil trading at $15 per barrel, Bloomberg reported that the Trump administration would soon announce its plan to bail out the oil and gas industry—a plan that was said to include access to the Federal Reserve's emergency lending facilities.[33] The next day, the Fed announced changes to the term sheet for its Main Street Lending Program.[34] These changes matched the requests of both the oil and gas industry and the policymakers advocating on its behalf.

Importantly, the revised MSLP included an additional third facility: the Main Street Priority Loan Facility (MSPLF). This newly created facility would offer new loans—just like the Main Street New Loan Facility—but allow more indebted companies to qualify and permit those companies to immediately refinance their existing debts. The leverage limit was increased to six times earnings, up from four times earnings in the MSNLF, to scope in more companies with higher preexisting debt loads. Initially, banks had to retain 15 percent of these riskier loans on their own balance sheets to prevent the public from bearing too much risk.

The idea is that if banks have more skin in the game and have to retain a larger portion of the loan, they will be more careful in underwriting the loan. Yet that requirement was later relaxed in June to match the 5 percent retention required in the other facilities in the MSLP umbrella. In addition, the measure for earnings was relaxed for all of the MSLP's facilities, further loosening the restrictions on the financial health of companies that can qualify. The measure of leverage was changed from EBITDA in the initial term sheet to adjusted EBITDA in the revised term sheet, a small change that allows companies to use accounting gimmicks to make their earnings look rosier and, as a result, their leverage look lower.

The revised term sheets also included an increase in the maximum loan size in the Main Street Expanded Loan Facility from $150 million to $200 million—the low end of the range cited by Secretary Brouillette to better assist the oil and gas industry. The maximum loan amount was then further increased to $300 million in June.[35]

Moreover, the revised term sheet eliminated the required attestation that the borrower needs the funding due to the coronavirus crisis. The already-weak payroll maintenance provision was changed from an attestation that borrowers had to make reasonable efforts to maintain payroll and retain employees to nothing more than a suggestion that borrowers make commercially reasonable efforts to maintain payroll and retain employees. The Fed has made clear that it will not police even this weak requirement, referring to it as voluntary in a meeting with the CARES Act Congressional Oversight Commission.[36]

After receiving the changes they asked for, the oil and gas industry, its allies in Congress, and the Trump administration took a victory lap, voicing their support for these changes. For example, the Independent Petroleum Association of America (IPAA) stated, "The Federal Reserve's announcement today sends a clear signal to IPAA members that the Administration is willing to address some of our recommendations for assuring that producers have access to the Main Street Lending Program."[37] And both Energy Secretary Brouillette and Sen. Cruz thanked the Fed on Twitter for adopting the recommended changes to support the oil and gas industry.[38]

The Fed has strongly rejected claims that these changes were made in response to pressure from the oil and gas industry and its allies in government.[39] The circumstantial case, however, is strong. The oil and gas industry, along with policymakers advocating on its behalf, asked for a specific set of changes that would better cater the programs to the needs of the industry. Shortly after, the Fed made those exact changes. Then, advocates of those changes, including the IPAA, the energy secretary, and U.S. senators, thanked the Fed for listening to them.

Oil and gas companies want even more concessions

The efforts to prop up oil and gas companies at public expense do not end with the Main Street Lending Program. The industry and its allies in Congress have set their sights on the large corporate credit facilities as well, the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF).[40] These facilities were established, respectively, to buy bonds and syndicated loans directly from corporations large enough to access capital markets and to purchase the previously issued bonds of corporations on the secondary market.[41] As of July 16, the Fed had purchased $11.5 billion in corporate debt and financial products referencing that debt through the SMCCF, while the PMCCF has yet to purchase any debt.[42] Not surprisingly, the limited disclosures available so far reflect that while these programs are open to companies from all sectors, the energy sector is disproportionately represented in the purchases.[43] Recent analysis suggests that the Fed's portfolio is overweight on the energy sector compared with total corporate debt outstanding, equity values, and employment.[44] The energy sector is the only sector that is overweight on all three variables.[45]

Moreover, the oil and gas industry has specifically identified two main eligibility criteria that, if changed, would allow even more large oil and gas companies to benefit from these facilities.[46] First is the requirement that the specific company be investment-grade as of March 22, 2020, which permits support for companies that were downgraded to junk status after the onset of the pandemic. Yet several large oil and gas companies were downgraded to junk status earlier in 2020—as West Texas Intermediate (WTI) crude oil prices fell 50 percent between the start of the year and mid-March—so they would be unable to meet this requirement.[47] Second is the requirement that the investment grade rating be issued by at least two credit rating agencies, if the company is rated by multiple agencies. Some oil and gas companies are rated investment-grade by only one rating agency and therefore do not qualify. If the investment grade date were moved back and the credit rating agency requirement were dropped to just a single rating, however, an estimated 16 additional large oil and gas companies could qualify for the facility—depending on the exact changes made.[48]

The Fed has yet to make these changes, but some members of Congress have continued to press the Fed to implement them.[49] Moreover, the Fed has already purchased exchange-traded funds that hold or reference debt that has been in junk status since before March 22, 2020.[50] In this way, the Fed has already worked around the March 22, 2020, cutoff date. In fact, some of the oil and gas companies whose debt is held in these ETFs have already gone bankrupt.[51]

It is important to note that the benefits to these junk-rated and investment grade companies far exceed the nominal value of the Fed's actual debt purchases. With the Fed standing behind secondary markets, companies have been able to tap unclogged primary markets to issue significant amounts of new debt and at much lower interest rates than would be possible otherwise. In the first half of 2020, investment grade companies issued $840 billion in new debt, doubling the previous record set in 2016; meanwhile, junk-rated companies issued $180 billion, inching past the record set in 2015.[52] This has all occurred during a global pandemic.

The Fed does not need to purchase much debt to provide a massive subsidy to these companies; private creditors are willing to buy debt at lower rates knowing the Fed will be there to purchase it if need be. Moreover, none of this support to massive corporations comes with any worker retention, dividend, share buybacks, or executive compensation restrictions.

Policy recommendations

Government support for oil and gas companies that have been suffering from financial turmoil long before this pandemic would shift risk from speculators to the public. By permitting heavily indebted oil and gas companies to use emergency loans to refinance or continue making interest payments on their existing debts, the Fed is bailing out the companies' creditors. Banks, hedge funds, private equity firms, insurance companies, and other investors took an ill-advised bet on a risky industry—one that has a severely diminished future due to its active destruction of the planet—and now the U.S. government is using public money to bail them out. The emergency loans also reward the executives of these firms. The Main Street Lending Program has modest restrictions on executive compensation, but propping up firms that may have otherwise failed allows executives to continue to collect their often exorbitant pay packages.[53]

If the Fed makes the oil and gas industry's desired changes to the corporate credit facilities, it will enhance the already-substantial reward for the creditors, executives, and shareholders of large oil and gas companies—since those facilities do not have even the modest restrictions that are part of the MSLP.[54]

Even if these changes were not made to support the oil and gas industry disproportionately, they still reinforce the type of moral hazard that is endemic in the U.S. corporate sector.[55] In good times, shareholders and executives take on substantial risk and reap the financial rewards. In bad times, they turn to the government for bailouts. This fuels excessive risk-taking, as well as the misallocation of capital. Moreover, the current structure of the program does not have sufficient protections in place to prevent insolvent borrowers from accessing these public funds. And under the Section 13(3) lending authority, it is illegal for the Fed to lend to insolvent entities.[56]

Emergency support for high-risk companies would be more palatable if the funds were conditioned on keeping workers on payroll, protecting them from COVID-19 while on the job, suspending dividends and buybacks while companies are benefiting from government support, and allowing the public to share in any future profits to reward them for bearing the risks of lending. This would also more closely align with the Fed's maximum employment mandate.[57] Unfortunately, the emergency lending facilities fall short in this regard.

These highly leveraged, financially troubled firms should go through the traditional bankruptcy process—not receive a government lifeline. The bankruptcy process separates firms that are viable from those that are not. With dozens of U.S. oil and gas producers pushed into the process in 2019, it's been a foregone conclusion that many more would wind up following suit this year—even before the coronavirus-induced recession.[58] Since the economy is not faced with a shortage of oil or natural gas in either the short or the long term, the timely failure of firms that do not emerge from bankruptcy is the sensible economic outcome. Bankruptcy will also keep any financial losses where they should be—on the balance sheets of private sector investors, not the public.

The Federal Reserve's decision to prop up oil and gas companies also runs counter to its statutory mandate to promote financial stability and to ensure the safety and soundness of the financial institutions it oversees. Providing emergency support to oil and gas companies will extend their financial lives and enable them to continue to fuel the climate crisis, which is a clear threat to the stability of the financial system.[59] The physical risks of climate change—the increase in frequency and severity of catastrophic weather events, sea-level rise, and other lasting environmental changes that threaten communities' health and well-being—could lead to large-scale losses for banks and other financial intermediaries.[60] Mortgage portfolios, commercial real estate, agricultural loans, commodities, and derivatives tied to these markets are all at greater risk due to climate change.

Moreover, institutions that imprudently invested in assets tied to the future prospects of the fossil fuel industry could face substantial losses as policymakers take the necessary steps to transition to a greener economy. Technological advancement or general shifts in capital market sentiment to get ahead of the transition could also bring about these potentially rapid losses, as demand for carbon-intensive financial assets drops and they face a sharp negative repricing.

Financial sector losses caused by both the physical risks of climate change and the transition to a greener economy could be massive and threaten the solvency of financial institutions and the stability of the financial system. As a result, the scale and scope of a climate-driven financial crisis could far surpass the damage caused by the 2007–2008 financial crisis.[61] Unlike previous crises, climate shocks could cause irreversible harm and could recur with ever-increasing severity.

The Federal Reserve, and other financial regulators, could take clear steps to integrate climate risk into the regulatory and supervisory framework in order to improve the ability of the financial system to withstand a future climate shock.[62] Indeed, had the Fed already undertaken these steps, it would not have to navigate the challenge of addressing these risks in the middle of a public health and economic crisis.

These policies include robust climate risk disclosure, such as requiring banks to disclose the level of greenhouse gas emissions they are financing; climate stress tests; and the integration of climate risk into bank capital requirements, supervision, and the regulation of actors in the capital markets.[63]

In 2017, a group of eight central banks and supervisors created the Network for Greening the Financial System (NGFS) to analyze climate-related risks to the financial system and use the policy tools at their disposal to mitigate such risks.[64] Today, more than 60 central banks and supervisors have joined this emerging international consensus on the need to bolster the resilience of the financial system to the risks posed by climate change and to facilitate the transition to a greener economy. The Federal Reserve has refused to join. Beyond the regulatory and supervisory tools previously mentioned, the NGFS has encouraged central banks "to lead by example and include sustainability considerations in their portfolio management."[65] This principle should extend to the Fed's emergency lending facilities. The Fed should not use its own balance sheet to exacerbate the significant financial stability risks it is supposed to be working to limit.

There are five steps the Fed could take going forward to align its emergency lending facilities with its financial stability mandate:

- Prohibit the fossil fuel sector's access to the emergency lending facilities. At the very least, the Fed should refrain from expanding the oil and gas industry's access to the facilities.
- Evaluate and disclose the risks that climate change poses to its emergency lending portfolio.
- Account for and disclose the level of greenhouse gas (GHG) emissions that it is financing through these emergency programs. This effort would provide accountability as to how much the Fed's lending facilities are contributing to the climate crisis, and in turn, the financial stability risks of climate change.
- Develop and publish a plan to limit its financed GHG emissions.
- Seek to actively mitigate the financial stability risks of climate change by joining the NGFS and incorporating climate risk into its regulatory and supervisory framework.

The Fed repeatedly claims that it designs neutral emergency lending facilities and does not wish to make political decisions or pick winners and losers.[66] But there is no strictly neutral technocratic policy design for these lending facilities. From refusing to place restrictions on the large corporate credit facilities to creating its own bond index and determining various facility-related eligibility criteria, the Fed has made countless political decisions along the way, each with resulting winners and losers.[67] The policies outlined above would promote long-term financial stability and economic growth and avoid propping up an industry that is fueling climate change. As former Fed Governor and Deputy Secretary of the Treasury Sarah Bloom Raskin recently wrote in a *New York Times* op-ed, "The decisions that the Fed makes today will go a long way to determining whether tomorrow's economy is one that remains susceptible to more chaos and vulnerability or builds economic security and resilience."[68]

Conclusion

The oil and gas industry was in deep financial trouble even before the coronavirus crisis, and it faces bleak prospects after the pandemic subsides. The Federal Reserve's emergency lending facilities were not intended to provide a lifeline to companies facing preexisting struggles. Yet the oil and gas industry is set to benefit significantly from the Fed's interventions, due in part to explicit changes to the facilities at the industry's request.

As the Fed provides emergency credit to the financial system and real economy during this crisis, it must be careful not to turn a blind eye to its other statutory mandates. The ailing oil and gas industry is a bad bet for the government and is actively contributing to a major systemic threat to the financial system—one that the Fed should be mitigating, not exacerbating. Curtailing the industry's access to these emergency facilities would help protect public funds, the financial system, and the planet.

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