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Low gas prices in Old Orchard Beach, Maine, on March 30. | Derek Davis/Portland Press Herald/Getty Images

Coronavirus stimulus money will be wasted on fossil fuels

Oil and gas companies were already facing structural problems before Covid-19 and are in long-term decline.

By David Roberts | @drvox | david@vox.com | Updated Jun 29, 2020, 3:29pm EDT

Update, June 29: Chesapeake Energy Corp., a massive US oil and gas company that led the fracking boom, has filed for Chapter 11 protection in a bankruptcy court in Texas following the collapse of energy demand in the Covid-19 crisis. The following post, first published April 20, explains why companies like it faced challenges predating the pandemic. (It's not clear whether Chesapeake received stimulus funds before filing for bankruptcy.)

As countries across the world have gone into lockdown in response to **Covid-19**, economies are in free fall. Almost every sector is taking a hit, hemorrhaging jobs and value. And almost every sector will be shaped, for years to come, by the speed, amount, and nature of public assistance it receives. There is a finite amount of time, resources, and political will available to get economies going again; not every sector will get what it wants or needs.

In short, the decisions legislators make in response to the coronavirus crisis will have an enormous influence on what kind of economies emerge on the other side.

In March, I wrote about **what an ideal recovery and stimulus package would look like**. Then I wrote about how shortsighted it is for Republicans (enabled by learned Democratic passivity) to **reject aid for the struggling clean energy industry**.

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In this post, I take a look at why it is equally shortsighted for President Trump and congressional Republicans to remain so devoted to the fossil fuel industry.

The dominant narrative is still that fossil fuels are a pillar of the US economy, with giant companies like Exxon Mobil producing revenue and jobs that the US can't afford to do without. Even among those eager to address climate change by moving past fossil fuels to clean energy — a class that includes **a majority of Americans** — there is a lingering mythology that US fossil fuels are, to use the familiar phrase, too big to fail.

President Donald Trump, flanked by House Minority Leader Kevin McCarthy, left, and Chevron CEO Mike Wirth, meets with energy sector CEOs at the White House on April 3. | Jim Watson/AFP/Getty Images

But the position of fossil fuels in the US economy is less secure than it might appear. In fact, the fossil fuel industry is facing substantial structural challenges that will be exacerbated by, but will not end with, the Covid-19 crisis. For years, the industry has been shedding value, taking on debt, losing favor among financial institutions and **investors**, and turning more and more to lobbying governments to survive.

It is, in short, a turkey. CNBC financial analyst **Jim Cramer put it best**, back in late January, before Covid-19 had even become a crisis in the US: "I'm done with fossil fuels. They're done. They're just done."

"We're in the death knell phase," he said. "The world has turned on [fossil fuels]."

Cramer's take is not yet conventional wisdom, but he's right. Evidence in support appears in an April report from the Center for International Environmental Law (CIEL) called "**Pandemic Crisis, Systemic Decline**." Let's walk through it.

Fossil fuels are furiously lobbying for, and receiving, largesse from the US government

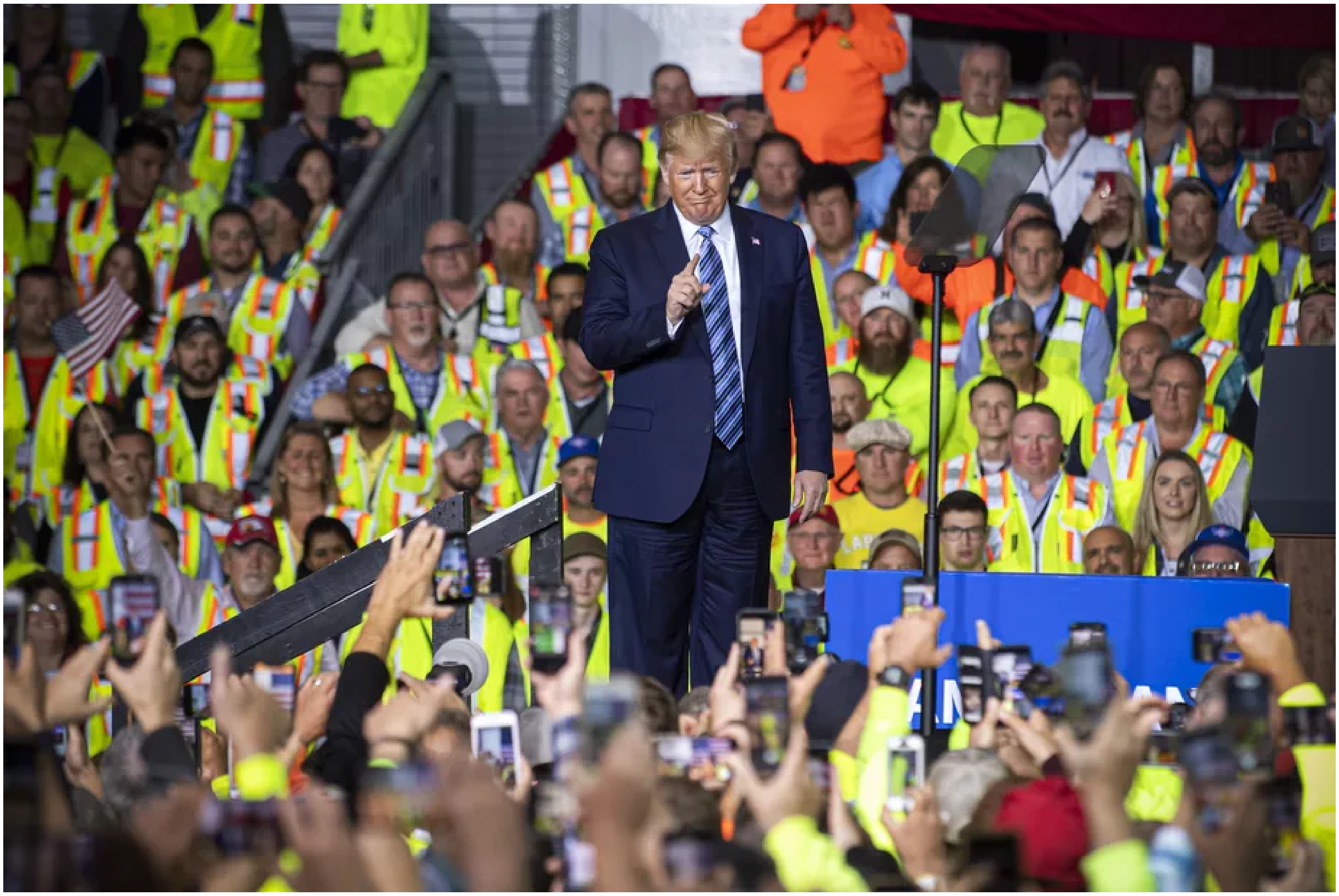
The UK-based think tank InfluenceMap recently did an **analysis** that tracks corporate lobbying in the face of the Covid-19 crisis. It found that, across the globe, the oil and gas sector has been the most active in lobbying for interventions, seeking, as CIEL summarizes, "direct and indirect support, including bailouts, buyouts, regulatory rollbacks, exemption from measures designed to protect the health of workers and the public, non-enforcement of environmental laws, and criminalization of protest, among others." In Canada, Australia, and the UK, the industry is arguing that it must be subsidized and deregulated in order to survive.

In the US alone, the industry is seeking access to a range of stimulus funds, relief from a variety of pollution regulations, and use of the strategic petroleum reserve to bolster prices. Journalist Amy Westervelt is tracking **at least a dozen other lobbying efforts**. Recently the Federal Reserve **changed its rules** to allow bigger businesses access to "Main Street loans" (widely seen as a sop to oil and gas companies) and, as Emily Holden **reports for the Guardian**, records show that fossil fuel companies have already gotten $50 million in loans meant for small businesses.

The petrochemical and plastics industry, which is in large part an extension of the oil and gas industry, is exploiting the crisis as well. It has **lobbied** the federal government to declare an official preference for single-use plastic bags and **suggested** that more fresh produce should be wrapped in plastic.

The virus has not slowed down the Trump administration's attempts to assist the industry. It is **gutting fuel economy standards**, which, by its own estimation, will increase pollution and **eliminate 13,500 jobs a year**. The EPA has **dramatically eased the enforcement of pollution regulations** and **moved forward with its "secret science" rule**, which will make it more difficult to understand and address the health impacts of air pollution — and more difficult to study the coronavirus.

The petrochemical industry has lobbied the federal government to declare an official preference for single-use plastic bags. | Timothy A. Clary/AFP/Getty Images



President Trump delivers a speech on energy sector jobs at the Shell Chemicals Petrochemical Complex in Monaca, Pennsylvania, on August 13, 2019. | Jeff Swensen/Getty Images

During a supply glut driven by historically low prices, the Interior Department is rushing to lease federal land for oil and gas development, despite an **anemic response**, rock-bottom prices, and **calls from conservative and taxpayer groups** to suspend leasing in the face of the coronavirus.

The administration seems **determined to bail out struggling shale gas companies**, despite that overleveraged, debt-ridden sector being **long overdue for a shakeout**. (For more on that, check out **Amy Westervelt's reporting at Drilled**.)

Trump is **negotiating with Saudi Arabia and Russia** on oil supply cuts, and has the Department of Energy **buying up millions of barrels of oil** for the strategic petroleum reserve, all to try to boost the price of oil to help **struggling oil majors**. A group of GOP senators is **lobbying for fossil fuel companies**, including coal companies, to be eligible for the small business recovery fund.

In April, EPA Administrator Andrew Wheeler announced that the administration, in defiance of an enormous body of evidence and **recommendations from EPA scientists and staff**, will **not tighten restrictions on soot pollution**. And on Friday, Wheeler announced that the EPA will **weaken standards on mercury and other toxic metals** from fossil-fueled power plants, again in opposition to the scientific consensus, based on rigged cost-benefit analysis that **deliberately excluded most benefits**.

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Across the board, the administration is doing everything it can to help fossil fuels. But it's a mug's game. The industry is faltering for reasons that well predate Covid-19.

Fossil fuels were already facing structural problems before the coronavirus

US coal is in terminal decline, for reasons I've written about **many times before**. No amount of stimulus money or weaker pollution regulations can save it.

But on the surface, things look different for oil and gas. **Thanks to fracking**, production has been booming for the past decade, vaulting the US ahead of Saudi Arabia and Russia to become the the world's leading oil and gas producer.

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Coal left Appalachia devastated. Now it's doing the same to Wyoming.

And the same goes for petrochemicals and especially plastics, which have been **forecast** to be the main drivers of rising petroleum demand in coming years. The industry has issued rosy projections of plastics' growth and invested $200 billion in new petrochemical and plastics infrastructure.

But dig below the surface and things don't look so good.

First, fracking was a **financial wreck** long before Covid-19 hit. US fracking operations have been losing money for a decade, to the tune of around $280 billion. Overproduction has produced a supply glut, low prices, and an accumulating surplus in storage.

CIEL reports:

> Since 2015, over 200 drillers have gone bankrupt, with 32 declaring bankruptcy in 2019. At the beginning of 2020, the industry continued to struggle as natural gas prices remained low due to sluggish demand growth. By the end of the first quarter, another seven drillers had declared bankruptcy, six additional drillers had their credit outlook downgraded, and several major banks had written down the expected value of many drillers' reserves. A recent analysis from Rystad Energy indicated that, at prevailing oil and gas prices, almost all new fracking wells drilled would lose money.

Even as its prospects grow dimmer, the enormous debt the industry has taken on over the years is coming back to bite it. Some $40 billion will come due this year alone, and around $200 billion in the next four years.

Second, both oil and gas prices were persistently low leading into 2019. Due to oversupply and mild winters in the US and Europe, there is a glut of both natural gas and oil, such that the entire world's spare oil storage is in danger of being filled. Many big oil deals in "frontier countries" with as-yet-unexploited reserves, like Guyana, Argentina, and Mozambique, are falling through as low prices drag on.

Third, renewable energy and electric vehicles are threatening oil and gas's dominance in both transportation, which represents 70 percent of global demand, and electricity. Natural gas's status as a "bridge fuel" in the power sector is in **increasing doubt**; since 2014, orders for new gas turbines (to generate power) have **fallen by half**. As for transportation, a **recent report** from the international banking group BNP Paribas concluded that "the economics of oil for gasoline and diesel vehicles versus wind- and solar-powered EVs are now in relentless and irreversible decline."

An electric car at a charging station in Bavaria, Germany, on March 26, 2020. | Sven Hoppe/picture alliance/Getty Images

Fourth, oil and gas majors are revealing their own weakness by writing down assets — effectively conceding that certain reserves cannot be profitably exploited. In 2019, Chevron wrote down $11 billion worth; Spanish oil company Repsol recently wrote down $5 billion worth. Exxon Mobil, after adding Canadian tar sands assets to its books in 2017, reversed course and wrote down 3.2 billion barrels last year.

Fifth, financial institutions — "institutional and retail investors, banks, insurers, and credit rating agencies" — are catching wind of fossil fuels' weakness and beginning to back away. Many, like Wells Fargo, BlackRock, the European Investment Bank, and the World Bank Group, are restricting investments in carbon-intensive projects. As of March 2020, asset investors worth $12 trillion had **declared that they would divest from fossil fuels**.

As financial institutions divest, the ones still invested in carbon-intensive projects face increasing vulnerability to lawsuits charging them with ignoring material risks. "As the risks of investing in the oil and gas sector become ever more apparent," CIEL writes, "more and more investors subject to fiduciary duties will likely choose to steer clear of these companies."

Like these other dismal trends, the financial turn from fossil fuels was underway well before Covid-19. Over the past decade, companies in the sector have spent more on stock buybacks and dividends than they have brought in through revenue, leading to a greater and greater debt burden. Declining confidence in the sector has made it the worst-performing sector on the S&P Index.

The Dow Jones Index (black line) vs. the Dow Jones Oil & Gas Index (blue line), as of April 17, 2020. | S&P Dow Jones Indices

Finally, plastics, the great hope of the oil and gas sector, do not appear to be growing fast enough to justify the industry's optimistic projections. Much of the US plastics industry is geared for export, but countries across the world (127 and counting) are adopting restrictions on single-use plastics. The most recent such restrictions were **adopted by China**, the world's largest plastic producer and consumer. Plastics, like oil and gas, are suffering from the dual malady of overexpansion and underconsumption.

As an example that encompasses all these structural problems, CIEL cites Exxon Mobil. The company's plan for growth involves growth in its petrochemical operations, which is now in doubt; fracking in the Permian Basin, which is now in doubt; and expanding oil production in Guyana, which is now (owing to political instability) in doubt.

All these doubts are converging as Moody's recently revised the company's outlook to negative. It fell out of the S&P's top 10 for the first time, its stock hit its lowest price in a decade, the rapid rise of renewables and electric vehicles rendered billions (and perhaps soon trillions) of dollars of its assets worthless, and it is keeping shareholders happy with debt-financed dividends. The Institute for Energy Economics and Financial Analysis found that over the past decade, Exxon Mobil has **spent $64.5 billion more on payouts to stockholders than it earned in free cash flow**. That can't go on much longer.

Again: All of these structural trends predate Covid-19. But the global lockdown in response to the virus has accelerated all of them.

Oil and gas are caught in a historic downturn

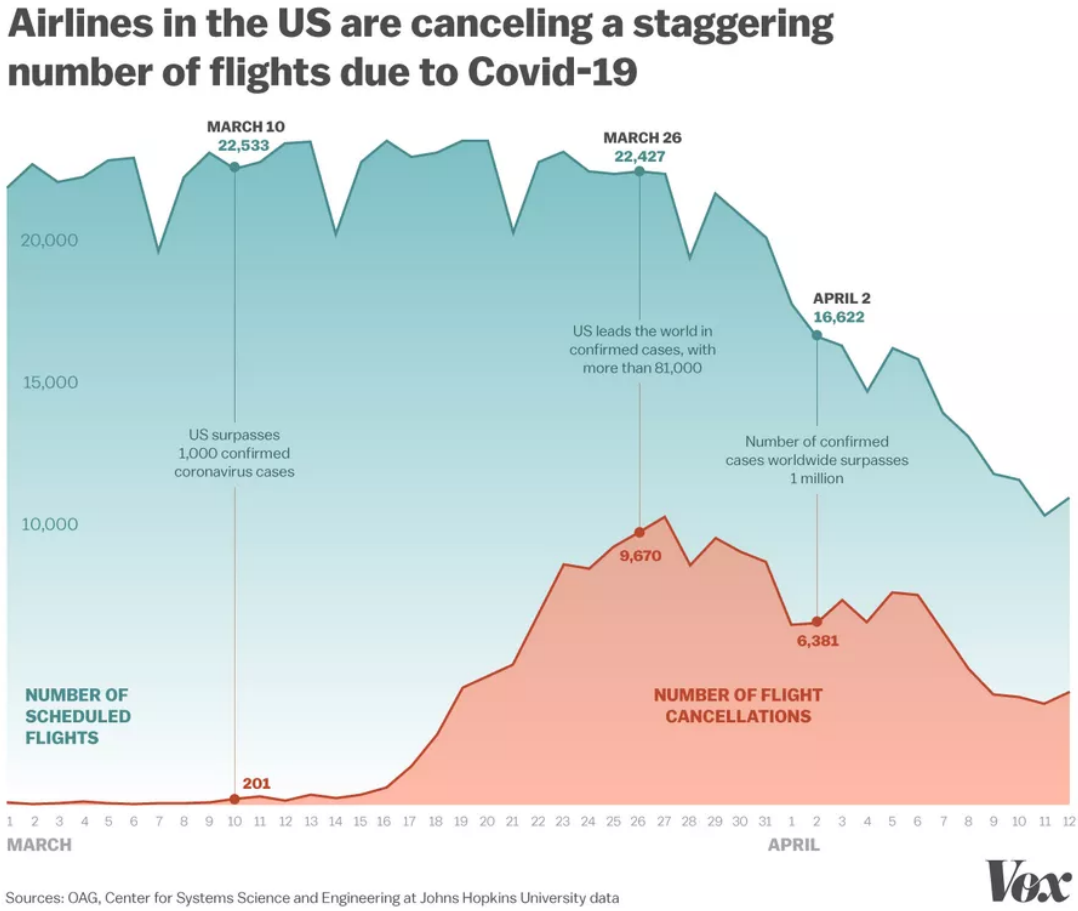
Into this already dismal situation for fossil fuels came the virus and the subsequent lockdown. The vertiginous plunge in consumer demand has hit every sector of the economy, but oil and gas, already facing oversupply and persistent low prices, were particularly vulnerable.

"Oil, gas, and petrochemical stocks have been affected more rapidly and much more deeply than almost any other sector," CIEL writes. "The oil and gas sector lost more than 45% of its total value from the beginning of January to early April 2020."

The already declining stocks of Exxon Mobil, Royal Dutch Shell, and Occidental Petroleum were sent tumbling even faster. In July 2014, Exxon stock hit a high of $107; as of early April 2020, it was at $42, its lowest level in decades. (On June 29, it was at $44.)

Transportation represents 70 percent of petroleum consumption, but no one is moving. Rystad Energy **estimates** that as of March 2020, global traffic is down 40 percent. As lockdowns remain, that number will likely drop further.

Air travel has been the fastest-growing source of demand for transport fuels, but **no one is flying**. "In the final week of March 2020," CIEL writes, "commercial air traffic was almost 63% lower than in 2019."



Christina Animashaun/Vox

Public health officials warn that there could be periodic outbreaks for months or even years. Meanwhile, there are rapid advances being made everywhere in the infrastructure, technology, and practices of working remotely from home. It's entirely possible that auto and air travel won't reach their pre-virus levels in the US for years, if ever.

Travel by ship is also taking a hit. Cruise ships, beset by a series of **viral horror stories**, have suspended operations and many analysts doubt they will ever fully recover.

Meanwhile, oversupply, exacerbated by the drop in demand, is taxing the nation's storage capacity — the International Energy Agency says global capacity is about **85 percent full**. "Nearly all observers have concluded that at projected levels of demand destruction," CIEL writes, "the total global capacity for storing unneeded oil and gas will soon be exceeded." At that point, many producers will be forced to simply **shut down operations** and write-downs will accelerate.

On top of all this has come a price war between Saudi Arabia and Russia, competing for the shrinking supply left over by the US supply glut. Global oil prices were at $69 per barrel in January 2020. The price of a barrel of Canadian tar sands oil appears **headed into negative**

prices, as are **Texas oil** and **natural gas** in some parts of the US, for May futures (**June prices are higher**). The so-called OPEC+ group of oil-producing nations (OPEC + Russia) recently agreed to a 10 million barrel a day cut in production, but **analysts agree** that it is **unlikely to be sufficient to stabilize prices**.

(In the hours after this article was first published on April 20, oil futures for May fell to **negative prices**. Mind-boggling.)

Freight trains filled with oil in Krasnodar, Russia, on April 14. As supply exceeds demand and oil prices fall, oil producers find themselves confronted with storage challenges. | Igor Onuchin/TASS/Getty Images

When storage capacity runs out, producers are forced to pay people to take oil off their hands. (Raise your hand if you had "**negative oil prices**" on your 21st-century bingo card.) Even if storage doesn't completely run out, it will be close to full, serving to suppress prices, for years. Petrochemicals and plastics don't have it much better, with major investors delaying or dropping out of projects left and right.

"In the medium term," CIEL writes, "the prospect of a full recovery for many of these revenue streams is, at best, uncertain, and, in many cases, unlikely." Fossil fuels and petrochemicals could struggle for years.

And even if they eventually manage to achieve something like their pre-virus trajectory, that trajectory was sloping downward. As CIEL summarizes: "the pandemic exposes and exacerbates fundamental weaknesses throughout the sector that both predate the current crisis and will outlast it."

Wasting stimulus money on fossil fuels makes no sense, so Trump will probably do it

Slowly but surely, the world is beginning to take global warming seriously, shifting attention and investment to materials and sources of energy that do not produce greenhouse gas emissions. As more and more jurisdictions, institutions, and investors turn away from fossil fuels, explicitly citing climate change, those left holding carbon-intensive assets will become targets of increasingly intense legal and civic activism holding them responsible for the damages.

CIEL concludes with recommendations to investors, frontier countries, and local communities: Take heed of fossil fuels' long-term weakness when making decisions about the future. CIEL also argues that public officials "should not waste limited response and recovery resources on bailouts, debt relief, or similar supports for oil, gas, and petrochemical companies."

Given the well-established inclinations of Trump and congressional Republicans, that recommendation is likely to fall on deaf ears, at least in the US. If Democrats do not muster the courage to stop them — and it **does not seem they will** — the GOP is likely to continue showering the fossil fuel industry with favors while dismissing aid to the clean energy industry as frivolous.