

# United States Senate

April 24, 2020

The Honorable Steven T. Mnuchin  
Secretary  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

The Honorable Jerome Powell  
Chairman  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, D.C. 20551

Dear Secretary Mnuchin and Chairman Powell,

Thank you for your leadership over the past several weeks as the country navigates a truly unprecedented assault on our public health and economy. The Department of Treasury (Treasury), Federal Reserve System (Federal Reserve), and officials across the federal government, as well as state and local government officials, have shown resilience emblematic of the American spirit. I stand with you in support of the American economy and ask that both the Federal Reserve and Treasury take urgent action to ensure access to capital for America's oil and gas industry.

A strong energy sector is essential to the economic and national security of our country. In the past decade, dramatic increases in domestic production have resulted in the United States becoming the top oil and gas producer in the world. Consequently, America has gone from being a net energy importer to a net energy exporter, which has had enormous geopolitical and national security benefits. And, at the same time, it has produced millions of high-paying jobs here in the United States.

Three factors have combined to produce the worst economic conditions in the history of the sector's existence. First, the economic shutdown as a result of the COVID-19 pandemic has resulted in a massive decrease in global demand. That decrease is government induced, and presumably temporary. Second, foreign actors—in particular Saudi Arabia and Russia—made the cynical decision to exploit the public health crisis by flooding global markets with oil in an effort to bankrupt U.S. producers. And third, Wall Street investors are facing major political pressure to divest energy holdings and refuse to make capital available to the oil and gas industry.

The combination of these three factors this week produced an unprecedented drop in crude oil prices. In fact, this past Monday, the benchmark price for U.S. crude oil closed at a historic -\$37.63, the first *negative* close in history. Moreover, the next day, the S&P 500 fell 3.1 percent, underscoring the systemic importance of a strong oil and gas industry to the health of the overall economy. The oil and gas industry lost more than 51,000 jobs in March, with losses likely to be much worse in the months

ahead if relief is not provided. The national rig count has declined 40 percent since March 16, 2020 and companies are cutting investment totaling billions of dollars. The Energy Information Administration now predicts the U.S. will revert to being a net importer of oil and gas by the end of the year. Domestic production—and not being dependent on Middle East imports—is simply too important to our economic and national security to ignore.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act directed the Federal Reserve to provide immediate liquidity for small- and medium-sized businesses through the creation of the Main Street Lending Program (MSLP). I would like to commend the Federal Reserve for expeditiously creating both the Main Street New Loan Facility (MSNLF) and the Main Street Expanded Loan Facility (MSELF). Unfortunately, these programs are not sufficiently structured to support the urgent needs of companies who engage in or support oil exploration, production, transport, storage, and refining activities. For example, the MSNLF and MSELF both prohibit eligible borrowers, in this case oil and gas companies, from using loans to refinance pre-existing debt, and they place restrictions on the size of loans for businesses with large amounts of debt.

Because of these restrictions, small- and medium-sized oil and gas companies, who desperately need liquidity because of massive demand disruption caused by COVID-19 and foreign oil aggressive overproduction and price discounts, are unable to access the short-term liquidity they need to avoid bankruptcy.

This problem is exacerbated because credit lines in oil and gas are periodically redetermined, with a wave of redeterminations occurring this month and next month. Given the political pressure on lenders to shift assets away from energy, opportunistic redeterminations could force the immediate bankruptcy of nearly every independent producer in the United States.

The Administration should not be picking winners and losers among different energy sources, but President Trump has rightly committed not to allow financial institutions to discriminate against the oil and gas industry and use this crisis to make politically-driven equity calls that force the bankruptcy of American producers.

Additionally, one of the conditions for using the existing facilities dictates that a borrower must attest they require financing because of circumstances attributed to COVID-19, and the proceeds must be used to maintain payroll and retain employees; in the context of energy, these requirements may prove to be too restrictive. To survive, the oil and gas industry needs to be able to access short-term liquidity in order to pay full-time employees, interest on debt service, equipment leases, taxes, and utility costs. Allowing the current government-created crises to dry up all liquidity will cripple our country's domestic exploration and oil refining capabilities.

Under the authority of Section 13(3) of the Federal Reserve Act, the Federal Reserve, with the approval of the Secretary of the Treasury, should immediately create a new lending facility that will provide emergency liquidity for small-and-medium sized businesses that work directly or indirectly with the oil and gas industry. Without any such assistance the United States risks the loss of hundreds of thousands of Americans jobs and irreparable damage to our domestic energy infrastructure.

The COVID-19 outbreak has been a defining challenge for nearly every American and many millions of people across the world. I have supported the efforts taken by the Trump Administration to mitigate the effects of the pandemic and preserve American jobs, and look forward to continuing to work with you to prepare the economy to reopen.

Thank you for your consideration. I look forward to your prompt response.

Sincerely,



Ted Cruz  
United States Senator

cc: Secretary Dan Brouillette, Department of Energy