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Before the

FOSSIL FUEL DIVESTMENT FORUM
Relative to the Proposed "Fossil Fuel Divestment Act"
(S. 2126/A.1536)

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Good morning. I am Karen Moreau, Executive Director of API – New York. We are a division of the American Petroleum Institute (API), which is the only national trade association to represent all aspects of America's natural gas and oil industry. We support 10.3 million U.S. jobs and 8 percent of the U.S. economy. Our more than 600 corporate members are producers, refiners, suppliers, pipeline operators and marine transporters, as well as service and supply companies that support all segments of the industry. Locally our members include BP America, Marathon Petroleum Corporation, ConocoPhillips, ExxonMobil Corporation and Shell Oil Company.

**Natural Gas & Oil Stocks Produce Better Returns in Good & Bad Economic Times**

Thank you for this opportunity to submit comments on the "Fossil Fuel Divestment Act," (S.2126/A.1536) relative to divesting the New York State Common Retirement Fund from fossil fuel holdings. In April 2015, the American Petroleum Institute released a study conducted by Sonecon, which analyzed the pension systems of 17 states showing that returns on state pension funds from investments in natural gas and oil companies continued to provide strong earnings for public pension retirees, including America's teachers, firefighters and police officers. On average $1 invested in oil and natural gas stocks in 2005 was worth $2.30 in 2013. By contrast, $1 invested in all other assets over the same period was worth $1.68. Overall, natural gas and oil stocks made up, on average, 4 percent of holdings in the top public pension funds; however, they accounted for, on average, 8 percent of the returns in these funds from 2005-2013. The report overwhelmingly concluded that through good economic times and challenging ones, natural gas and oil investments far outperformed other public pension holdings. Therefore, divestment from all holdings in the 200 largest publicly traded natural gas and oil companies could lead to monetary losses for the New York State Retirement Fund and could be a breach of fiduciary responsibilities.

Divestment could mean not only monetary losses for the state retirement fund but a loss of power by our State Comptroller, Tom DiNapoli, to decide what would be the most profitable outcome for his investors. "I've got a million New Yorkers who depend on this pension fund," DiNapoli said to the news outlet *Politico New York*. "We continue to make money on oil and gas. It's just the reality." To that point, U.S. pension fund managers (public and private) clearly believe natural gas and oil stocks are very good investments.

**Divestment Is Costly**

In April 2017, CalPERS rejected calls for divestment from natural gas and oil, noting "Divesting appears to almost invariably harm investment performance." There is no valid reason to believe that divestment will cause a devaluation of oil and natural gas company stock or inhibit the primary business of natural gas and oil companies. These companies are valued based on factors that include expected cash flow, risks to operations (including potential costs of complying with GHG emission control policies) and operational transparency. In 2017, the Vermont Pension Investment Committee determined that divestment increases costs, adds diversification risk, fails to materially affect climate risk, fails to promote alternative energy technologies, and introduces a "slippery slope" of potential for other restrictions on future investment. According to a study by Dr. Hendrik Bessembinder, professor of finance and Francis J. and Mary B. Labriola Chair in the W.P. Carey school of Business at Arizona State University, these risks and added costs could result in similar funds losing two to 12 percent of their value over a 20-year period.

**Natural Gas and Oil Are Projected to Remain a Part of the Energy Mix Far Into the Future**

Natural gas and oil production has increased significantly over the past decade, providing Americans and New Yorkers with an increased domestic supply of affordable, clean and reliable energy. However, activists point to "stranded assets" as a reason to divest, though projections show that consumption of natural gas and oil are not only expected to continue but could expand. In the International Energy Agency's (IEA) 2018 annual outlook, global consumption of natural gas and oil is projected to increase by almost 25 percent between 2017 and 2040 in the New Policies scenario, the IEA's central scenario. Global natural gas and oil share of total energy consumption which stood at 54 percent in 2017, is projected to remain at about the same level at 53 percent in 2040 in the New Policies scenario. Similarly, the U.S. Department of Energy's Energy Information Administration (EIA) projects that domestic demand for natural gas and oil (combined) could increase by nearly 12 percent between 2017 and 2050. The EIA projects that U.S. natural gas and oil share of total energy consumption which stood at 66.6 percent in 2017 is projected to increase to 68.3 percent in 2050. Looking at these scenarios, the proven reserves that are used to help determine the value of a company are expected to continue holding value. Nevertheless, companies continue to hedge their long-term risk by investing in new technologies, pricing carbon into their long-term economic plans and diversifying supplies geographically and by resource type.

**Divestment is not an Effective Climate Strategy**

It is widely understood and agreed upon that divestment will have no effect on greenhouse gas emissions. Experts have concluded that divesting of fossil fuel stock will not contribute to a meaningful reduction in greenhouse gas emissions. According to Dr. Daniel Fischel, chairman and president of Compass Lexecon and the Lee and Brena Freeman Professor of Law and Business, Emeritus at the University of Chicago, "No matter where one stands on the science, economics, and policy of the climate change debate, there is no basis to believe that divestment will help resolve these issues or push the debate materially in any productive direction." In fact, divestment could work against efforts to reduce greenhouse gas emissions by causing large groups of people, like those represented by the New York State Comptroller, to lose any level of influence over the natural gas and oil industry. Even further, S.2126 attacks specific companies due to their placement on a list (The Carbon Underground 200). While it may make sense to some to rank natural gas and oil companies on their environmental efforts based on the reserves held by those companies, doing so ignores any efforts a company may have made toward reducing emissions or developing alternative technologies.

**No State Has Ruled in Favor of Divesting Public Funds from Natural Gas and Oil Companies**

In 2015, Vermont's State Treasurer and her advisory group said no to divestiture because it would financially hurt its retirement system and result in lost opportunity. A Vermont senior state official concluded that selling their natural gas and oil stocks would be a $9 million hit annually to the pension fund. Both Massachusetts and Connecticut voted against divestment. In 2015, the Treasurer of the State of Connecticut, Denise Nappier, wrote compelling testimony in opposition of a divestment bill, which did not pass, and recommended that the decision on whether and when to divest from natural gas and oil companies be left in the hands of the state Treasurer. New York's State Comptroller has echoed similar assertions: "To take all of our cards off the table, I think is not a smart strategy for moving the market. You're not going to put these companies out of business, but you're going to lose your clout."

**Endowment Funds Continue to Reject Divestment Efforts**

Cornell, Harvard, Yale, Brown and Middlebury College are amongst the many institutions that have pushed back against the divestment movement. Drew Gilpin Faust, former president of Harvard, said she found it "troubling" to require divesting from an entire class of companies when at the same time Americans rely on the products and services of these companies for so much of what we need every day – heating, lighting and transportation. "It is hard for me to reconcile that reliance with a refusal to countenance any relationship with these companies through our investments," Faust said. Divesting would also limit portfolio diversification, thereby increasing risk. In 2016 Cornell University also rejected fossil fuel divestment. "The university's endowment must not be regarded primarily as an instrument of political or social power; its principal purpose is to provide income for the advancement of the university's educational objectives," said Donald Opatrny, chair of the university's board of trustees' investment committee. In September 2015, the American Petroleum Institute released a study conducted by Sonecon, which analyzed the financial performance of American college and university endowments and the assets they hold over the most recent year, the most recent five-year period and the most recent ten-year period. The analysis of returns by asset class revealed one consistent theme: in all three time periods, shares of natural gas and oil companies outperformed both the overall returns of these endowments and the returns of every other asset class. Also, over the past decade, natural gas and oil company shares held by endowments achieved average annual returns that were 71.8 percent greater than the average annual returns of the S&P 500 and 88.7 percent greater than the average annual returns of endowments overall.

Pension plans are long term investments, and studies like Sonecon and Compass Lexecon demonstrate that oil and gas holdings have performed extremely well over the long term.

## Natural Gas and Oil Industry Invests in Clean Energy Alternatives

We recognize that to meet the expected increase in energy demand our nation needs all sources of commercially viable energy, as well as greater commitment to energy efficiency and energy conservation. From 2000-2016, the U.S. natural gas and oil industry invested more than 25 percent of total dollars spent on Greenhouse Gas mitigating technologies, totaling $108 billion. No other U.S. industries – automotive, electric utilities, or agriculture and food processors – invested even half that amount, and the federal government invested about $151.4 billion. Our industry was responsible for approximately 16 percent, or $19.6 billion, of all investments in non-hydrocarbon resources, including investments in wind, solar, geothermal, and biomass technologies. Natural gas and oil companies have poured money into developing alternative energy solutions to meet demands for cleaner more efficient energy and reduced 2016 emissions by the equivalent of 57.1 million metric tons of CO2 compared to the previous year – equal to taking 12.1 million cars off the road.

## Natural Gas & Oil Industry Leads the Way in Reducing Carbon Emissions

Thanks in large part to the increased use of lower-emission natural gas that the industry is producing, U.S. carbon dioxide emissions are at their lowest levels in a generation, according to the Energy Information Administration. Our industry has helped our economy reduce carbon dioxide emissions more than any nation in the world. Emissions have plunged while natural gas production has soared thanks to voluntary efforts and technological investments from the oil and gas industry. As a result of increased production, we have seen a gradual switch of power plants to cleaner-burning natural gas and reduced natural gas bills for New Yorkers.

## Conclusion

The natural gas and oil industry believes that New York State can take measures to reduce greenhouse gases and promote alternatives while maintaining its productive investment portfolio benefitting retirees, which includes investments in natural gas and oil companies. Divesting the New York State Retirement Fund from holdings in in specific natural gas and oil companies is not a prudent approach and symbolic only. It would neither be an effective way to address global warming nor be consistent with the state retirement fund's mission of maximizing its profits for our hard-working municipal and state employees.

This industry opposes the "Fossil Fuel Divestment Act." Thank you for the opportunity to present our industry's views.