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**Testimony of State Senator Liz Krueger
At Public Advocate Letitia James' Hearing On Climate Action
November 29, 2017**

My name is Liz Krueger, and I represent the 28th District in the New York State Senate, which includes the Upper East Side, East Midtown, and Midtown areas of Manhattan. I am also the Ranking Member of the Senate Finance Committee. I regret that I am unable to testify in person, but I want to thank you for calling this hearing and providing an opportunity to discuss the urgent action that needs to be taken by our city and our state to mitigate the worst impacts of human-caused climate change.

In the past month, we have marked two significant milestones in the unfolding global climate crisis. October 29th was the fifth anniversary of Superstorm Sandy landing in New York; and November 4th marked one year since the Paris Climate Agreement went into effect. These two occasions remind us of both the extreme risk of inaction, and the possibility that concerted effort can fend off catastrophe.

Fighting climate change requires many separate and complimentary strategies addressing a variety of deeply entrenched factors contributing to the problem. Today I will be discussing one action in particular that New York City can take immediately to encourage a shift away from fossil fuels, while at the same time safeguarding the financial future of our workers and retirees – fossil fuel divestment. Divestment is a financially prudent step to protect pension holders, as well as a morally imperative withdrawal of support from companies that are driving climate change, and it aligns our financial interests with our stated goals of moving toward a clean, carbon-free future.

In 2015 I introduced, along with Assembly Assistant Speaker Felix W. Ortiz, the Fossil Fuel Divestment Act (S4596/A3712), to require the New York State Comptroller to divest the state pension fund of all holdings in the 200 largest publicly traded fossil fuel companies, known as the CU200. The legislation provides a five-year horizon for completion of divestment in order to maximize financial flexibility. Our bill, currently co-sponsored by 39 of our legislative colleagues, is part of a global divestment movement that includes over 800 institutions

controlling \$5.57 trillion in assets. The same logic that led us to recommend divestment for the State pension fund applies just as strongly to the New York City pension system.

New York State's pension fund, the Common Retirement Fund, has around \$4 billion invested in the CU200, with over \$1 billion in ExxonMobil alone. New York City's five pension funds together invest at least \$3 billion in the CU200, including hundreds of millions in Exxon, Chevron, and ConocoPhillips. Remaining invested in these companies threatens the value of the pension funds and the secure retirements of the 1.5 million New Yorkers who rely on them.

Throughout the 20th Century, coal, oil, and gas were profitable investments. But the world is now beginning to realize that in order to avoid the worst effects of climate change, 85% of current fossil fuel reserves must stay in the ground. These proven reserves are a significant part of the valuation of fossil fuel companies. Therefore, the more action we take to prevent climate change, the more rapidly the value of fossil fuel companies will drop, as their unneeded reserves become stranded assets weighing down their balance sheets. The impact of the clean-energy transition is already being felt by these companies, and the economics of renewable energy continues to develop in such a way as to threaten the hegemony of fossil fuels regardless of the actions taken by governments.

Evidence that fossil fuel companies have become a bad investment is readily available. The Common Retirement Fund has already lost more than \$260 million in coal investments since 2010, and a 2016 study by Corporate Knights estimated that the Fund was valued at \$5.3 billion less than it would have been had it divested from fossil fuels in 2012. Additionally, leading fossil fuel-free investment indices have outperformed their fossil fuel-inclusive counterparts consistently over the last decade and more. Consider, for example, the MSCI ACWI Ex Fossil Fuels Index. This index is based on the MSCI All Country World Index, one of the main global equity indices, but it excludes companies that own oil, gas, and coal reserves. From its inception on November 30, 2010, to February 29, 2016, the MSCI ACWI Ex Fossil Fuels Index generated a 7.54% annualized gross return, versus a 6.38% return generated by the MSCI ACWI benchmark. This outperformance by the fossil-free index remains consistent over the one- and three-year time periods as well. Similarly, the Fossil Free US Index has generated a 73.84% return over the ten years to December 31, 2015, compared to 63.74% by its S&P 500 benchmark. This outperformance holds true for the past five-, three-, and one-year periods as well.

While it is true that there have been periods during which fossil fuel indices have outperformed those without fossil fuel stocks, particularly during parts of the last century, fossil fuel stocks have not been a source of outperformance for the past ten years. More importantly, long-term trends toward a low-carbon economy do not suggest a repeat of any sustained fossil fuel boom similar to previous periods.

Beyond purely financial considerations, in the current political climate it is vital that New York City and State continue to lead the fight against climate change in every way possible. The impact of the New York City pension system joining the climate leaders already committed to divestment would be significant. Academic research suggests that divestment movements can have significant impact on companies through changes in market norms and the process of stigmatization. Stigmatization can impact enterprise value by discouraging engagement by business partners, employees, lenders, governments, politicians, etc, as well as leading to

restrictive legislation. Peabody Energy, in their 2014 annual report, said this of the divestment movement: “the impact of such efforts may adversely affect the demand for and price of securities issued by us, and impact our access to the capital and financial markets.”

It has been argued by both the City and State Comptrollers that a policy of shareholder engagement is a more effective strategy than fossil fuel divestment. However, although both Comptrollers have had success using shareholder engagement to change corporate behavior related to labor and environmental issues, their significant efforts to influence fossil fuel producers have not been successful. After years of shareholder activism and engagement with fossil fuel producers, there is no evidence to suggest these companies are changing the fundamental business models that have led to the climate crisis. From 2000 to 2015, the oil and gas industry spent over \$3 trillion dollars in the U.S. alone to explore and tap new fuel reserves that can never be burned. In that same time period, the industry invested just \$14.8 billion in renewable energy, representing just one half of one percent (0.5%) of total capital spending. In fact, since 2007, several of the largest CU200 companies have reduced or ceased their minimal efforts to transition to alternative energy business models. Significantly, these companies also continue to fund efforts to spread climate science denial, and spend heavily on lobbying to prevent effective climate action at all levels of government.

Shareholder resolutions addressing climate change also have a history of falling on deaf ears in the fossil fuel industry. According to a report by Elizabeth Douglass of Inside Climate News, between 1990 and 2015 shareholders of ExxonMobil, Chevron, and ConocoPhillips introduced more than 100 climate-related resolutions encouraging those companies to acknowledge and take action on climate risks. Of those, 83 resolutions received a vote, and not one of them passed. Shareholders for Exxon alone, which is the single largest CU200 holding in the state pension fund, put forward 62 of those failed resolutions.

Divestment in no way precludes other, more direct action to reduce emissions. In fact, part of the strategic purpose of the divestment movement is to create the political space for additional actions at the local, state, national, and international level. It is not an “either-or” pitted against other climate initiatives, but works in synergy with those efforts. The divestment movement has raised the profile of the issue of climate change and contributed to the pressure on governments that has led to actions like the Paris Accord and the productive rivalry between New York State and California on reducing greenhouse gas emissions.

Climate change is a real and serious threat to the health, welfare and prosperity of all New Yorkers, all Americans, and all people on the planet. Maintaining the status quo of fossil fuel energy production will unquestionably lead to a self-created catastrophe. Yet at this critical time, the federal government is burying its head in the sand or worse, rolling back vital climate action. Therefore, the City and State of New York have a moral responsibility to take every step to avert disaster. Profiting from investments in a business model that perpetuates climate change (or worse, losing money from those investments) is not morally acceptable and puts New York on the wrong side of history. As State Comptroller DiNapoli said when divesting from Sudan in 2007, “I’m confident the members of the Retirement System do not want the pension fund to support governments that engage in genocide.” The same confidence must surely apply to companies that put our entire society at risk in the name of short-term profit.