Testimony regarding S.28 before the Vermont Senate Committee on Government Operations May 2015

Submitted by:
Amy Miller
City & State Divestment Campaigner, 350.org
20 Jay St., #732 Brooklyn, NY
Amy@350.org

This testimony is submitted on behalf of 350.org, an international organization building a climate movement in over 188 countries. There are now over 500 campaigns worldwide calling on governments, pension funds, educational, foundations and religious institutions to divest from fossil fuels.

This statement is in support of S.28, which would make Vermont the first state to pass divestment legislation. We urge Vermont to join the fastest growing divestment campaign in history and receive global attention for bold leadership on climate. Divestment is the right moral and financial choice for Vermont.

Legislators in Vermont know that the business of fossil fuels poses a catastrophic threat to the health and safety of their constituents, including pension holders: current state employees and retirees. The core business of the companies listed as part of S.28 are the driving force of extreme weather, flooding, and drought that threaten homes, agriculture and businesses in Vermont.

In response in the activities of the very companies cited in S.28, you have championed policies and programs that cut carbon emissions, adapt to the changing climate, and move forward the transition to renewable energy. You have done so because you take seriously your job to protect Vermonters. We urge Vermont legislators to consider this obligation when choosing a side on fossil fuel divestment.

While investments change frequently, the act of divestment has historically been reserved for extreme circumstances. There can be no doubt that this is one of those times: the short timeline for climate action requires a firm commitment to cut ties with fossil fuel companies.

When opponents of divestment point to shareholder engagement as a sufficient alternative to address climate change they are ignoring both the general limits of shareholder engagement as well as the real experience of failure to change the companies in question.

A closer look at stories of successful engagement will find they describe changes to the way non-fossil fuel companies conduct their business. These examples are simply not relevant when making a decision on whether or not to support S.28, which deals exclusively with fossil fuel companies where the core business is unalterable. Furthermore, when it comes to fossil fuel companies, the only request worth pursuing is a commitment to stop exploration, leave 80% of reserves in the ground, and publicly support a transition to renewable energy. Shareholder resolutions with lesser asks, such as disclosure, do not represent a proportional response to the reality of climate change.

As it could not with tobacco companies, engagement will not work to change the core business model of a company. Fossil fuel companies perceive their flawed policies as unalterable, and have shown no inclination or ability to lead a transition to a cleaner economy. In fact, in the last decade, many oil and gas companies have sold their wind and solar operations and have publicly stated they plan on burning all of their reserves and more. The Rockefeller family recently described their decision to divest after trying and failing to get Exxon Mobile to even accept climate change at all.

In January, 2015, institutional investors achieved what can be considered a breakthrough in corporate engagement, when Royal Dutch Shell PLC agreed to unprecedented disclosures about the company on climate risk. Development of new fossil fuel exploration and extraction process tell a different story. Shell is eagerly preparing to return to the arctic, to begin deep water drilling in one of the most unpredictable and risky environments on the planet. Similarly, BP has also just agreed to shareholder's request for more disclosure while reducing their activities in renewable energy to near zero and expanding their drilling operations. The federal government continues to support these activities by issuing permits to drill in the arctic. And the local and state governments continue to finance the new drilling expeditions through their investments.

Instead of achieving an end to the fossil fuel era, the staunch supporters of shareholder engagement simply reconfirm their commitment to the status quo - where investors condone unjust and immoral activities: arctic drilling, hydraulic fracturing, tar sands mining, mountaintop removal coal mining, and infinite exploration for more unburnable carbon.

Beyond the obligation to protect constituents from climate disaster, divestment is a sound financial decision with low risk. Indeed, it is the fiduciary duty of investment decision-makers to go beyond studying the past returns, and consider the ramifications of the rapidly changing economic reality of an energy transition. Investing in a dying industry is too great a financial risk when state investment returns are needed to meet the basic needs of pension holders and those who rely on government services.

Possible concerns about transaction costs are based on an inaccurate estimate in the 2013 New England Pension Consultants' (NEPC) 2013 report on pension divestment in Vermont. The NEPC report estimates a one-time transaction cost, overlooking the prudent ask of a strategic divestment over a 5-year time frame for divestment. The time frame gives ample opportunity for effective asset managers to minimize costs of investment transactions associated with fossil fuel divestment, as they would any transactions associated with the normal business of investment management.

In the same 2013 NEPC report the consultant claims significant future loss if the state were to divest. We are able to look at real data since 2013, and they were wrong. For example, the San Francisco Pension Fund only holds 2.7% in the top 200 fossil fuel companies list. According to their public data, San Francisco City Pension lost $50 million on Fossil Fuel investments just last year. According to the Boston Globe "In a review of publicly disclosed material, we have found Harvard Management Company has lost an estimated $21 million dollars over the past three years by ignoring calls to divest and continuing to hold the world's largest owners of coal, oil and gas reserve."

With governments taking binding steps to limit emissions, and communities demanding a transition to renewable energy, 80% of current fossil fuel reserves will need to remain underground and unsold. Renewable energy systems are becoming rapidly more affordable, while extracting fossil fuels becomes more costly. Investing in companies with these potentially stranded assets on their balance sheets carries substantial risk both to those investments and to the economy as a whole.

Passing S.28 is an opportunity for the State of Vermont to act boldly at a pivotal moment in history. Thank you for your consideration of S.28 and your commitment to securing a healthy and sustainable home for the people of Vermont.