Massachusetts Petroleum Council
A Division of the American Petroleum Institute

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Senator Cindy Friedman, Senate Chair
Representative Jerald A. Parisella, House Chair
Joint Committee on Public Service
Room 156, State House
Boston, MA 02133

Chairman Friedman, Chairman Parisella and Members of the Committee:

Thank you for the opportunity to offer testimony in opposition to H3281 - An Act Relative to Public Investment in Fossil Fuels. I am providing testimony on behalf of the Massachusetts Petroleum Council, a division of the American Petroleum Institute, or API. API is a national trade association representing over 625 companies engaged in all aspects of the oil and natural gas business.

The legislation would basically prohibit the Pension Reserves Investment Management Board from investing the assets of the public retirement systems under its control in fossil fuel companies, and would require the Board to divest from the direct ownership of any publicly traded securities in such companies within 3 years as recommended by the special commission created in the legislation. Fossil fuel company is defined as a company "identified by a Global Industry Classification System code in one of the following sectors: (1) coal and consumable fuels; (2) integrated oil and gas; (3) oil and gas exploration and production."

The basic moral argument for divesting from fossil fuel companies appears to be that fossil fuels contribute to climate change and climate change is bad for the environment; therefore, fossil fuel companies are bad and should be divested from. And, while fossil fuel companies could theoretically switch to profitable renewables-based models, they will not do so without government intervention such as divestment by public pension funds.

In February of 2017 the Vermont Pension Investment Committee released a report entitled "Climate Risk Divestment Discussion" that addressed the impact on its investment portfolio of divestment from fossil fuels.[1] The report analyzed such divestment within the context of comparison to peer public pension fund actions regarding climate change issues. Its authors determined that:

[1] Climate Risk Divestment Discussion, February 8, 2017 at http://www.vermonttreasurer.gov/sites/treasurer/files/VPIC/PDF/2017/PCA_Climate_Divestment_Report_for_VPIC.pdf.

- Divestment from fossil fuels is a sparsely used strategy among U.S. public pension plans, including by those plans that are active on potential climate change risks to their investment portfolios;
- Divestment has little proven impact on fossil fuel corporate policies, or on government policies;
- Divestment has not been shown to be in the best interest of Vermont's pension beneficiaries;
- Divestment does not address climate change risks evident in other industries such as infrastructure and agriculture; and
- Divesting from fossil fuel companies actually increases investments in sectors whose products and services generate demand for fossil fuel energy, including utilities and transportation, and in sectors that generate significant CO2 emissions, such as construction.

The report's authors ultimately concluded that proxy voting and engagement efforts on climate risk issues at fossil fuel companies, as well as additional investment strategies, are better suited than divestment for the fiduciary of a U.S. public pension fund to influence corporate behavior concerning climate change.

It has become somewhat fashionable to cast fossil fuels in a negative light. Yet there are enormous social benefits to using fossil fuels, such as poverty reduction and increased mass mobility of peoples and goods that continue to this day and will for the foreseeable future. If fossil fuel use were to end tomorrow, the economic consequences would be catastrophic (starvation would follow, for example, as tractors' fuel tanks ran dry). Petroleum-based personal care, food, clothing, and packaging products feature heavily in the daily lives of billions of people. Every day, refineries separate petroleum into the petrochemicals used in more than 3,000 products, including tooth brushes and make-up, road surface tar and other materials, roof shingles and PVC pipes, crayons and other paraffin wax products, plastics, disposable plastic bottles, rubber, fiberglass, detergents, paint, paint thinner, adhesives, clothing, electronics, appliances, paper products, batteries and pharmaceuticals. Even solar panels and the blades on wind turbines are manufactured using petrochemical derivatives.[2]

Overall world energy consumption is projected to grow at an annual average rate of 1.4% through 2040. By 2040, fossil fuels, including petroleum and natural gas, are projected to account for 78% of total world energy consumption. And, as most of the scientific community represented on the Intergovernmental Panel on Climate Change agreed as recently as 2014 that other energy sources, includ-

[2] All chemicals and liquefied petroleum gas start with oil, coal or natural gas. Most refineries only produce some base petrochemicals or petrochemical feedstocks. Chemical plants use base petrochemicals to make derivatives. Derivatives are then further developed into consumer items and other products.

ing natural gas, are likely to prove indispensable in the ongoing global effort to combat climate change.[3]

By comparison, in the case of divesting from tobacco companies, tobacco as a product was a personal luxury product that produced no such countervailing social benefit, and the product was not integrated into almost every aspect of modern life in a manner similar to fossil fuel products. Therefore, while tobacco's harm was "unjustified," to use the language of the standard for divestment, it is more difficult to argue that the harm produced by fossil fuels has been unjustified as well.

Harvard's President Drew Faust noted this ethical dilemma in her justification for not supporting divestment, finding it a "troubling inconsistency" that "as an investor, we should boycott a whole class of companies at the same time that, as individuals and as a community, we are extensively relying on those companies' products and services for so much of what we do every day."

Moreover, most of the major energy companies have publicly acknowledged that climate change is happening and is caused by humankind. Several large energy companies came out in support of the Paris Agreement in 2015, and others, including Shell, BP, and Statoil signed the 2012 Carbon Price Communiqué in favor of putting a global price on carbon. And the industry has long been involved in renewable energy and particularly in developing the technologies to make them viable energy alternatives. Since 2000, the natural gas and oil industry has invested $15 billion in nonhydrocarbon technologies – including wind, solar, biofuels and geothermal technologies. That investment is just part of the $90 billion the industry invested between 2000 and 2014 in zero- and low-carbon emissions technologies.[4] And, while some might see fossil fuel company investments in renewable energy as "token efforts," others believe that climate risk "occurs against [the] backdrop of opportunity,"

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[3] See IPCC, 2014: "Summary for Policymakers," In: Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change:

> GHG emissions from energy supply can be reduced significantly by replacing current world average coal-fired power plants with modern, highly efficient natural gas combined-cycle power plants or combined heat and power plants, provided that natural gas is available and the fugitive emissions associated with extraction and supply are low or mitigated (robust evidence, high agreement). In mitigation scenarios reaching about 450 ppm CO2eq concentrations by 2100, natural gas power generation without CCS acts as a bridge technology, with deployment increasing before peaking and falling to below current levels by 2050 and declining further in the second half of the century (robust evidence, high agreement). [7.5.1, 7.8, 7.9, 7.11, 7.12].

[4] Thomas Tanton, "Key Investments in Greenhouse Gas Mitigation Technologies from 2000 through 2014 by Oil and Gas Firms, Other Industry and the Federal Government," API. http://www.api.org/~/media/files/ehs/climate-change/2015-t2-key-investments-in-ghg-mitigation.pdf

and that large oil and natural gas companies will be heavily involved in developments of new technology.[5]

Given that, then, should all such companies be divested from, including those that have responded favorably to environmental shareholder activism, are reporting and reducing their emissions, and have diversified product offerings? Oil and natural gas are not the only products that have contributed to rising greenhouse gas emissions. Using fossil fuel companies as scapegoats without addressing the systemic issue of decarbonizing all of society risks allowing the other contributors to continue with business as usual.[6]

Governmental bodies both at the state and federal level must weigh the trade-offs, and it is a balancing act, between curbing carbon emissions (which we must continue to do) while protecting economic growth. We cannot ignore either. Both private markets and governments must continue to collaborate to create a reliable and clean energy system in Massachusetts.

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[5] See Daniel Abbasi, How Activists Should Engage Fossil Fuel Companies, INSTITUTIONAL INV'R: UNCONVENTIONAL WISDOM (Jan. 17, 2014), https://perma.cc/BSK6-LTLQ (arguing that fossil fuel companies are too integrated into the global economy for governments to permit a massive write down, and that "[T]he world may not be able to transition urgently to a low-carbon economy without harnessing [fossil fuel companies'] cash flow, political power, and large-scale execution capabilities.")

[6] See Climate Risk Divestment Discussion, supra at 24:

> Buildings account for about 30 percent of emissions, about half of which comes from the "embodied" carbon emissions of the building itself -the energy it takes to make the building materials, transport them and build the building. *Portland cement alone accounts for five percent of all carbon emissions worldwide* (emphasis added). Steel and aluminum require intense industrial heat to manufacture. Lumber, in general, needs to stay in the ground as trees to sequester as much atmospheric carbon as possible. With the world in the midst of an unprecedented period of urbanization, and three billion people set to enter the global middle class in the coming decades, emissions from construction are at an all-time high.

See also "Statement of the Yale Corporation Committee on Investor Responsibility," Yale University, August 27, 2014. http:// secretary.yale.edu/sites/default/files/files/CCIR%20Statement.pdf.

> Targeting a segment of the fossil fuel extractive industry (the supply side) for potential divestment largely on account of emissions by other actors downstream from them, while ignoring the direct contribution by individuals, businesses, government agencies, nonprofit and other organizations that emit CO2 by burning fossil fuels (the demand side), in our view is misdirected. And it does nothing to improve public or private policies that are capable of addressing the problem, either in the United States or globally, including by incentivizing the substitution or development of technologies and behaviors that may ameliorate GHG buildup.

For all of the above-stated reasons, I urge the Committee to report this bill as "ought not to pass." I appreciate this opportunity to provide comments and would be happy to provide any further information to you or your staff if needed.

Very truly yours,

David J. O'Donnell
Associate Director