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Governor Peter Shumlin

Presentation to VPIC

February 23, 2015

Good morning and thank you for inviting me to talk with VPIC about the need for Vermont to divest from coal and ExxonMobil stocks.

As you know, I have called for Vermont to follow California's lead and divest from corporations that derive 50 percent or more of their revenue from coal mining used to generate electricity.¹ Based on conversations my staff have had with the Treasurer's Office, it is my understanding that out of the roughly \$4 billion Vermont manages in pension funds, we have approximately \$600 worth of stocks that fit this definition.

In addition, I have called for Vermont to take the additional step of divesting of ExxonMobil stocks because as Pulitzer-prize winning journalists have uncovered, ExxonMobil spent millions trying to persuade the American people not to support policies to fight climate change while at the same time their own internal research clearly indicated climate change was a real.² In the late 1990's, as they designed their own offshore oil rigs to account for sea level rise, Mobil oil paid for advertisements telling the American people that climate science was uncertain and that the U.S. should not join other nations in a global climate agreement.³ John D. Rockefeller's great grand-daughter Neva Rockefeller Goodwin donated her shares in ExxonMobil this year, so that the proceeds could be sold to support nonprofit work to fight global warming.⁴ She states that after 15 years of failed shareholder engagement and meetings between the Rockefeller family and ExxonMobil to seek to change the company from an oil company to a diversified energy company, she has "lost faith on ExxonMobil's future value."⁵

¹ Chris Megerian, LA Times, "California Pension Funds to Drop Coal-Mining Companies," October 8, 2015, available at: <http://touch.latimes.com/#section/-1/article/p2p-84561954/>.

² Amy Lieberman and Susan Rust, LA Times "Big Oil braced for global warming while it fought regulations," Dec. 31, 2015, available at: <http://graphics.latimes.com/oil-operations/>

³ Id.

⁴ Neva Rockefeller Goodwin, LA Times (published in Valley News), "Giving Up On ExxonMobil," February 16, 2016, available at: <http://www.vnews.com/opinion/21086384-95/column-giving-up-on-exxon-mobil?print=true>

⁵ Id.

Let's be clear – If the Rockefellers cannot convince ExxonMobil to change, Vermont will not succeed in engaging with them either. Rockefeller Goodwin says that as evidence of ExxonMobil's knowledge of climate change as far back as the early 1980's comes to light, and "the enormity of the effects of its lies become more evident, ExxonMobil is positioned to supplant Big Tobacco as global Public Enemy No. 1."⁶ She goes on to say what should be evident to all of us by now, "[t]his is not good for a company's bottom line."⁷ For these reasons, we must divest from ExxonMobil.

In the VPIC invitation letter to me you suggest that when it comes to divesting, "[M]uch of the public discourse has been more about persuasion than a real assessment of the costs and benefits." So for today, let's put aside the fact that as a matter of moral responsibility, Vermont should not be invested in coal when our state is the tailpipe to the dirty energy choices made by states to our West. Let's put aside the fact that coal is responsible for acid rain which has harmed our forests, and mercury pollution that puts brain poison into our fish such that pregnant women and children have to limit their consumption. Let's put aside the fact that coal burning is a leading contributor to global warming that threatens the future of our planet. Clearly those arguments have not persuaded this committee to-date to take action.

So today let's discuss the facts about why I believe in addition to being bad environmental and health policy, it is straight forward bad economic policy for the State of Vermont to be invested in coal stocks:

Coal is a bad investment for our pension funds –

- ***Financial Institutions Agree*** - Recognizing that for the planet to have any chance to slow and reverse the trends of global warming, many large financial institutions have cut back their support for financing the coal industry. In November of 2015, Wells Fargo and Morgan Stanley joined Citigroup, Bank of America, and Goldman Sachs in pledging to "stop or scale back support for coal projects," according to Bloomberg Business.⁸ In a

⁶ Id.

⁷ Id.

⁸ Alex Nussbaum, Bloomberg Business, "Wells Fargo, Morgan Stanley Join Banks Edging Away from Coal," November 30, 2015, available at: <http://www.bloomberg.com/news/articles/2015-11-30/wells-fargo-morgan-stanley-join-banks-edging-away-from-coal>

statement Morgan Stanley said “[w]e will continue to shift our lending and capital-raising efforts toward cleaner and renewable sources of energy and reduce the proportion of our energy financing to coal mining and coal-fired power generation.”⁹ Wells Fargo stated that it “has been and will continue to limit and reduce our credit exposure to the coal mining industry.”¹⁰

- ***Coal Use and Mining is on the Decline*** – In the mid-2000’s coal represented 50 percent of our nation’s power supply, today it accounts for only 35 percent according to the Energy Information Administration.¹¹ That trend is likely to continue, because no one is building new coal plants. According to the Federal Energy Regulatory Commission for the entirety of 2015, a total of one new coal units came online totaling 3 megawatts. Compare that to 50 new natural gas plants totaling nearly 6,000 megawatts of capacity, or 69 wind farms totaling nearly 8,000 megawatts of capacity, or 248 solar plants totaling over 2,100 megawatts of capacity.¹² The market has spoken on coal.

As we use less coal for electric generation, coal mining both in the U.S. and globally is stalling. Reports from China indicate that based on lower demand, it plans to close over 4,000 coal mines.¹³ In another blow to coal mining companies, President Obama recently took strong action to halt new coal mining leases on public lands.¹⁴ According to the New York Times, “[t]he move represents a significant setback for the coal industry, effectively freezing new coal production on federal lands and sending a signal to energy markets that could turn investors away from an already reeling industry.”¹⁵ Perhaps it is not surprising then, that CNN reports that

⁹ Id.

¹⁰ Id.

¹¹ Rory Carroll, Reuters, “California Insurance Commissioner Calls for Coal Divestment,” Jan 25, 2016, available at: <http://www.reuters.com/article/us-california-insurance-coal-idUSKCN0V32SM>

¹² FERC Office of Energy Projects, Energy Infrastructure Update, December 2015, available at: <http://www.ferc.gov/legal/staff-reports/2015/dec-infrastructure.pdf>

¹³ Daniel Cohan, The Hill “Plummeting Coal Use and Peaking Stockpiles,” February 17, 2016, available at: <http://thehill.com/blogs/pundits-blog/energy-environment/269684-plummeting-coal-use-and-peaking-stockpiles>

¹⁴ Coral Davenport, NY Times, “In Climate move, Obama Halts New Coal Mining Leases on Public Lands,” Jan 14, 2016, available at: http://www.nytimes.com/2016/01/15/us/politics/in-climate-move-obama-to-halt-new-coal-mining-leases-on-public-lands.html?_r=0

¹⁵ Id.

the Dow Jones U.S. Coal Index, which captures the value of large coal corporations, “has lost a stunning 95 percent of its value since July 2011.”¹⁶

- ***Coal Companies are Failing*** – As a result of the decline in coal mining, coal electric generation, demand for coal, and coal financing outlined above, coal mining companies are failing. The second-largest coal company, Arch Coal, filed for bankruptcy earlier this year.¹⁷ That follows bankruptcy filings by other major coal companies such as Walter Energy, Alpha Natural Resources, and Patriot Coal.¹⁸ According to The Hill newspaper, “Arch cited weakening demand for coal in filing for Chapter 11 bankruptcy.”¹⁹ California saw the light. Their legislature passed a bill to divest from coal, Governor Jerry Brown signed it, and it had support from diverse stakeholders including the SEIU and the Insurance Commissioner.²⁰ The Board of the California State Teachers Retirement System voted affirmatively to divest its holding from U.S. coal companies, and Investment Committee Chair Sharon Hendricks said of the decision “[w]e determined that given the financial state of the industry, the movement of the regulatory landscape and coal’s impact on the environment, its presence reflects a loss of value.”²¹

Vermont Has a Proud History of Using Divestment as a Positive Tool for Change

I know I don’t need to tell this committee that in each of the preceding three decades, Vermont has stepped up to use divestment.

We used divestment to get out of companies that did business with South Africa under Apartheid in the 1980’s, thanks to leadership from then-Senator Peter

¹⁶ Matt Egan, CNN Money “Wall Street Cuts Lending to Coal,” December 1, 2015, available at: <http://money.cnn.com/2015/12/01/investing/paris-climate-talks-wall-street-banks-coal/>

¹⁷ Timothy Cama, The Hill, “Major coal mining company files for bankruptcy,” January 11, 2016, available at: <http://thehill.com/policy/energy-environment/265395-major-coal-mining-company-files-for-bankruptcy>

¹⁸ Id.

¹⁹ Id.

²⁰ Rory Carroll, Reuters, “California Insurance Commissioner Calls for Coal Divestment,” January 25, 2016, available at: <http://www.reuters.com/article/us-california-insurance-coal-idUSKCN0V32SM>; Press Release, 350.org

“Unions Add Voice In Support of California Thermal Coal Divestment,” June 12, 2015;

²¹ Press Release, California State Teachers Retirement System, February 3, 2016, available at: <http://www.calstrs.com/news-release/calstrs-divests-us-thermal-coal-companies>

Welch and Governor Madeleine Kunin. Former Representative Don Hooper, who was in the legislature when we divested from South Africa, said that the year Nelson Mandela was released from jail he visited that nation and asked business leaders there why Apartheid failed. The answer he got back was “Apartheid failed because all your little divestments in Madison, WI, Cambridge, MA, the state of Vermont...made South Africa an international pariah,” helping reduce capital and investment needed for economic growth.²²

We used divestment, under the leadership of then-Treasurer Jim Douglas with support from the legislature, to get out of Big Tobacco in the 1990’s. We owned more than \$21 million in tobacco stocks back in the late 1990’s, but somehow back then it was deemed prudent and within the fiduciary responsibility to get rid of all of them. Then-Treasurer Douglas confirmed with the Attorney General that divestiture does not violate the trustees’ fiduciary responsibility.²³ According to Pensions and Investments which wrote about the divestment at the time, “[t]he Vermont funds have some of their tobacco investments in an index fund with Alliance Capital Management, but Alliance indicated it can create a tobacco-free index without a problem, Mr. Douglas said.”²⁴ It is interesting that today we hear the argument that we cannot possibly divest of \$600 of coal stocks and get our fund managers to screen it out, but back in the 1990’s Jim Douglas managed to divest of many millions in tobacco stocks and get fund managers to create a tobacco-free index screen without a problem.

We used divestment under the leadership of then-Treasurer Jeb Spaulding to get out of businesses operating in Sudan in 2007, after the tragic events in Darfur. Then-Treasurer Spaulding said:

The Committee believed it would be prudent, from a fiduciary position, to refrain from owning securities in companies listed on the Sudan Divestment Task Force Highest Offenders list, because the value of our portfolio could suffer if we continue holding these securities while other investors take affirmative action to sell securities on the list. Personally, I hope that by

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²³ Vineeta Anand, Pensions and Investments, “Funds Feeling Heat From Tobacco Investments,” April 28, 1997, available at: <http://www.pionline.com/article/19970428/PRINT/704280770/funds-feeling-heat-from-tobacco-investments>

²⁴ Id.

joining with other institutional and individual investors, we can do our part to apply economic pressure on the Sudanese government and companies they do business with to get serious about ending the horrific atrocities still taking place in Darfur.²⁵

Divestment in Vermont has been a seldom-used, but necessary tool to confront major challenges and put us on the right side of history. Jeb Spaulding's rationale for divestment holds true today. It does not matter if we do a bill, or if VPIC decides to make the right decision. The process is not ultimately what this is about. It is about Vermont using our power as an investor to put pressure on coal companies economically, and to protect our pensioners from holding securities that have a bleak future.

I want to ask each of you here today, and I do not mean this to be rhetorical, please raise your hand if you believe Vermont should still own Big Tobacco stocks?

Please raise your hand if you think Vermont should not have divested from South Africa at a time when Nelson Mandela was languishing in prison?

Now please raise your hand, if, after hearing the facts about coal, you still think we should invest our money in the coal industry?

²⁵ Treasurer Jeb Spaulding, news release, February 20, 2007, available at: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/press/20070220_pr.pdf