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To: Members of the Assembly Environment and Solid Waste Committee & Members of the Senate Environment and Energy Committee

From: Raymond Cantor, Vice President Government Affairs

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RE: NJBIA Testimony on Assembly Bill No. 1733 & Senate Bill No. 416

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On behalf of the New Jersey Business & Industry Association, the state's largest business association, I am submitting these comments on Assembly Bill No. 1733 and Senate Bill No. 416, sponsored by Assemblyman McKeon and Senator Smith, respectively. These bills would require that state pension and annuity funds divest themselves from the 200 largest fossil fuel companies. For the reasons set forth below, we strongly oppose this legislation.

Our members are some of the largest companies who produce or distribute fossil fuels as well as those engaged in renewable energy. We also represent the consumers of that energy. Given these diverse interests, we take seriously energy policy and the need to not only work toward decarbonization, but also to ensure that energy, in all its forms, remains affordable, and that our grid and other power sources remains reliable.

We oppose this legislation, while it may be well intended, for two main reasons. First, it is counterproductive and contrary to the policies we believe are essential to our economic and environmental well-being. Second, we also believe it is a dangerous fiscal policy and in abrogation of the state's role as fiduciary in the protection of its pension funds. Let me address the latter issue first.

The State of New Jersey is a Fiduciary of the Pension: The state is the fiduciary of the billions of dollars of pension funds it holds and invests on behalf of the millions of current and former employees who are the beneficiaries of those funds. As a fiduciary it has the responsibility to invest those funds wisely, prudently, and in the interests of the beneficiaries. It is a very dangerous precedent to use those funds to achieve political and social ends and such actions should only be taken in the most extreme cases, if at all.

Pension fund investments should be predicated on sound investment decisions, not politics or policies. We can all conjure up policies we prefer or companies whose behaviors we want to change by threatening divestment. We should resist doing so. Where do we draw the line? And would pension investment policies change with each change of Administration? Let's avoid going down this path from the start.

We have only in the past two budgets made our first full pension payment in decades. We are only now, after decades of running deficits, beginning to right our pension's balance sheet so that the promises made to our state employees can be kept without further impacting our state's finances. Please keep in mind we still have a net pension liability of more \$95.2 billion per the most recent State debt report issued earlier this summer and pursuing investments with the best ROI is critical to reduce that liability. Concern about eroding quality pension investment decisions can be seen from the opposition of public employee unions in New Jersey and whenever state and local governments have explored this idea. Now is not the time

to do anything other than require sound, prudent investments in legally traded companies. To do otherwise would be to jeopardize our pension funds and state's finances and abrogate our fiduciary responsibilities.

Targeting Fossil Fuel Companies is Counterproductive: This bill also improperly seeks to make a villain of the fossil fuel industry. As we continue to decarbonize our economy, let's not forget how our modern economy was built, the benefits carbon-based fuels have made to the world, and the need for these fuels as we responsibly make this transition.

Energy, in all its various forms and uses, constitutes the fundamental building block of the modern economy. Having reliable, abundant, and affordable energy to run our factories, heat and cool our homes, and power our transportation sector has transformed our economy from an animal-powered agrarian economy to the most advanced economic system known to man. It has provided us with the power to create millions of jobs, elevate people out of poverty, and provide a standard of living never before accomplished in human history. It generates tax revenues that support the services needed by our residents. We take our energy system for granted; we merely flip a switch and the lights turn on, we press the ignition and our cars power up, and we turn on the furnace and our homes and offices are heated. Since we stopped using whale blubber and trees as our primary sources of energy, our world has relied on cheap, abundant sources of fossil fuels, be it coal, oil or natural gas. Fossil fuels have been the energy source that has powered our economy. I would venture to say that more people have risen from poverty due to the use of fossil fuels than for any other reason.

Extreme poverty around the world has dropped to historic lows. In fact, the big success of the last generation was that the world made rapid progress against the very worst poverty. The number of people in extreme poverty has fallen from nearly 1.9 billion in 1990 to about 650 million in 2018. This happened as economic growth reached more and more parts of the world, and that economic growth was fueled primarily from fossil fuels. I think it is also obvious to say that by taking people out of poverty, especially extreme poverty, we are saving many, many lives. If our goal is to help lift people from poverty and save lives, if we favor policies that benefit humankind, we need to recognize the role that energy, and fossil fuels, play.

We continue to need fossil fuels today and will for many years to come. If the answer to climate change was so obvious, and the solution was merely to stop using fossil fuels, then we should stop today. It isn't and we can't. This Legislature or Congress has not banned fossil fuel use because the fact of the matter is there is no current realistic alternative available at the scale we need. Members of the Murphy administration, strong advocates for renewables and certainly not cheerleaders for the fossil fuel industry, have clearly and repeatedly said that we will need natural gas to power our homes and generate our electricity for at least the next three decades, if not longer.

The road to decarbonization needs to be a methodical and carefully planned transition, not a jump into cold waters. Current events around the world demonstrate the seriousness of trying to move too fast, too soon. Energy prices in Europe have exploded, brownouts are happening, and the possibility of blackouts and a cold winter looms. Germany finds itself digging for more coal, yes coal, because they refused to invest in cleaner, natural gas. Geopolitics and wars also remind us of the need for energy independence and a strong, reliable energy system.

Another key factor to keep in mind is that the very companies who this bill targets are the very companies that will lead us to a clean energy future. Let me give you a New Jersey example by highlighting one of the presumably key targets of this legislation.

- ExxonMobil's global technology center has been located in Clinton, New Jersey since 1985. At Clinton, nearly 800 scientists, engineers and technicians are working to develop the next generation of scalable, lower carbon energy solutions that address the hardest to decarbonize sectors: commercial transportation, power generation and manufacturing. These include: hydrogen, advanced biofuels;

carbon capture and storage for industrial operations; natural gas technologies; and new energy efficiency processes.

- The work being done by ExxonMobil at its Clinton facility, as well as other companies being targeted by this bill, may result in the breakthroughs we need to fully transition to a net zero economy and in a way that is both affordable and reliable. Yet, this legislation would seek to starve these companies of their capital for some odd notion that our climate change policies can only be accomplished by bankrupting fossil fuel companies. This policy prescription is counterproductive.

Other fossil fuels companies have and are leading the transition to a new energy economy. New Jersey Resources is the state's largest owner of solar facilities. Orsted, before it invested in wind technology, was a major developer of natural gas and oil. If these and the 200 companies being targeted in this bill are denied capital, they will not be able to invest in both new, green technology, but also will not be able to adequately maintain their current infrastructure. The result will be a slower transition to a decarbonized economy, higher gas prices, higher natural gas and oil prices, and instability in the energy marketplace and thus in our whole economy.

Progress Toward Carbon Reduction: We have made tremendous progress toward reducing carbon emissions. We have met the 2020 goals of the Global Warming Response Act primarily by shifting from coal to natural gas. We are developing our wind industry at a fast pace. Solar now accounts for over 6% of our electric energy mix, and we have taken steps to ensure that our nuclear fleet remains operational.

We need to focus on working together, investing in new technologies, and continuing to make progress in this energy transformation. We should not take rash measures that harm our pensioners, jeopardize our state budget, and limit the capital needed for new technology, all in the name of seeming to do something about climate change.

We ask that these committees not bring these bills to a vote and instead focus on working with the fossil fuel and financial industries in making positive, fundamental progress toward greater decarbonization.