MINNESOTA DIVESTMENT COALITION – MAY 2021 BRIEFING TO THE SBI

This monthly update highlights global action on fossil fuel divestment and serves to inspire MN State Board of Investment Members to take urgent action to protect our investments and stop climate change.

Tar Sands and Line 3: Bad for investments, the environment and Minnesota's Native Tribes

The Minnesota Pension fund has invested $33 million in Enbridge Inc., an energy infrastructure company that owns and operates oil and gas pipelines across North America, including Line 3. Enbridge transports 40% of US crude oil imports.

The pension fund also has $713 million invested in eight companies engaged in tar sands oil extraction. These include ExxonMobil, Chevron, Royal Dutch Shell, BP, Suncor Energy, Devon Energy, ConocoPhillips, and Husky Energy.

Why is this a concern?

1) **Tar sands oil extraction has been a loss-making business**. Over the last few years, the tar sands oil industry has been battered by falling oil prices. Since the extraction and production of tar sands is more expensive than lighter crude oil, it's only profitable when oil prices are very high. The pandemic made it worse, as oil demand collapse led to material decline in market values, revenues, profitability and bankruptcies in the industry. (Refer: CalPERS Loses $1 Billion on Fracking and Tar Sands Investments - Fossil Free California). According to a March 30, 2021 Reuters article, from 2012 - 2020 investors purchased almost $640 Billion of stock issued by pipeline, oil, gas, and fossil fuel utilities. These investors lost 20% of their investment (approximately $120 billion) despite a bullish market. During the same period stocks of companies engaged in clean energy and renewables increased by 54% (compared to the AWCI - All Country World Index) and gained $77 Billion in value.

2) **Risk of Stranded assets.**
The Biden Administration has declared the US will achieve zero carbon emissions by 2050. A report from the International Energy Agency released earlier this month states that all energy from unabated natural gas must cease in developed countries by 2035. That means any new fossil fuel infrastructure built this year will be obsolete in just 14 years. It is worth noting that IEA's modeling is used globally, and it is considered the defensive bulwark of the fossil fuel industry. For such an institution to issue such a report is truly a game changer and should cause all portfolio managers to think twice about fossil fuel investments which could result in sunk losses in just a few years.

Furthermore, there are already cases of governments having to rescue problematic pipeline projects. In 2018, the Canadian government was obliged to take over the failing Trans-Mountain Pipeline at a cost of $4.5 billion. This project has already experienced cost overruns exceeding $7 billion.

3) **Tar sands are the dirtiest form of crude oil:** These oil sands are extremely heavy crude oil, and the International Energy Agency (IEA) estimates that production of oil from these sands emits 20% more carbon dioxide over the well-to-wheels lifetime as compared to the average crude oil. Moreover, tailings ponds, which are the byproduct of tar sands extraction, are now estimated to hold more than 1 trillion litres of toxic waste and are becoming a serious environmental threat.

As financial leaders, the MSBI is required to follow the 'prudent person standard', meaning board members must prioritize making money for Minnesota's pension holders when they make investment decisions. We respectfully urge SBI board members and staff to consider:

- Is it "prudent" to invest money in fossil fuel industries that are not profitable?
- Is it "prudent" to invest in a billion-dollar pipeline that could become a stranded asset and also likely pollute state waters and land? (please read Governor Whitmer's op-ed "Why I'm trying to shut down an underwater oil pipeline that threatens the Great Lakes"
- Is it "prudent" to use teachers' pensions to contribute to the destruction of their students' futures?
- Is it "prudent" to invest money in companies the State of Minnesota is suing?

We think not. We hope you take the recommendations of the IEA to heart and undertake a vigorous assessment of the pension's fossil fuel investments. We hope further that as a result you begin immediately to implement a strategy to divest completely from the fossil fuel industry within five years.