MINNESOTA DIVESTMENT COALITION – JUNE 2021 BRIEFING TO THE STATE BOARD OF INVESTMENT

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.

IEA Report calls for phasing out new fossil fuel plants.

The International Energy Agency (IEA) recently published its flagship report titled "Net Zero by 2050",and the verdict is clear. The IEA pathway report states that no new fossil fuel expansion projects (coal power and unabated gas plants) can be built in order to get to net zero emissions by 2050 and keep temperatures under 1.5° C.

The energy sector is the source of about three-quarters of greenhouse gas emissions today. In order to avert the worst effects of climate change, and limit long term increase in average global temperatures to 1.5° C (as agreed in the 2015 Paris Climate Accord), we must reduce carbon dioxide emissions and other greenhouse gases to net zero by 2050. Use of fossil fuels must decline and renewables must take over.

IEA modeling is used globally and often quoted by energy companies to their shareholders as a justification for maintaining the status quo. The IEA has specifically said the power sector must be 'decarbonized' in Organization for Economic Co-operation and Development (OECD) countries by 2035. The implications of this are clear: there can be no unabated gas plants beyond 2035. Since corporations aren't building or financing gas plants with carbon capture and storage, all gas plants will become obsolete and outdated.

Since most new fossil energy infrastructure has an asset lifetime that extends decades beyond 2035, these projects are no longer viable. For stranded-asset-risk watchers, new building projects are objectively a poor investment. Any institutional investor holding companies with fossil fuel expansion plans, or banks with credit facilities with these companies should be concerned, especially because this isn't Carbontracker or an environmental NGO making these recommendations. This is the IEA. The defensive bulwark of the energy industry.

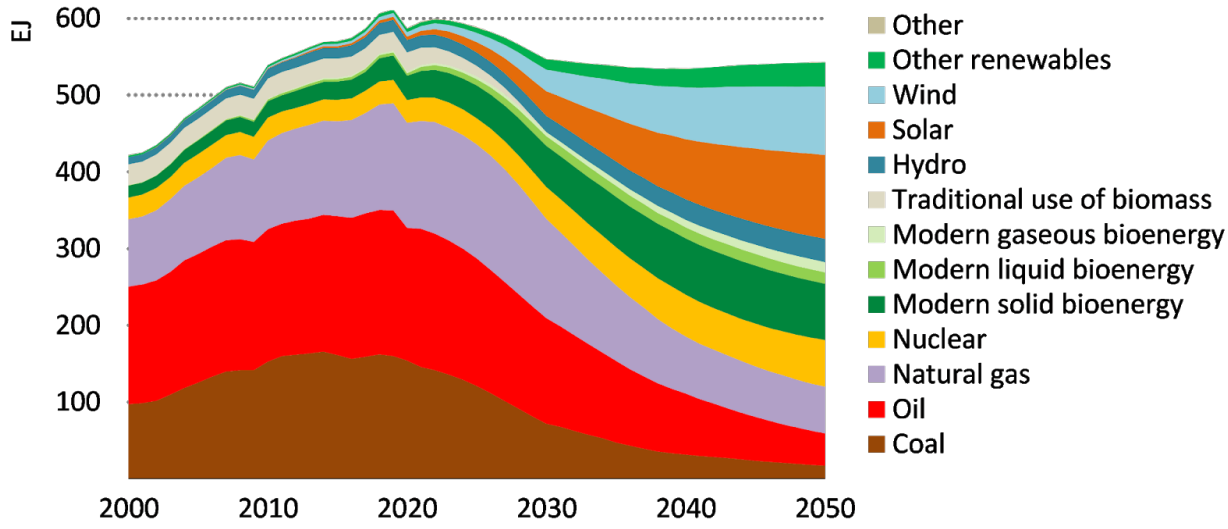
Achieving net zero carbon emissions by 2050 means transforming our energy systems to be based on renewable sources such as solar, wind and hydrogen and reducing our dependence on highly carbon-emitting fossil fuels such as coal and oil.

The IEA provides a comprehensive roadmap to achieving net zero via a complete revolution in global production, transportation, and consumption of energy. It estimates that the share of fossil fuels will be reduced from the current 80% of total energy supply to just 20% by 2050. Fossil fuels that remain will only be used in goods where carbon is embodied in the products such as plastics, in facilities fitted with carbon capture and storage technologies, or in sectors where low-emission technology options are scarce.

At the same time, there will be an immediate and massive deployment of all available clean and efficient energy technologies as well as innovation and investment into newer technologies.

The figure below shows IEA forecasts of how renewables and nuclear power displace most fossil fuel use.

Figure: Total energy supply in the Net Zero Emissions Scenario



Source: International Energy Agency (2021), Net Zero by 2050, IEA, Paris

The IEA further forecasts an 8% decline in the total energy demand by 2050 as compared to today despite population increase and growth in emerging economies. More efficient uses of energy, resource efficiency, and behavioral changes will combine to offset the increase in demand for energy services. In the words of IEA, there is no need for investment in new fossil fuel supply as we embark on the path to net-zero.

Global momentum behind a clean-energy transition is rapidly increasing. The Biden administration, in line with the goals of other leading countries, has announced clear targets to decarbonize the US economy. CO2 emissions from the countries that have pledged to achieve net-zero emissions constitute 70% of global CO2 emissions.

Given these trends, what will be the value of our fossil fuel investments when demand goes down significantly over the next decade? Why is Minnesota investing in fossil fuel companies and adding to the climate crisis? We request the SBI to take into consideration the recommendations in the IEA report in managing the pension fund.