November 7, 2023

Testimony of the Honorable Jason Isaac
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Before the
U.S. House Committee on Ways & Means

Chairman Smith, Ranking Member Neal, and Members of the Committee:

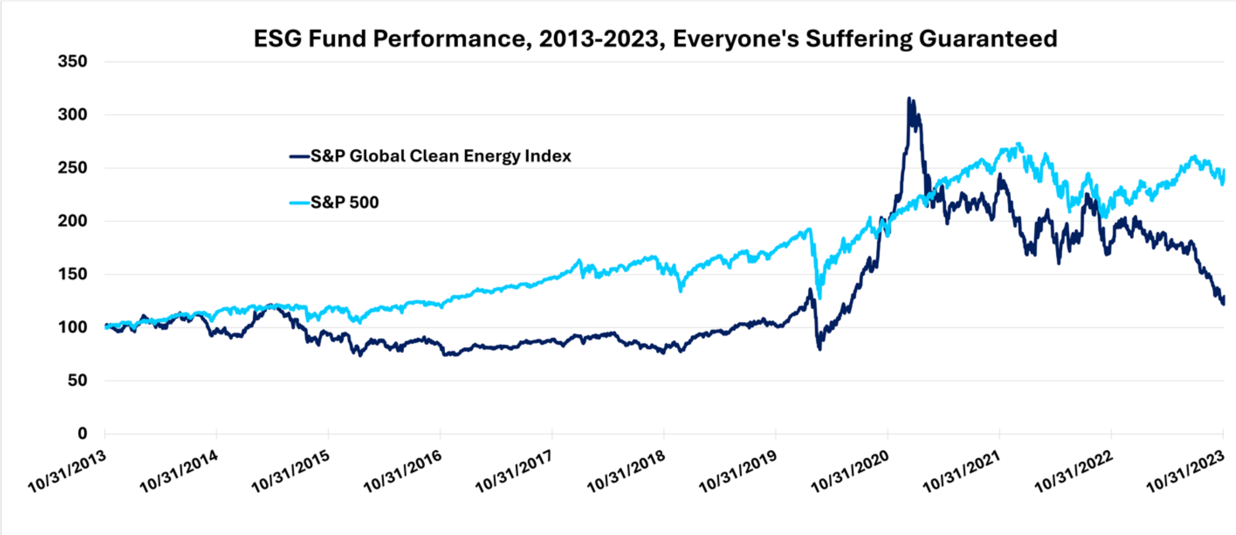
On behalf of Life:Powered, a national initiative of the Texas Public Policy Foundation to raise America's energy IQ, and the American Energy Institute, I thank you for the opportunity to testify today.

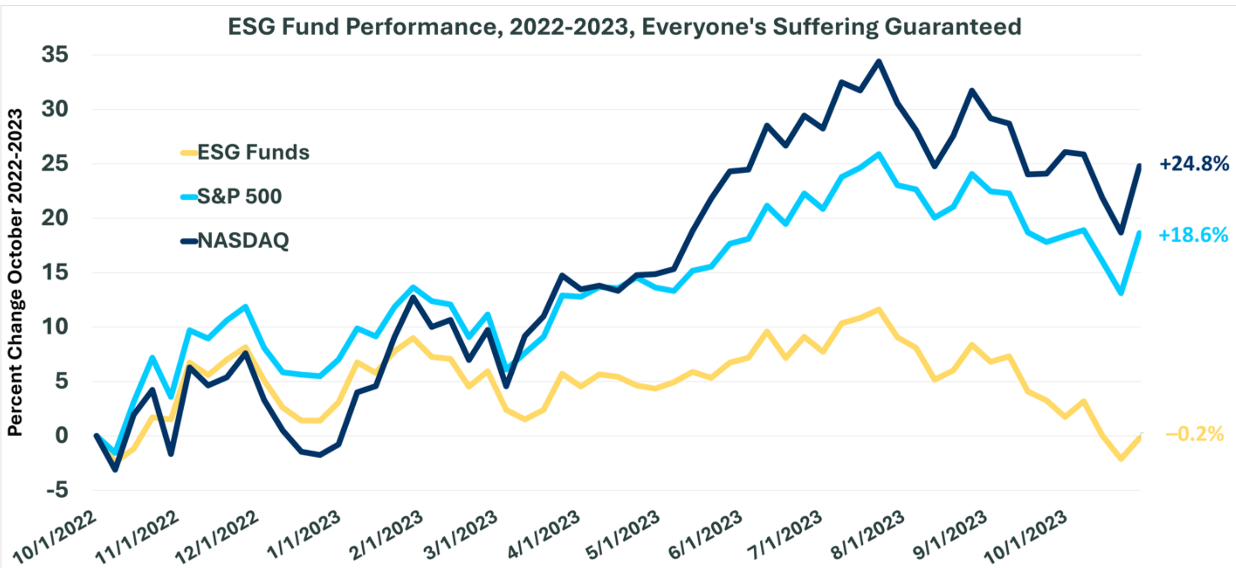
From 2011 to 2019, I served nearly 200,000 people in the Texas Hill Country as a member of the Texas House of Representatives. During my four terms in office, I primarily served on the Environmental Regulation, Energy Resources, and Economic Development committees; and learned that the United States is a world leader in environmental protection and economic prosperity. Now, in my work with the American Energy Institute and Life:Powered, one of my primary areas of focus is the way that environmental, social, and governance (ESG) investing and scoring threatens our economic prosperity to the benefit of China with its questionable human rights and environmental record. ESG has infiltrated our economy and has been weaponized against essential industries, including, but not limited to, fossil fuels, agriculture, and forestry.

Today, I want to discuss with you the threats that the ESG agenda is posing to American retirement savings and why Congress must do everything in its power to stop this overreach into what is supposed to be a free market with fiduciary duty.

Over the past ten years, so called "clean energy" stocks have significantly underperformed the market as a whole, with the S&P 500 Clean Energy Index returning a mere 4.5% annually compared to 11.5% annual returns for the S&P 500. The ESG bubble in 2020 was a result of low interest rates, government largesse (along with the expectation of more to come), and investor enthusiasm that wind, solar, and similar technologies would soon outpace fossil fuels in the energy marketplace. The past year has shown that enthusiasm to be misplaced.

In just the past year, not one of the largest individual ESG-labeled funds performed better than either the S&P 500 or NASDAQ. Aggregate returns on the top 20 largest ESG-labeled funds were -.2 percent during the past year, while the S&P 500 and NASDAQ went up 19 percent and 25 percent, respectively. Concerningly, these ESG-labeled funds have over $170 billion in total assets under management, tossing Americans' hard-earned retirement savings to the wayside in the name of this insane agenda.





The weaponization of ESG isn't just harmful to our economy, energy industry, and national security—it's likely criminal collusion.

A free market is no longer free when the major financial players are colluding—not behind the scenes but out in the open—to gut politically targeted businesses while forcing dollars into their own "green" investments. That's exactly what's happening on Wall Street with the rise of ESG investing. Energy companies that don't toe the line on progressive pet projects risk losing access to capital and even having existing contracts terminated. It's happening all over the country, as companies, from The North Face to BlackRock, are boycotting fossil fuels and as shady shareholder tactics are being used to take over oil companies.

These cartel-like tactics are a flagrant violation of longstanding federal antitrust laws. Corporations are legally barred from engaging in group boycotts. These rules were set into place to protect consumers from conspiracies to manipulate prices, constrain competition, and create politically or socially favored companies that limit consumer choice.

The worst part of all this? Even the most powerful financial mob could never actually succeed at eliminating fossil fuels—only at driving up prices and sending production overseas. It's a power grab with no net gain.

No matter how malicious the media narrative on climate change becomes, we won't stop needing affordable, reliable energy. Even after decades of multibillion-dollar subsidies intended to take renewable energy mainstream, the share of our energy provided by fossil fuels dipped from 80% to—wait for it—79%. All that expense, borne by the taxpayers, did next to nothing to improve renewable technology.

Faced with the possibility of losing access to capital and even having existing contracts canceled, many responsible American energy producers, especially small and medium-sized businesses without the vast resources of major oil companies, face the threat of going out of business altogether as banks and financial institutions increasingly refuse to serve the energy industry.

Unfortunately, this will drive energy production overseas, where environmental standards are lax. Not only will weakening America's energy dominance result in higher energy costs and a weaker stance in the global balance of power, ironically, the long-term result of ESG collusion will be more harmful air pollution and more carbon dioxide emissions—the opposite of environmentalists' stated goal of protecting the planet.

Energy producers shouldn't have to apologize for existing. Instead, we should be celebrating the role of responsibly produced American oil, natural gas, and clean coal in protecting our environment, improving our quality of life, and fighting poverty all over the world.

ESG investing, which could be a useful tool for individuals to make informed choices about their investments, has instead become a wrecking ball that could destroy entire industries.

The un-American agenda of the climate cartel is an affront to the principle of liberty that founded our country. As Life:Powered's Policy Director, Brent Bennett, Ph.D., points out in his research, *Keeping Politics Out of Texas Pensions Through Proxy Voting Reform*,

> *"A large portion of the voting shares in many public companies, up to 20%, is now controlled by three asset managers: Vanguard, BlackRock, and State Street. ESG investing has been a significant source of new revenue for these firms, enabling them to offer funds with a higher fee structure in an environment of declining fees, and they heavily market their ESG credentials.*
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> *The market for proxy voting advisory services—used by pensions, foundations, and endowments, as well as many asset managers to facilitate voting in thousands of corporate elections each year—is even more concentrated. Two firms, Institutional Shareholder Services Inc. (ISS) and Glass Lewis, hold over 90% of the market share and have become major ESG promoters because they benefit financially from the increasing number and complexity of shareholder resolutions from ESG activists.*
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> *Public pensions, as some of the largest institutional investors in the world, are important trendsetters in the investment industry, and several state pensions, particularly the California State Teachers' Retirement System (CalSTRS) and the California State Employees' Retirement System (CalPERS), the two largest public pensions in the country, have led the charge in ESG activism. …*

One example of this activist pressure at work is the campaign to force major oil and gas companies to adopt "net zero by 2050" carbon emissions targets and essentially embark on a 30-year effort to cannibalize their existing businesses in favor of low- or zero-carbon alternatives. Some of the notable groups behind this effort are Climate Action 100+ (CA100+), As You Sow, and Follow This, as well as traditional environmental groups like the Sierra Club. Despite ample evidence that oil and gas demand will continue to grow over the next 30 years (EIA, 2021), these activists claim that government policies will be able to dictate a rapid transition away from fossil fuels and that companies need to manage so-called transition risk. What's really happening is that they are weakening the resolve of energy companies to fight those policies, as evidenced by the shifts in the stance of the American Petroleum Institute, the oil and gas industry's main trade group, on issues like methane regulations and carbon taxes.

ESG activists would be sideshows in most public company elections if not for the influence of two important groups of participants in the proxy voting process: investment managers and proxy voting advisory firms. Consolidation in the investment industry and the rise of large, passively managed index funds have brought a large portion of the proxy votes of the largest U.S. companies under the control of three asset managers ... Vanguard, BlackRock, and State Street. ... When these companies vote together, they have tremendous power to sway corporate elections, a fact that ESG activists have long been aware of and are using to their advantage."

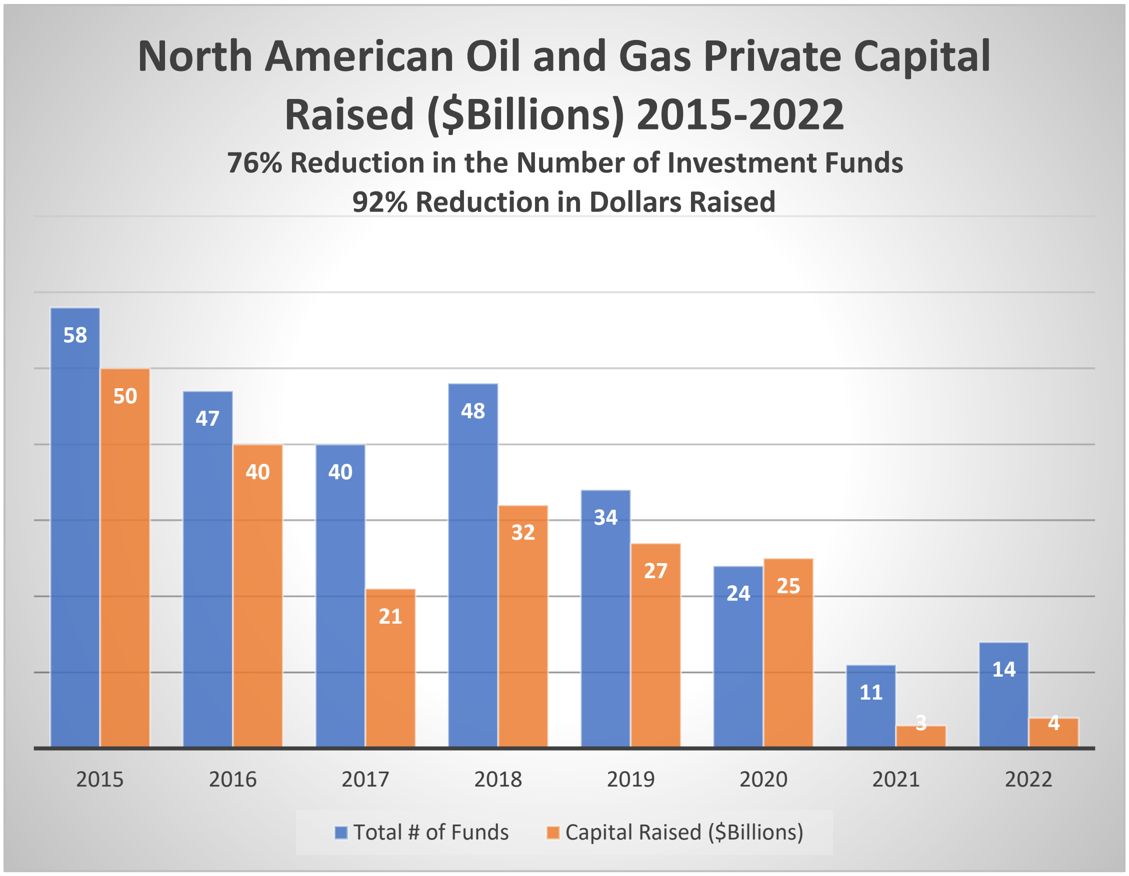
After working for months on a potential transaction, one entrepreneur was told by Credit Suisse First Boston that if he tweeted several points of agreement and alignment, including with the Paris Climate Accord and Net Zero by 2050, they would consider facilitating a transaction. That is clearly coercive in nature to align with political goals.

The European Union's embrace of ESG, namely the E (decarbonization), has led to energy becoming expensive, scarce, and government controlled. Germany and the UK are just a couple examples of countries that are now having to heavily subsidized reliable energy.

Financial institutions should not be able to use their financial power to coerce political agendas on businesses. The repercussions are tangible: Credit Suisse collapsed in March. No financial institution should be pursuing a political agenda over its fiduciary duty.

Energy is necessary for human flourishing. Cutting off credit to an essential industry to modern life because of a political agenda is problematic for our livelihoods.

The chart below details the effectiveness of the ESG agenda. Private capital investments in North American oil and gas operations have plummeted over the past several years despite the fact that global demand for oil and gas is rising. This anti-American and anti-capitalist ESG agenda is definitely playing a role in restricting our ability to produce more energy here, which means that autocratic nations abroad will have more control over the global energy market.



We are not troubled by individual financial institutions making their own independent decisions. What's troubling is the global collusive effort that is behind the modern ESG movement. Research we have done at Life:Powered shows the intricate feedback loop between public opinion, government policy, and corporate actions that is driving the politicization of capital. That loop must be broken to prevent the continued takeover of the means of production—from energy to agriculture to raw materials—by government and crony corporatists.

We cannot let the ESG corruption continue to infiltrate our economy. It puts our country and our very way of life at risk. Thank you for the invitation to testify today. I look forward to your questions.

Sincerely,

Jason Isaac

The Honorable Jason Isaac
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