Testimony to the United States House of Representatives Committee on Oversight and Accountability

Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs & Subcommittee on Healthcare and Financial Services

Hearing: "ESG Part II: The Cascading Impacts of ESG Compliance "

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Chairman Fallon, Chairwoman McClain, Ranking Member Bush, Ranking Member Porter, and members of the subcommittees, thank you for the opportunity to participate in today's hearing discussing the consequences of ESG.

My name is Mandy Gunasekara, and I am the director of Independent Women's Forum's Center on Energy and Conservation. IWF is a nonprofit organization, committed to increasing the number of women who value free markets and personal liberty. We advance policies that enhance people's freedom, opportunities, and well-being. My work focuses on implementing the CEC mission: advancing our energy potential, protecting the environment, and promoting thriving communities. I am also a Visiting Fellow at the Heritage Foundation

As American families continue to struggle under Bidenflation, increased energy costs, and an economy on the verge of a recession, a subset of financial elites and their allegiance to environment, social, and governance—or rather "ESG"—investing are making matters worse. While branded as an investment strategy for "good," ESG manipulates markets, as well as access to markets, in order to advance a leftist political agenda. The policies pushed by ESG end up causing more harm than good.

Accordingly, my testimony will explain the following:

- "E" standards result in higher cost energy, unreliable electricity grids, and stand to undermine environmental progress.
- "E" standards enrich high-end asset managers at Blackrock, State Street, and Vanguard at the expense of retirees and pensioners.
- "S" standards force companies to engage in controversial political issues, such as campaigns to defund the police or promoting "gender transitions" in children, cultivating division in the workplace and the marketplace.
- "G" standards give the appearance of diversity while restricting freedom of thought and competing viewpoints in the workforce.

The Cascading Consequences of E

The most economically-devastating policies of ESG fall under the "E" rubric. The goal is to phase out fossil energy by 2050, despite the fact that the oil and gas industry provides 80% of the energy we need to fuel our economy and maintain our modern way of life.[1] Marketed under the concept of "net zero," ESG-driven divestment from oil and gas companies is undercutting our grid stability and broader energy security,[2] while also putting American families and communities at risk. In fact, ESG is a contributing factor to the high gas[3] and electricity prices[4] that hit low-income households the most, forcing many to choose between food or electricity.[5]

As I have previously testified before this committee:

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[1] U.S. Energy Information Administration, *U.S. energy facts explained* (April 2022) available at: https://www.eia.gov/energyexplained/us-energy-facts/.

[2] Rupert Darwall, *Net-Zero and ESG Are Worsening the Energy Crisis – and Weakening the West*, RealClear Energy (March 17, 2022) available at: https://www.realclearenergy.org/articles/2022/03/17/net-zero_and_esg_are_worsening_the_energy_crisis__and_weakening_the_west_822337.html.

[3] Adam Brandon, *The Left's Insistence on ESG Has Led to Higher Gas Prices*, RealClear Energy (July 21, 2022) available at: https://www.realclearenergy.org/articles/2022/07/21/the_lefts_insistence_on_esg_has_led_to_higher_gas_prices_843784.html.

[4] Will Wade & Francesca Maglione, *Electric Bills Double for U.S. Families with Fuel Costs Surging*, Bloomberg (March 7, 2022) available at: https://www.bloomberg.com/news/articles/2022-03-07/electric-bills-double-for-u-s-families-with-fuel-costs-surging#xj4y7vzkg.

[5] ACEEE, *Report: Low-Income Households, Communities of Color Face High "Energy Burden" Entering Recession* September 20, 2020) available at: https://www.aceee.org/press-release/2020/09/report-low-income-households-communities-color-face-high-energy-burden.

> Rising energy costs and inflation have created immense financial burdens on the American people. One in six American families is currently behind on electricity bills. The cost for an average household has risen approximately $10,000 over the past two years. … These costs are squeezing the middle class and making it virtually impossible for low-income Americans to ever cross the middle-class threshold. Most concerning, some families have been forced to choose between powering their homes or putting food on the table.[6]

ESG investing also ignores the reality that ESG-preferred technologies, like wind and solar, are not technically capable of meeting current energy needs, much less future energy growth. Both wind and solar have become larger parts of our energy supply but they still only produce a small fraction of our total energy needs. Wind provides around 9% of U.S. electricity and solar a mere 2.8%.[7] Reducing access to and development of the energy sources we need while also forcing a greater use of inferior energy technologies has created an energy grid ill-equipped to deal with predictable weather patterns, such as hot weather during the summer and cold weather during the winter.[8]

The net-zero divestment also ignores the reality that we lead the world in overall emissions reductions because of advancements in the oil and gas industry.[9] Constraining growth and shutting down fossil fuel companies here will simply make life harder for Americans while shipping productivity and related opportunities overseas to countries like China. Earlier this year, it was revealed China has approved the equivalent of two new coal plants a week,

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[6] Testimony to the U.S. House Committee on Oversight and Accountability Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs, *Fueling Unaffordability: How the Biden Administration's Policies Catalyzed Global Energy Scarcity and Compounded Inflation* (March 29, 2023) available at: https://oversight.house.gov/wp-content/uploads/2023/03/Mandy-Gunasekara-Testimony_Biden-Policy-Feed-Energy-Scarcity-and-Inflation.pdf.

[7] U.S. Energy Information Administration, *What is U.S. electricity generation by energy source?* (February 2023) available at: https://www.eia.gov/tools/faqs/faq.php?id=427&t=3.

[8] WSJ Editorial Board, *America's Summer of Rolling* Blackout, Wall Street Journal (May 27, 2022) available at: https://www.wsj.com/articles/americas-summer-of-rolling-blackouts-green-energy-grid-north-american-electric-reliability-corporation-11653683348.

[9] Nicole Jacobs, *EPA: Oil And Natural Gas Methane Emissions Fall Despite Record Production*, Energy in Depth (April 19, 2021) available at: https://www.energyindepth.org/epa-oil-and-natural-gas-methane-emissions-fall-despite-record-production/.

which will be built with outdated pollution control technologies that fail to capture standard pollution, much less reduce greenhouse gasses.[10]

It's not just oil and gas. ESG is used by progressive activists to defund and constrain the growth of other politically-disfavored companies, including firearms manufacturers and animal agriculture. These misguided efforts create a range of perverse outcomes beyond lost jobs and economic growth to companies deemed "bad" by ESG standards. They also harm retirees and pensioners.

Asset managers like BlackRock, Vanguard, and State Street, which collectively manage over $21 trillion, including a large portion of U.S.-based retirement funds, subscribe to ESG. Numerous reports have found that ESG funds consistently perform worse than non-ESG funds producing lower returns for the retirees and pensioners that have been planning for them.[11]

One report by University of Chicago researchers analyzed the Morningstar sustainability ratings of more than 20,000 mutual funds representing over $8 trillion of investor savings.[12] The report found that "although the highest rated funds in terms of sustainability certainly attracted more capital than the lowest rated funds, none of the high sustainability funds outperformed any of the lowest rated funds."[13] Another analysis comparing one of the leading ESG funds to the S&P 500 found that, as of mid-2022, the ESG fund was down 23.7% vs. 20% for the S&P 500 index.[14]

Even though the pensioners and retirees are losing out, the high-end financial advisors at these investment houses are making bank. They get paid

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[10] Ben Zeisloft, *China Is Full Steam Ahead With New Coal Plants As The West Goes Green*, Daily Wire (February 27, 2023) available at: https://www.dailywire.com/news/china-is-full-steam-ahead-with-new-coal-plants-as-the-west-goes-green.

[11] Matt Krantz, *'Woke' ESG Funds are Now Costing you Money*, Investors Business Daily (May 26, 2022) available at: https://www.investors.com/etfs-and-funds/sectors/sp500-esg-and-woke-funds-are-now-costing-you-money/.

[12] Samuel Hartzmark & Abigail Sussman, *Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows*, The Journal of Finance (August 9, 2019) available at: https://onlinelibrary.wiley.com/doi/abs/10.1111/jofi.12841.

[13] Sanjai Bhagat, *An Inconvenient Truth About ESG Investing*, Harvard Business Review (March 31, 2022) available at: https://hbr.org/2022/03/an-inconvenient-truth-about-esg-investing.

[14] Andy Kessler, *The Many Reason ESG is a Loser*, Wall Street Journal (July 10, 2022) available at: https://www.wsj.com/articles/esg-loser-funds-costs-basis-points-blackrock-500-environment-green-sec-11657461127.

their premium fees either way. The ratio rates for ESG investing are "5 to 15 times more" even though the ESG investments themselves consistently "perform worse."[15]

The Cascading Consequences of S

ESG is also a tool to advance the Left's broader cultural agenda. Most of its social standards require support for policies with which many Americans disagree, such as mandating non-gendered bathrooms in the workplace, meeting race-specific hiring quotas, teaching critical race theory (CRT) sessions with management, as well as support for liberal campaigns, such as defunding the police, progressive politicians, or efforts to promote "gender transitions" for children.

While these ideas are trendy among some progressive corporate leaders, polling reveals the majority of Americans oppose them and would prefer they be kept out of the workplace and marketplace:

- **51%** of Americans believe bathroom use should match one's biological sex.
- **43%** of Americans believe CRT will worsen race relations compared to 23% that don't; Latinos and Asians oppose critical race theory by **two-to-one margin**.
- **73%** of Americans oppose racial quotas in hiring.
- **58%** of Americans oppose defunding police.

Beyond the polling, the recent backlash at Target, Budweiser, and American Girl makes clear the broader public's disdain for extreme social campaigns being pushed by ESG acolytes.

The Cascading Consequences of G

Adhering to the Left's cultural standards is becoming a litmus test for access to markets as well as credit and investors. There is a standing policy at Goldman Sachs' that they will not take a company public in the U.S. if its board isn't sufficiently diverse with regard to race, sexual orientation, and gender. But some analysts have found that governance policies that prioritize

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[15] *Id.*

checking superficial boxes result in decreased viewpoint diversity.[16] Also concerning, some companies incorporate diversity language solely for marketing benefits undermining actual progress in the workplace. Two high profile cases exposed this practice:

- Wells Fargo employees interviewed “diverse” candidates after the position had already been filled.[17]
- A former Miami Dolphins head coach has alleged the New York Giants attempted to circumvent a diversity requirement in the Rooney Rule by holding a “sham interview” with him three days *after* it was promised to another candidate.[18]

ESG metrics are a convoluted, subjective measurement set by high-end consultants that vary from firm to firm.[19] High scores are more indicative of the amount a company spends on consultant fees and the use of favored verbiage within sustainability reports, rather than the standardized, measured outcomes of any objective good. Analysis by CEC Co-Director Gabriella Hoffman found that companies will pay up to half a million dollars to boost their ESG scores.[20] Other companies will use ESG to justify poor business performance[21] or cover for poor labor and environmental compliance records.[22]

By design, ESG has been developed to achieve leftist goals that have failed to gain traction in Congress and state legislatures and are increasingly being shut down by the courts. A Board Director and former global vice chair of public policy at Business for Social Responsibility recently revealed this point

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[16] Viewpoint Diversity Score, *2023 Business Index* available at: https://www.viewpointdiversityscore.org/business-index.

[17] Emily Flitter, *At Wells Fargo, a Quest to Increase Diversity Leads to Fake Job Interviews*, New York Times (May 19, 2022) available at: https://www.nytimes.com/2022/05/19/business/wells-fargo-fake-interviews.html.

[18] Pamela Newkirk, Brian Flores' Lawsuit Shows the Limits of Diversity Initiatives, Time (February 7, 2022) available at: https://time.com/6145755/brian-flores-lawsuit-rooney-rule-diversity/.

[19] Kenan Insight, *ESG Measurement: A Surprisingly Complex Issue*, Kenan Institute of Private Enterprise (February 17, 2022) available at: https://kenaninstitute.unc.edu/kenan-insight/esg-measurement-a-surprisingly-complex-issue/.

[20] Gabriella Hoffman, Companies Paying Pretty Penny for ESG Scores, IWF (March 31, 2023) available at: https://www.iwf.org/2023/03/31/report-companies-paying-pretty-penny-for-esg-scores/.

[21] Ryan Flugum & Matthew E. Souther, *Stakeholder Value: A Convenient Excuse for Underperforming Managers?*, SSRN (March 29, 2023) available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3725828.

[22] Aneesh Raghunandan and Shivaram Rajgopal, *Do ESG Funds Make Stakeholder-Friendly Investments?*, SSRN (May 27, 2022). available at: https://ssrn.com/abstract=3826357 or http://dx.doi.org/10.2139/ssrn.3826357.

when recounting a behind the scenes meeting in Davos. Attending this meeting was then-Vice President Joe Biden who purportedly told the elite business group that when it comes to forcing compliance with a leftwing social agenda "you companies can do what we government cannot."[23]

As awareness of ESG increases, so too does the opposition. I thank the subcommittee for the opportunity to testify today and you willingness to educate the public on what ESG is and its affiliated consequences.

[23] Ben Shapiro, *Prepare Thyself For the Holy Month of Pride!!!,* The Ben Shapiro Show (May 31, 2023) available at: https://podcasts.apple.com/us/podcast/the-ben-shapiro-show/id1047335260?i=1000615170186.