

# Defiant American States will be the big losers in the ESG Money Wars

written by Melissa (Mel) Sanderson | October 11, 2022

The Governor of the State of Louisiana has joined political colleagues in Texas and [Florida](#) in ordering that [State funds should be withdrawn](#) from financial institutions choosing to [realign their investment](#) portfolios to include more alternative energy producers and fewer carbon intensive sources. State Treasurer John Schroder effectively denounced this forward-looking investment strategy – and indeed, by implication, the right of banks to re-balance in light of changing economic circumstances – when he said: “This divestment is necessary to protect Louisiana from mandates BlackRock has called for that would cripple our critical energy sector.”

Now, let’s be clear about a couple of things. The real reference here is to the oil and coal industries, which are the largest contributors to the State’s tax base and generate approximately 8% of its GDP. Louisiana is the third largest petroleum producer in the US and the fifth largest refiner. In addition, the Louisiana Oil Port, the only one of its kind in the US, is the entry point for the majority of foreign oil entering the US. This is a valuable asset worth protecting, and as current economic developments underscore, one worth defending for a variety of reasons.

However – and this is a significant “but” – there are better and more worthwhile ways to protect oil’s position as an element of the national energy composition than trying to punish financial institutions for rational investment decisions.

For instance: the State could consider using all or a portion of the returns on its BlackRock portfolio to further incentivize oil companies to accelerate deployment of cleaner technologies in both extraction and production. Or for instance, it could use those same returns to bolster employment and economic development in neighbors near refineries considered “disadvantaged.” Another option would be using those returns to reinforce shore defenses against rising sea levels – which also will begin affecting the oil industry in the not-so-distant future.

Any of these – or even better ideas – would have allowed the State to continue a financially beneficial relationship with BlackRock, and contribute to the well-being of the State employees part of whose retirement fund no doubt is affected by this decision while allowing the State to claim credit for behaving in a responsible “greener” fashion.

Let’s not forget that as well as the direct blast at BlackRock, at least 7 foreign banks were caught in the riptide of this decision. In response to a question during their panel at the FT-Nikkei “Investing in America” conference in New York October 6, Gerald Walker, ING Americas CEO, and Timothy Wennes, CEO of Santander Bank US, both dismissed the financial significance of decisions by Louisiana and other States as relatively insignificant in the scale of the trillions of assets they have under management. Walker also pointed out that investment decisions reflect market factors including elements such as the growing share of alternatives in the US energy mix. Both men agreed that social pressures driving impact investment, in which consumers and institutional investors alike are increasingly using ESG factors in determining resource allocations are having a noticeable effect but are not solely determinative for portfolio decisions.

A word of advice to State governments thinking they can scare banks into maintaining the investment status quo: you are doing more harm to your State than to the Bank, and trying to use political levers to alter the course of investment decisions has not and will not work.

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