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Foundation Watch

The Green Money Machine:
Politicians, Philanthropists and Financiers Collude over "Cap-and-Trade"

By James Valvo

***Summary**: Modern environmentalism is entering a new phase. The idealists have been shoved to the margins. Corporate partners that have mastered public relations are hiring political lobbyists to make the case for government regulations that will shift the cost of controlling carbon emissions to taxpayers and generate revenues for private sector players.*

Not-for-profit organizations and environmentalism are nearly synonymous. People typically think these groups represent selflessness over greed and principle over pragmatism. They watched the episode in the Ken Burns PBS series on "The National Parks" depicting John Muir's 1892 campaign to safeguard the Yosemite Valley, and they imagine that the Sierra Club that Muir founded to oppose profiting from the "public interest" in conservation still represents environmentalism. But the naturalists and outdoorsmen who birthed a movement preserving open spaces are a far cry from the financiers, CEOs and politicos that now run an industry worth countless billions of dollars. Muir's naturalists also bear little resemblance to lobbyists scouring Capitol Hill trying to enact cap-and-trade.

Chicago Climate Exchange founder Richard Sandor (center) meets with then-Secretary of Energy Spencer Abraham and Chicago mayor Richard M. Daley in an undated photo.

Many conservatives still think of environmentalism primarily as an ideology, an 'ism' that inspires passionate political activists to achieve their mistaken goals through government regulation. They are wrong. Environmental rhetoric and organizations have been hijacked. Modern environmentalism reaches deep into corporate America, engages in aggressive public relations campaigns and hands fully-crafted legislation to politicians who are wedded to well-connected donors with personal agendas and private bank accounts. The value of green rhetoric is so powerful that everyone is jockeying to preempt the nonprofit groups that have dominated this area for decades.

This paper examines three organizations that mobilize under a common banner, but have different reasons to promote carbon regulations:

*The Chicago Climate Exchange is the brainchild of a financial wiz kid, bent on creating carbon trading markets to fight global warming.
*The Nature Conservancy is no longer the lauded land conservatory it once was. Today it's morphing into a vehicle for corporations to buy absolution for their perceived carbon sins.
*The Joyce Foundation is the funding and research arm that converted a lumber

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baron's fortune into a hyper-political information mill.

These three organizations offer a glimpse of the broader face of modern environmentalism: the motives, the methods, and the manpower.

Chicago Climate Exchange: *Using Markets to Capitalize on Warming Fears*
Look at any television commercial or newspaper ad and it is almost impossible to doubt that environmentalist rhetoric is used to advance unrelated corporate and political objectives. Many green groups worry that their idea of environmental protection is being compromised to gain the support of various interest groups.

Cap-and-trade is a perfect example. The scheme is billed as a "market-oriented" approach to cut emissions to levels that balance environmental concerns with the public's worry about higher fuel costs. Advocates of the measure claim that the proposal creates a marketplace in which producers of carbon dioxide and other greenhouse gases—including utilities and manufacturers—who exceed the government-imposed cap can buy emission credits from those that have successfully kept their own emission below the cap. Alternatively, producers of excess emissions could also buy "carbon offsets" from those that invest in activities that reduce or "sequester" greenhouse gases. All of this activity is supposed to provide market incentives for keeping emission levels down.

Critics of the plan see cap-and-trade as the latest attempt by Big Government to enact command-and-control regulation of the energy sector. Cap-and-trade allows sharp traders to game the system to exploit government regulation for their financial advantage.

The trading component of the plan has attracted financial players savvy in the ways of commodities, derivatives, and hedging. One of the sharpest commodities traders is Richard Sandor. In 2003, Sandor launched the Chicago Climate Exchange (CCX), North America's first carbon trading market. Sandor began his career teaching economics at the University of California at Berkely but left academia in the 1970s for the opportunity to develop a new kind of investment approach: hedging against interest-rate futures. In the 1980s he moved to Drexel Burnham Lambert, the now-defunct Wall Street giant, and made his fortune in the junk bond market.

In the late 1980s, Sandor was tantalized by an EPA project to quell acid rain by applying market forces to pollution control. The program, which was included in the 1990 Clean Air Act, was the first use of a cap-and-trade system, and Sandor was quick to join EPA's advisory committee to oversee its implementation. Although acid rain has little to do with greenhouse gas emissions, Sandor seized on global warming fears to rework the plan and created a new carbon commodities market.

Based at the Kellogg School of Business at Northwestern University, Sandor and fellow economist Dr. Michael Walsh attracted a $450,000 grant from the Joyce Foundation to study the feasibility of creating a carbon market in the United States. Sandor and Walsh parlayed their seed money into a second Joyce grant, for a total of $1.1 million to start the Chicago Climate Exchange in 2003. Two of the key players in Joyce's decisions to fund CCX were then-Joyce president Paula DiPerna and then-Illinois state senator Barack Obama, a member of the foundation's board. DiPerna is now executive vice president of CCX and president of CCX International. Ultimately, CCX raised $23 million in an initial public offering on the London Stock Exchange's Alternative Investment Market.

With funding in place, Sandor and CCX launched their private market and started attracting customers. The primary targets were companies interested in being seen as good corporate citizens. Without a government mandate imposing a cap on greenhouse gases, CCX has operated by enticing companies to voluntarily sign binding agreements to lower their greenhouse gas emissions. The value of these commitments is twofold. First, many companies have highly sophisticated public relations divisions and understand the value of garnering goodwill in the environmentalist community. Second, in theory cap-and-trade lets companies that cut their emissions below the capped level sell the difference to companies that are struggling to lower emissions.

CCX doesn't just trade credits; it markets carbon offsets. Offsets are essentially promises by a farmer or land owner to engage in carbon sequestering behavior, such as no-till farming, not cutting down trees or planting new ones. This "reduction" in carbon emission is then securitized, commoditized, and marketed by CCX. Offsets are critical to any cap-and-trade program for two reasons. They are primarily needed because most greenhouse gas emitters will never be able to lower their emissions to the prescribed level. Emitters can then rely on offsets to provide an alternate means of "compliance." Secondarily, financiers can use offsets to prop up unsound green investments by luring other companies to subsidize their operations.

However, offsets are beset with problems. They are reversible and unverifiable. CCX isn't the first market to attempt to use offsets to meet emission reduction commitments. Europe has been tinkering with the Clean Development Mechanism (CDM) for years, trying to use offsets to meet its commitments under the Kyoto Protocol, a multinational emission reduction regime. Critics have questioned the truthfulness of CDM claims that it has 1,600 projects scrubbing 2.9 billion tons of carbon dioxide from the air. The World Wildlife Fund says as much as

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20% of the offsets are unverifiable. CDM was also forced to decertify its two biggest project auditors—Norway's DNV and Britain's SGS—because they failed to properly review projects before approving them for the global offset market.

CCX is heavily criticized by environmental groups for precisely these reasons. Sandor, whose rhetoric mixes limousine liberal compassion and Wall Street power broker realism, brushes off his critics by saying CCX "basically rewards people for having done things that had environmental good in the past and incentivizes people to do things that have environmental good in the future."

Sandor is a shrewd "first-mover" in carbon markets who has transformed his fledging venture into a model legislators may emulate while constructing a mandatory government system. From his office in Chicago's Loop, Sandor has steadily expanded his clientele, which now includes 17% of the Dow Jones Industrial index, 20% of the U.S. electric power sector, and numerous municipalities and academic institutions.

The ambitious Sandor recently shifted CCX's strategy from managing voluntary emission reductions in the private sector to lobbying for government regulations that would generate a wave of new business for his market. In September 2009, CCX hired two powerful Washington, D.C. firms—McLeod, Watkinson & Miller and Patton Boggs—to represent its interests on Capitol Hill. The political move suggests CCX worries more about its clients' financial concerns than the environmental integrity of its mission. Kenneth Richards, a professor of energy and environmental policy at Indiana University, observed that CCX "could substantially undermine the value and accomplishments of the entire cap-and-trade program…we [could] spend a lot of money and not get many reductions."

As the first farmer in the Hoosier State to list offset credits on the new commodity market, Sen. Richard Lugar (R.-Ind.), is a fan of CCX. While Lugar has never cashed in on his offsets' potential, his 604-acre property in Marion County stands to appreciate considerably on CCX's offset market. Lugar endorsed the Exchange saying, "I listed my farm… to set an example for farmers and foresters in my state and throughout America…The exchange mechanism could be utilized by turning unused farmland into tree farms that sequester carbon while providing farmers with extra money." Further complicating the relationship between the parties is the $3,000 that Sandor donated to Lugar's campaigns since 2005.

CCX is also not entirely new to public funds. In November 2007, House Speaker Nancy Pelosi's (D-Calif.) Green the Capitol initiative spent more than $89,000 to buy carbon offsets on the Chicago Climate Exchange. A trio of Illinois representatives—Republican Mark Kirk and Democrats Rahm Emanuel and Dan Lipinski —banded together to send the cash to CCX. At the time Kirk stated, "In Chicago, we know the exchange business. This auction through the CCX represents the best, most transparent way to match buyers and sellers of credits with full accountability to outside auditing firms." However, whether CCX can get even more taxpayer money through "Green the Capitol" is in doubt. In March 2009, Speaker Pelosi abandoned her promise to make congressional offices carbon neutral.

Sandor remains bullish on the prospect that his voluntary exchange can become the vehicle for compliance with government regulations. He sees cap-and-trade as "a major opportunity to harness the power of transparent, regulated markets and clear price signals to create incentives." Higher energy taxes and regulations on carbon emitting industries will no doubt help Sandor and CCX turn a healthy profit. With or without a national cap-and-trade system, Sandor has positioned CCX to be a leader in carbon market trading.

Nature Conservancy: *Greenwashing and Carbon Absolution*

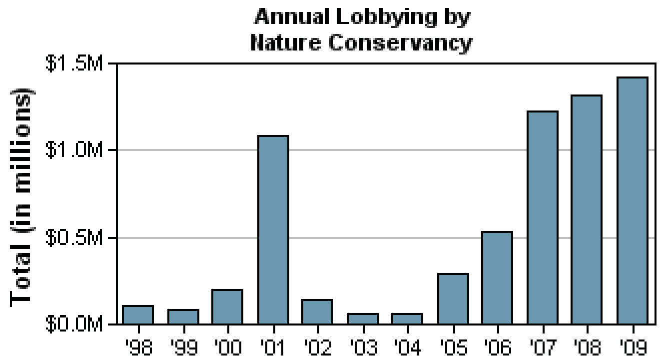
The Nature Conservancy is also eager to capitalize on pending climate change legislation. While CCX would benefit by trading carbon offsets, the Conservancy would benefit by producing them. The Nature Conservancy controls one of the largest non-government inventories of land in the world. Its website boasts that it controls 119 million acres in all 50 states and in more than 30 countries. The Conservancy is not only flush with land but has $1.4 billion in 2008 revenue and over $5.6 billion in total assets, making it the world's leading land conservatory.

Founded in 1951, the Conservancy benefits from its glowing reputation as a nonprofit steward of undeveloped land. But if George Fell, its executive director in the 1950s, could see the organization today he would surely be amazed. Fell envisioned using private property ownership, leases, trusteeships and restrictive covenants to protect the natural environment. He once commented that he wanted a group with the "size and strength to take its rightful place in a country that does things on a gigantic scale."

However, the Conservancy began to attract notice earlier this decade with widespread reports of financial malfeasance and conflicts of interest. In 2003, Tim Findley wrote a wide-ranging piece entitled "Nature's Landlord," where he chronicled the dangers of allowing the behemoth to operate with near impunity, a byproduct of its tax-exempt status and feel good messaging. The Washington Post, also in 2003, ran a four-part series exposing the "greenwashing" used by the Conservancy's corporate members to shield themselves from growing environmentalist rancor. The Conservancy's managers did not expect to be accused of abusing the public's trust with dubious land deals and self-serving actions. There were revelations of executive loans from Conservancy funds, drilling for gas on Conservancy land, and special deals for Conservancy trustees.

In *Nature's Keepers* Bill Birchard described an intricate management structure at the Conservancy. In the 2005 book Birchard held the Conservancy up as a paragon of nonprofit organizations, environmental or otherwise. He lauded it for its originality and groundbreaking techniques to preserve natural spaces and manage a nationwide network of satellite offices, disparate staff, and accountability challenges.

As the Conservancy developed new strategies for acquiring, managing, and selling donated properties and partnering with corporations and government agencies, it has surrendered much of its old liberal image. The group's board is now stocked with GOP donors, corporate CEOs and Wall Street financiers. One former chairman was Hank Paulson, President Bush's Treasury Secretary and a



Source: Center for Responsive Politics

former CEO of Goldman Sachs. Other members of various Conservancy boards include Duke Energy CEO James Rogers, Louisiana Pacific CEO Mark Suwyn, and Conservation Fund chairman Patrick Noonan – all Bush-Cheney contributors

The Conservancy's leadership might be more properly described as opportunistic, than as politically or environmentally idealistic. The political winds have shifted and the Conservancy has tacked nicely. Its lobbying expenditures increased when the Democrats took control of Congress, reaching $1.2 million in 2007, more than double from the previous year. In 2008 lobbying expenses increased to $1.3 million. In the first six months of 2009 it spent $1.4 million to push environmental legislation.

Nature Conservancy board members are also heavy donors to Democratic powerbrokers. Conservancy president and CEO Mark Tercek has given tens of thousands of dollars to Sen. Chuck Schumer (D-N.Y.), ex-DNC chairman Howard Dean, and outgoing New Jersey Gov. Jon Corzine. Tercek is director of the Goldman Sachs Environmental Markets Initiative which—much like CCX—will reap the benefits of trading in carbon emission permits, carbon offset credits, and other derivatives.

John Sall, board member and chairman of the Conservancy's Audit Committee, also supports pro-cap-and-trade politicians. Over the past decade, he has contributed more than $228,000 to the DNC, the Democratic Senatorial Campaign Committee, and numerous state-level Democratic organizations and candidates.

"There's a lot of enthusiasm about a new administration coming in to office," said Robert Bendick, director of U.S. government relations at the Conservancy. "It's really hard to say whether it's been successful. There's so much legislation in play right now. We have a long-term view of things."

With effective lobbying in place, the Conservancy has all the access it wants when the time comes to draft legislation. The Conservancy is a key player in the United States Climate Action Partnership (USCAP), a group dedicated to steering cap-and-trade into law. The Washington Times reported on the undue access the group gained in a piece entitled "Lobbyists help Dems draft climate change bill." The May 4 article says, "The sweeping climate bill…introduced at the end of March includes a provision that benefits Duke Energy Corp., a founding member of… USCAP, whose climate plan released in January the lawmakers have frequently called a 'blueprint' for their climate legislation." (USCAP was profiled by Timothy P. Carney in the June 2008 *Organization Trends*.)

The exemption would save Duke Energy—along with other firms now building new coal power plants—from having to spend millions of dollars outfitting its Cliffside, N.C., power plant currently under construction with "clean coal" technology. Recall that Duke's CEO James Rogers was a board member for the Conservancy's Indiana chapter.

The group has committed to such a "long-term view of things," as Bendick put it, that about a decade ago it realized there were great gains to be made posturing as environmentally friendly to gain favor with both politically vulnerable polluters and politicians in need of green pet projects to support.

Earlier, in 2003, the Washington Post had exposed the Conservancy's relationship with International Paper, one of the nation's biggest loggers:

> "The partnership gives loggers a public relations boost from 'greenwashing.' International Paper [has] used the Conservancy 'to pull the wool over the public's eyes,'" said Trevor Fitzgibbon, spokesman for the Dogwood Alliance. "It makes it seem they are doing great things for the environment when what they're doing is destroying [our] natural heritage."
>
> International Paper is on the Conservancy's leadership council. In 1998, the company sold 185,000 acres of Maine forest to the Conservancy for $35 million. The Conservancy then contracted with a Maine company to log 136,000 acres of the land to help offset costs…Such ties create a "commonality of interest" between the Conservancy and International Paper, said Tom Jorling, an [IP] company vice president. "This enables us to get more legitimacy because the Conservancy has the kind of reputation it does."

Conservancy officials have also served on International Paper's board. They include former Conservancy president Patrick Noonan and Conservancy board member Mark Suwyn, CEO of Louisiana Pacific. If it's clear that companies vulnerable to environmentalist attacks have discovered the value of hiding under the Conservancy's wing, then so will traders in forest offsets searching to reap the benefits of global warming regulation. And politicians looking to bolster their green *bona fides* will seek out new donors among those made rich by carbon trading.

This nexus has raised the Conservancy's profile while muddying its reputation. The Nature Conservancy now attracts support from companies that fear political reprisal for their business practices at the same time that it attracts donors who support politicians who work to crush those companies because they are said to pollute the environment. The Conservancy lobbies the politicians to enact legislation like cap-and-trade, which increases the cost of doing business, and that forces the polluting companies to buy carbon offset credits from the Conservancy, which it has in abundance.

By committing to a "long-term view of things," the Nature Conservancy realizes the gains to be made by seeking out politically-vulnerable polluters and politicians in need of green pet projects to support. The entire process ensures that the taxpayer gets the bill no matter who is at fault.

Joyce Foundation*: Funding and Framework*

The Nature Conservancy and CCX have both received funding from the Joyce Foundation, a 501 c3 organization founded by Beatrice Joyce Kean in 1948. Mrs. Kean was the sole heir to the Joyce family fortune, which was largely accumulated by lumber baron David Joyce. Based in Chicago, the Joyce Foundation began by focusing on "religious, charitable, scientific, literary and education purposes." Through the 1960s it only gave small donations, mostly to health care groups and hospitals. But its limited resources kept its yearly giving in range of $100,000.

When Mrs. Kean died in 1972 she left about $100 million to the Foundation, at which point it greatly enlarged its aims. By the late 1970s, the Joyce Foundation was a major philanthropic player, gifting upwards of $10 million annually. However, it continued to focus on local issues, devoting many grants to Great Lakes region projects.

The Joyce Foundation became far more politically active in the 1990s when Deborah Leff became president in 1992 and when Barack Obama, a 32 year-old lawyer, joined the Joyce board (1994-2002). At this point, the Joyce Foundation became a major donor to groups opposed to "handgun violence," to the study of money and politics, to education reform as well as to environmental issues. As of 2007, the foundation had about $986 million in total assets

The Joyce Foundation has a track record of funding stalwart environmental organizations. Joyce concentrates its conservation giving on the nation's largest groups. From 2006 to 2008, the foundation assigned nearly $5.5 million to the Environmental Defense Fund, the Natural Resources Defense Council and the Nature Conservancy. Joyce funding was instrumental in kick starting CCX's carbon derivative market.

The Joyce Foundation does not only fund environmental research. Joyce launched a major campaign to seed academic law journals with anti-Second Amendment writing. Joyce has long been anti-gun and has paid to launch numerous small nonprofits—such as the Violence Policy Center, Firearms Law Center and others—with the express purpose of undermining an individual's right to bear arms. In the late 1990s, Joyce may have calculated that the Supreme Court would be hearing a major Second Amendment case soon, and it set out to bend the academic literature in its favor.

In 1999, Joyce paid $84,000 to the Chicago-Kent Law Review; the journal's subsequent issue was devoted entirely to anti-individual rights articles. The editor of that issue of the review, Carl Bogus, was not affiliated with Chicago-Kent; instead he was on the national advisory board of Joyce's Violence Policy Center. Joyce next paid $400,000 to Ohio State University to fund a Second Amendment Research Center, headed by Prof. Saul Cornell. In 2004, Joyce funded a Fordham University Law Review conference on the same topic. The organization also funneled money to the Stanford Law Review for publication of gun articles that supported its view.

When the U.S. Supreme Court heard *District of Columbia v. Heller* in 2008, Joyce could rightly claim credit for supporting the academic research propping up Washington, D.C.'s claim that individuals had no constitutional right to bear arms. Despite the Court's 5-4 ruling in favor of the individual right to bear arms, Joyce accomplished a stunning feat by laying out a long term game plan to compromise academic literature for the purpose of using it in future court briefs.

The Joyce Foundation's links to the Obama administration go beyond the president. Ellen Alberding, the current Joyce foundation president, contributed to the Obama presidential campaign, and former Joyce board member Valerie Jarrett is one of the president's most trusted senior advisors. Former Joyce president Deborah Leff is now president of the half-billion dollar Public Welfare Foundation in Washington, D.C.

The Joyce Foundation has proven that it is committed to providing the consistent, sizeable and dedicated funding to advance research that supports environmental and anti-individual rights causes. Groups like the Nature Conservancy and the Chicago Climate Exchange rely on the Joyce Foundation to maintain ideological ties, build financial support and exchange personnel.

Conclusion

The story of modern environmentalism is a conflicted one. Idealists are increasingly marginalized as slick presentations and corporate partners displace naturalist traditions and absolutist mission statements. The groups in this paper have mastered the public relations and political machinations necessary to advance a mission. They have powerful advocates, influential board members and deep pockets. But one is left to wonder, where does the environment fall on their new list of priorities?

James Valvo is government affairs manager at Americans for Prosperity and is attending American University's Washington College of Law as a Harry S. Truman Scholar representing the District of Columbia.

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Many thanks.

Terrence Scanlon
President

PhilanthropyNotes

The **Competitive Enterprise Institute** is challenging global warming alarmist **Al Gore** to debate Lord **Christopher Monckton**, a leading enviro-skeptic. CEI is offering Gore $500 along with the proceeds of a worldwide email pledge-a-dollar drive, all aimed at persuading the former vice president to accept Lord Monckton's recent invitation to debate. For years, Gore has steadfastly refused to debate the global warming issue. Said Monckton, "I want you to face me in a debate about global warming, and if you don't dare I want you to remain silent about that subject forever from now on. Are you a coward or will you step up to the plate?"

Pew Charitable Trusts CEO **Rebecca Rimel** apparently botched a deal that would have garnered Pew a $20 million tax abatement in the District of Columbia. According to the Washington Business Journal, Pew bought property for a "nonprofit village" and plans to offer low-rent office space to other nonprofits. Pew thought it had an agreement with the District to abate taxes but the deal was only with then-Deputy Mayor **Neil Albert**, who is now city administrator. The city council killed the tax break. One of the tenants is Al Gore's **Alliance for Climate Protection**.

The Wall Street Journal gave a failing grade to the liberal **Ford Foundation** for pledging $100 million for education reform that isn't. The grant "to transform secondary education in the nation's most disadvantaged schools" will go to teachers unions – the arch foes of true reform, the paper reports. One of the grants will flow to the new **American Federation of Teachers Innovation Fund**, a "union-led initiative to make grants to AFT affiliates nationwide for innovative efforts established jointly by teachers, administrators, and parents."

The issue of donor intent rarely gets media attention but it did recently on the "Glenn Beck Program." Author **Ann Coulter** touched on it during a discussion of **AARP**'s support for socialized medicine. She noted that "any organization that is not an explicitly a conservative organization will be taken over by left-wing loons eventually." Coulter cited the **Carnegie Foundation** and **Ford Foundation**, adding, "and that has certainly been true of AARP going back years and years." **Martin Morse Wooster**, senior fellow at **Capital Research Center** and author of the definitive history of donor intent, has observed that both **Andrew Carnegie** and **Henry Ford** "were heroic entrepreneurs who strongly believed in free enterprise and traditional virtues…[yet] liberals or leftists control the foundations that serve to perpetuate their names."

Goldman Sachs WATCH

People are "mad and bent out of shape" at bankers' actions, but Goldman Sachs CEO and chairman Lloyd Blankfein said he's "doing God's work." Goldman, which specializes in bending governments to its will for profit, is "very important," he says. "We have a social purpose."

Separately, Blankfein boasted that Goldman employees are much more productive than mere mortals. "I often hear references to higher compensation at Goldman," he said. "What people fail to mention is that net income generated per head is a multiple of our peer average. The people of Goldman Sachs are among the most productive in the world."