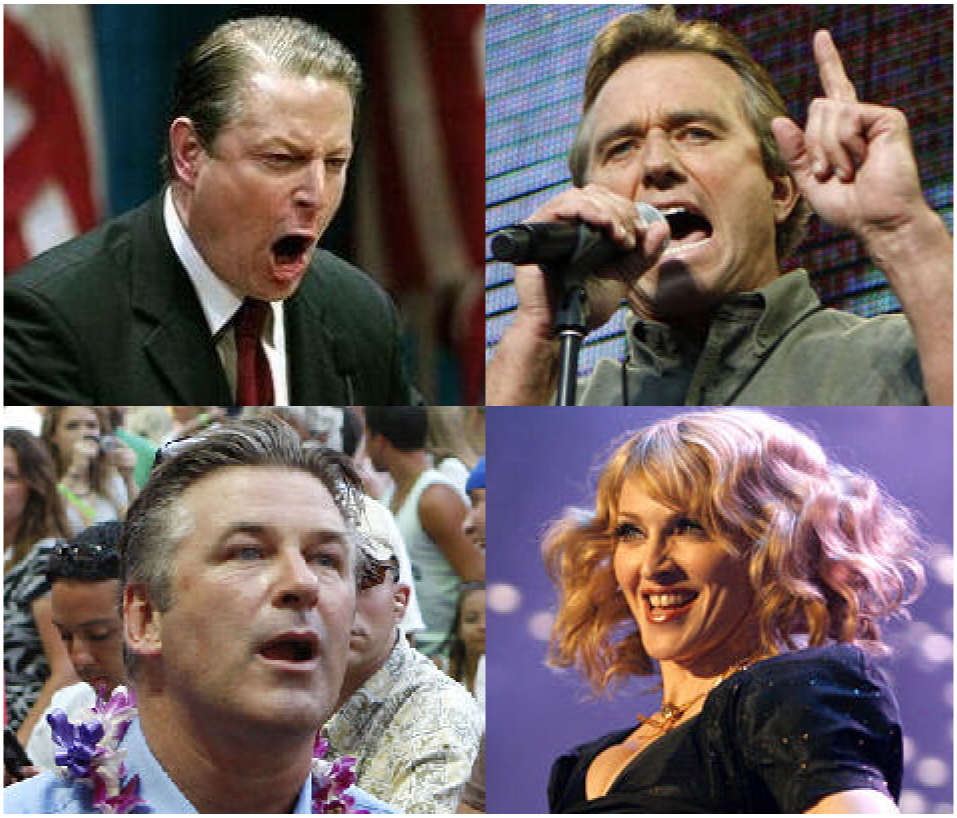
CAPITAL RESEARCH CENTER

Foundation Watch

Al Gore's Carbon Crusade: The Money and Connections Behind It

By Deborah Corey Barnes

***Summary**: Former Vice President Al Gore's crusade against carbon dioxide emissions could make him millions of dollars. With help from friends at Goldman Sachs, Gore has established a network of organizations to promote the "climate crisis"—and keep himself in the spotlight. Gore's crusade already has had an enormous impact on corporate decision-making and government policies. But how will it affect his personal and political fortunes?*



Generating tons of hot air: Celebrities galore appeared at and performed at the "Live Earth" concerts on July 7 that Al Gore (upper left) organized to push his carbon crackdown agenda. In attendance were activist Robert F. Kennedy Jr. (upper right), actor Alec Baldwin (lower left) and singer Madonna (lower right).

Al Gore's campaign against global warming is shifting into high gear. Reporters and commentators follow his every move and bombard the public with notice of his activities and opinions. But while the mainstream media promotes his ideas about the state of planet Earth, it is mostly silent about the dramatic impact his economic proposals would have on America. And journalists routinely ignore evidence that he may personally benefit from his programs. Would the romance fizzle if Gore's followers realized how much their man stands to gain?

Earlier this year Gore experienced a notable public relations debacle. The Tennessee Center for Policy Research, a state think tank, revealed that he was an energy hog. Public records show that Gore's Nashville mansion used more than twice as much electricity in one month as the typical American household uses in a year: His average monthly electric bill was more than $1,359. Moreover, Gore's household energy use increased after *An Inconvenient Truth*, his film about global warming, was released to ecstatic reviews. (For more on Gore's energy consumption, see "Safeguarding a Conservative Donor's Intent: The Roe Foundation at 39," by John J. Miller, *Foundation Watch*, May 2007)

Never mind that the scientific community is divided over what causes global warming, how bad it is, and how to deal with it. Gore plays Chicken Little to the media's applause, insisting that the world is warming dangerously and that he has the solution. Testifying before a congressional committee on March 21, 2007, Gore declared that there was "un-

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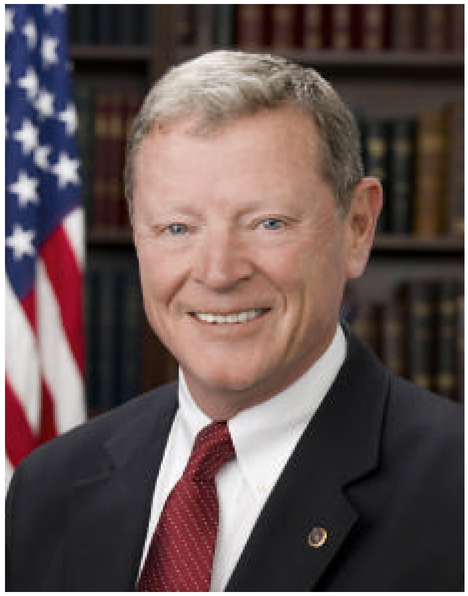
equivocal" evidence supporting his claims about climate change: "Global warming is real and human activity is the main cause. The consequences are mainly negative and headed toward catastrophic, unless we act."

Gore got into a verbal brawl with Oklahoma Republican Senator James Inhofe, former chairman of the Senate Environment and Public Works Committee and a noted global warming skeptic. When Inhofe demanded that Gore pledge to reduce his personal energy use, Gore refused, explaining that his conscience is clean because he purchases "carbon offsets," which is the central feature of his proposed policy solution.

The "Cap-and-Trade" System

To resolve the "climate crisis," Gore wants to put a cap on the production of greenhouse gases. He calls for an immediate freeze on U.S. emissions, a ban on new coal-fired power plants, tough new fuel economy and energy efficiency standards, renewable energy mandates, carbon taxes, and mandatory targets and timetables for reducing greenhouse gas emissions. Those emissions consist mostly of carbon dioxide (CO_2), the byproduct of fossil fuels, such as oil, coal, and natural gas, which supply 85% of all U.S. energy. Gore's blueprint to save the planet moves the United States towards a command economy in which government regulators hold sway over what kinds and amounts of energy will be made available to the private sector. His principal regulatory tool is what's called carbon credit trading.



Gore tussled with Senator James Inhofe (above) at a congressional hearing earlier this year.

Under a so-called "cap and trade" system, government places a ceiling or "cap" on private sector emissions of carbon dioxide and other "greenhouse gases." Each sector, industry, or business is allocated a fixed quantity of carbon credits that allow it to emit specific quantities of greenhouse gases. As an example, one tradable carbon credit might permit the emission of one ton of carbon dioxide. If a business emits more tons of CO_2 that its supply of credits allows, it has the option to buy surplus credits from other firms—or it will have to pay a fine in proportion to the amount of the excess emission. By contrast, businesses that emit less than their allocation can sell their excess credits.

This system, which may sound market-friendly, is something only a bureaucrat could dream up. The twist is that the carbon market exists only because the government's imposition of a cap creates an artificial scarcity in the right to produce energy. In a cap-and-trade system buyers will purchase their offsets from a broker or through an electronic trading platform. In Europe carbon trading is already a reality. Since 2005 carbon offsets have been traded electronically on the European Climate Exchange (ECX).

Most carbon cap-and-trade programs also allow regulated entities to earn credits by taking actions that supposedly reduce emissions outside of the firm's facilities or operations. In one popular version of the carbon offset concept, firms earn credits by buying seedling trees for planting in less-developed countries. Supporters claim the CO_2 uptake of the trees will balance out the carbon emissions of their industrial activity. Despite its public relations value, scientists scoff at the notion that it's possible to plant enough trees to balance out man's production of carbon dioxide. But carbon offset projects are popular in the environmentalist community. The David Suzuki Foundation, a prominent Canadian group, promotes alternative energy production to offset carbon emissions through wind farms and solar panels as well by using water, geothermal heat and plant and crop residues ("biomass"). All these could in theory produce measurable amounts of energy that could be counted as carbon offsets in a cap-and-trade system.

The most radical environmentalists reject cap-and-trade. They say it allows polluters to continue to pollute by purchasing carbon credits. That is true but irrelevant. A ton of CO_2 emitted in Beijing has the same climatologic effect as a ton emitted in New York. The real problem is that every country's government has an incentive to cheat on behalf of its domestic producers. This has been the European Union's (EU) experience with the Emissions Trading System (ETS) that the EU established to implement the Kyoto Protocol. In just about every EU country except Britain, the credits allowed exceed the corresponding tons of emissions.

Carbon offsets provide even more opportunities to cheat. For example, some aluminum companies claim they deserve credits just because they recycle aluminum for a living—recycling being less energy intensive and thus generally cheaper than making the stuff from scratch. The most popular activity for generating offsets is planting trees. But this method of storing carbon takes years and the long-term results are uncertain. If the trees die and decay, or are burned to clear land for agriculture, there is no net emission reduction. The net carbon reduction from tree planting may not materialize for decades, but the offsets are given out now.

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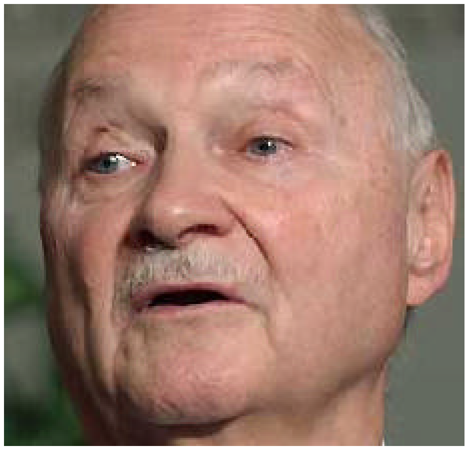
To its critics on both the free market right and the environmentalist left, carbon offsets are no more than a marketing gimmick. Some describe the fanciful device as akin to medieval indulgences, which were sold in a cleric-run market to regulate the remission of sin. "Carbon offsets are the modern-day indulgences, sold to an increasingly carbon-conscious public to absolve their climate sins," asserts Kevin Smith of the left-wing London-based group Carbon Trade Watch.

The truth is that almost every productive human action requires the use of natural resources, and nothing is pollution-free. Even something like wind power requires windmills which, according to environmentalists like Robert F. Kennedy, Jr., may visually "pollute" the natural landscape. Kennedy, head of the green group Riverkeepers, says he supports wind power—except when the windmills are in the waters off Cape Cod.

Cui Bono?

Whatever its impact on the environment, the cap-and-trade carbon scheme is sure to boost the economic and political prospects of people and groups that are behind it. In a new book, *The Politically Incorrect Guide to the Environment* (Regnery, 2007), Christopher Horner, a senior fellow at the Competitive Enterprise Institute, observes that the chief executives of energy businesses like Enron and BP were quick to see how they could work with policymakers to make sure that their companies benefited from new global warming laws. Writes Horner: "Enron, like many of the very biggest businesses in America, saw Kyoto—and still see global warming laws and regulations—as the best price-fixing and subsidy-creating deal in history."

Before the company collapsed under the weight of financial scandal, Enron under CEO Ken Lay was a key proponent of the cap-and-trade idea. So was BP's Lord John Browne, before he resigned last May under a cloud of personal scandal. In August 1997, Lay and Browne met with President Bill Clinton and Vice President Gore in the Oval Office to develop administration positions for the Kyoto negotiations that resulted in an international treaty to regulate greenhouse gas emissions. In his book, *The Green Wave* (Capital Research Center, 2006), author Bonner Cohen notes that the companies expected to profit handsomely from the Kyoto global warming treaty by creating the worldwide trading network in which industries would buy and sell carbon emissions credits.



Leftist Maurice Strong is a member of the Chicago Climate Exchange's board.

Al Gore accepting an Academy Award earlier this year for *An Inconvenient Truth*.

The U.S. Senate voted 95 to 0 not to ratify the Kyoto treaty in 1997. But that hasn't stopped Al Gore.

Gore's Circle of Business

Al Gore is chairman and founder of a private equity firm called Generation Investment Management (GIM). According to Gore, the London-based firm invests money from institutions and wealthy investors in companies that are going green. "Generation Investment Management (GIM), purchases—but isn't a provider of—carbon dioxide offsets," notes spokesman Richard Campbell. (CNSNews.com, March 7, 2007)

GIM appears to have considerable influence over the major carbon credit trading firms that currently exist: the Chicago Climate Exchange (CCX) in the U.S. and the Carbon Neutral Company (CNC) in Great Britain. CCX is the only firm in the U.S. that claims to trade carbon credits.

CCX owes it existence in part to the Joyce Foundation, the Chicago-based liberal foundation philanthropy that provided $347,000 in grant support in 2000 for a preliminary study to test the viability of a market in carbon credits. On the CCX board of directors is the ubiquitous Maurice Strong, a Canadian industrialist and diplomat who since the 1970s has helped create an international policy agenda for the environmentalist movement. Strong has described himself as "a socialist in ideology, a capitalist in methodology." (His past job titles include "senior advisor" to U.N. Secretary-General Kofi Annan, "senior advisor" to World Bank president James Wolfensohn, and board member of the United Nations Foundation, a creation of Ted Turner.) The 78-year-old Strong, who is said to be in failing health, is very close to Gore.

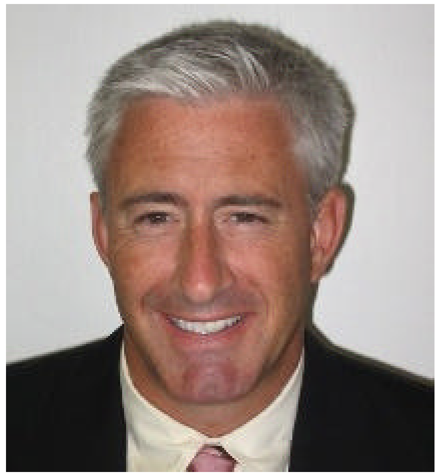
CCX has about 80 members that are self-confessed emitters of greenhouse gases. They have voluntarily committed themselves to reduce their emissions by the year 2010 to a level 6% below their emissions in 2000. CCX members include Ford Motor Company, Amtrak, Dupont, Dow Corning, American Electric Power, International Paper, Motorola, Waste Management and a smattering of other companies, along with the states of Illinois and New Mexico, seven cities (among them, Aspen, Berkeley, Boulder, Portland and Chicago), and a number of universities (their heating plants emit pollutants too). Presumably the members "purchase" carbon offsets on the CCX trading exchange. This means they make contributions or investments in groups or firms that provide forms of "alternative," "renewable" and "clean" energy.

CCX also has "participant members" that develop the carbon offset projects. They have names like Carbon Farmers and Eco-Nomics Incorporated. Still other participant member groups facilitate, finance and market carbon offset projects to "sequester, destroy or displace" greenhouse gases. CCX—the Chicago Climate Exchange—aspires to be the New York Stock Exchange or perhaps the NASDAQ of carbon emissions trading.

Along with Gore, the co-founder of GIM is former Goldman Sachs CEO Hank Paulson, who is currently the Secretary of the U.S. Treasury. Last September Goldman Sachs bought 10% of CCX shares for $23 million. CCX owns half of the European Climate Exchange (ECX), Europe's largest carbon trading company, so Goldman Sachs has a stake there as well.

GIM's "founding partners" are studded with officials from Goldman Sachs. They include David Blood, former CEO of Goldman Sachs Asset Management (GSAM); Mark Ferguson, former co-head of GSAM pan-European research; and Peter Harris, who headed GSAM international operations. Another founding partner is Peter Knight, who is the designated president of GIM. He was then-Senator Al Gore's chief of staff from 1977 to 1989 and the campaign manager of the 1996 Clinton-Gore reelection campaign.

Like CCX, the European Climate Exchange has about 80 member companies, including Barclays, BP, Calyon, E.ON UK, Endesa, Fortis, Goldman Sachs, Morgan Stanley and Shell, and ECX has contracted with the European Union to further develop a futures market in carbon trading. What's in it for the companies? They will benefit either by investing in carbon credits or by receiving subsidies for doing so. Businesses benefit from regulations that "will carve out niche markets or obstruct competition," law professor Jonathan H. Adler notes in "Rent Seeking Behind the Green Curtain," which is available online at www.cato.org/pubs/regulation/reg19n4b.html. (Adler teaches at Case Western Reserve University School of Law and is director of its Center for Business Law and Regulation. He is also the author of *Environmentalism at the Crossroads*, published in 1995 by Capital Research Center.)



The Competitive Enterprise Institute's Christopher Horner is critical of carbon trading schemes.

Clearly, GIM is poised to cash in on carbon trading. The membership of CCX is currently voluntary. But if the day ever comes when federal government regulations require greenhouse gas emitters—and that's almost everyone—to participate in cap-and-trade, then those who have created a market for the exchange of carbon credits are in a position to control the outcomes. And that moves Al Gore front and center. As a politician, Gore is all for transparency. But as GIM chairman, Gore has not been forthcoming, according to Forbes magazine. Little is known about his firm's finances, where it gets funding and what projects it supports.

Law professor Jonathan H. Adler says carbon trading is anti-competitive.

We do know that Goldman Sachs has commissioned the World Resources Institute (affiliated with CCX), Resources for the Future, and the Woods Hole Research Center to research policy options for U.S. regulation of greenhouse gases. In 2006 Goldman Sachs provided research grants in this area totaling $2.3 million. The firm also has committed $1 billion to carbon assets projects, a fancy term for projects that generate energy from sources other than oil and gas. In October 2006 Morgan Stanley committed to invest $3 billion in carbon assets projects. Citigroup entered the emissions trading market in May; Bank of America got in on the action in June.

The Big Business of Carbon Trading

Some environmentalist groups disparage Gore and his investment banker friends. They say the Gore group caters to others who share their financial interest in the carbon exchange concept. The bulletin of the World Rainforest Movement says members of a United Nations-sponsored group called the Intergovernmental Panel on Climate Change (IPCC) stand to gain by approving Gore's carbon trading enterprise. The IPCC has devised what it says is a scientific measure of the impact of greenhouse gases on global warming. In fact, the critics charge, the IPCC sanctions a mechanism that mainly promotes the sham concept of carbon exchange.

The global nonprofit Winrock International is an example of one IPCC panel member that seeks out groups and individuals with an interest in carbon trading. Arkansas-based Winrock provides worldwide "carbon advisory services." Winrock's principal benefactor was philanthropist and Arkansas governor Winthrop Rockefeller (1912-1973), one of the five Rockefeller brothers. Winrock has received government grants from the EPA, USAID, and the Departments of Labor, State, and Commerce as well as from the Nature Conservancy (whose chairman used to be Henry Paulson). Winrock argues that cap-and-trade carbon trading is the best way to prevent a climate change crisis. But consider: When a nonprofit group takes money from oil companies and advocates drilling for oil as a solution to energy shortages, it is certain to be attacked as a tool of Big Oil. So far the groups linked to Gore have avoided similar scrutiny.

Then there's the World Resources Institute (WRI). It was the first nongovernmental group to join CCX as an associate member (a designation for virtuous groups whose greenhouse gas emissions are negligible). Many of its donors are CCX members or otherwise support carbon exchanges, including the Shell Foundation, Whole Foods Market, the Nature Conservancy, American Forest and Paper Association, and the Pew Center for Climate Change as well as the Rockefeller Brothers Fund and the Ford Foundation.

In June 2006, the World Bank announced that it too had joined CCX. Like the medieval penitent calculating how many indulgences he needed to buy in order to be absolved of worldly sin, the Bank said it intended to offset its greenhouse gas emissions by purchasing emission credits through CCX. The Bank says its credits would contribute to restoring 4,600 hectares of degraded pastureland in Costa Rica. Somehow CCX has figured out that this is an amount equivalent to 22,000 metric tonnes of emission that the Bank calculates are created by its activities.

A World Bank Internet blog called the Private Sector Development Blog (PSD Blog) regularly features items touting Al Gore and the concept of carbon credits. Its articles typically announce corporate "green" initiatives in which carbon credits are said to cancel out "bad" CO_2 emissions released by a company's activities.

In fact, the World Bank now operates a Carbon Finance Unit that conducts research on how to develop and trade carbon credits. The Bank works with Italy, the Netherlands, Denmark, and Spain to set up carbon credit funds in each country to purchase emission credits from firms for use in developing countries. In addition, it runs the Carbon Fund for Europe helping countries meet their Kyoto Protocol requirements. These funds are traded on the European Climate Exchange (half of which is owned by CCX, itself a creature of Al Gore's firm, Generation Investment Management). Can we connect the dots?

A website affiliated with Al Gore's film, *An Inconvenient Truth*, (www.climatecrisis.net) invites concerned citizens to personally fight global warming by offsetting their "carbon footprint." The ways to do that include changing over to fluorescent light bulbs and turning down your thermostat at home. But the website also urges Americans to offset their personal CO_2 emissions by "buying" carbon offsets from a native American-owned company called Native Energy. Native Energy promotes "renewable" wind energy by buying and selling carbon emission credits and futures for wind turbine projects on Indian reservations. (Your purchases can be conveniently billed to your credit card each month.)

What the website doesn't mention is that that the founder of Native Energy, energy industry veteran Tom Boucher, also founded a marketing company called Green Mountain Energy, a CCX associate partner that describes itself as "the nation's leading retail provider of cleaner energy and carbon offset solutions. Green Mountain offers residential, business, institutional and governmental customers an easy way to purchase cleaner, affordable electricity products, as well as the opportunity to offset their carbon footprint." In other words, Green Mountain sells advisory services to energy users, alerting them to opportunities to contribute to or invest in groups like Native Energy.

So it seems banks and investment houses are going green, eager to enter an emerging emissions market. Meanwhile, environmentalists are discovering new ways to get rich while believing they are saving polar bears and rainforests. Is it any wonder that the Bush administration is under intense pressure to cave in to the demand for cap-and-trade legislation?

Al Gore has defended himself from charges of hypocrisy and energy gluttony by observing that he bought carbon credits to offset his Nashville home's excess energy use. But some environmentalists don't buy his explanation. Says a blogger at "Green Parenting": "I'm glad he was called on it. The lifestyles of public figures should be scrutinized if they claim special authority. Another example would be a gay-bashing gay preacher. He should be outed. Likewise, Al Gore's heated pool is news."

Gore's Nonprofit Agitators

In 2006 Al Gore established his own global warming nonprofit, the Alliance for Climate Protection, a 501(3)(c) nonprofit organization.

The group favors more stringent environmental policy regulations on the private sector. The Alliance especially wants cap-and-trade legislation so that companies will be forced to lower their greenhouse gas emissions and buy carbon credits.

The Alliance CEO is Cathy Zoi, a former environmental advisor to President Bill Clinton. Gore is chairman of the board, which also includes environmental activist Theodore Roosevelt IV, Clinton-era EPA director Carol Browner, the elder President Bush's national security advisor Brent Scowcroft and Reagan-era EPA director Lee Thomas. Gore has reportedly given the Alliance $250,000, and has said he will donate his share of the profits from his film *An Inconvenient Truth* to the group. (Paramount Classics, the film's distributor, says it will contribute 5% of its gross profits from the film.)

Last September, the Alliance cheered as California Governor Arnold Schwarzenegger signed into law the Global Warming Solutions Act of 2006. California has the world's sixth largest economy and is the world's twelfth largest source of carbon dioxide emissions. The state-level mandate promises to cut emissions by 25% by 2020. Unlike other state and regional programs to cut carbon emissions and promote alternative energy, the California law is the first to embrace a cap-and-trade program. It has won the support of litigious environmental groups such as the Natural Resources Defense Council (NRDC) as well as business and financial groups that want to buy and sell pollution credits.

Now It's Up to the Feds

This year Congress is considering a slew of cap-and-trade bills to reduce carbon emissions. The bill getting the most attention is sponsored by Senators John McCain (R-AZ) and Joseph Lieberman (D/I-CT). It would apply to the entire economy, would reduce emissions in stages (to 2004 levels by 2012, 1990 levels by 2020, and 60% below 1990 by 2050), and would set up a cap-and-trade market for emission credits. To win additional support in Congress, the McCain-Lieberman bill provides for nuclear power subsidies and loan guarantees, a provision opposed by anti-nuke environmental groups. Senators Dianne Feinstein (D-CA) and Tom Carper (D-DE) have introduced another bill to impose cap-and-trade on producers of electricity.

In January, 10 major companies, including GE, DuPont, Caterpillar, Alcoa, and Duke Power, announced a U.S. Climate Action Partnership calling for nationwide carbon emission controls and cap-and-trade. The companies were joined by Environmental

Defense, NRDC, and the Pew Center for Global Climate Change.

The push is now on to force action from the Bush administration. On May 14 of this year President Bush signed an executive order directing federal agencies to craft regulations by the end of next year that will "cut gasoline consumption and greenhouse gas emissions from motor vehicles." His "Twenty in Ten" plan to cut gas consumption by 20% in the next 10 years focuses on increasing the gasoline fuel economy (CAFE) standards for cars and light trucks and mandating increased use of alternative fuels.

But the president is unwilling to call for mandatory nationwide emissions rules, and instead favors voluntary carbon emission cuts in the private sector. This is deeply frustrating to all the brokers, wheeler-dealers, and interest groups that want to jump on the cap-and-trade bandwagon. There are billions of dollars to be made in trading emissions credits. But first the federal government must force everyone to play the game. "Why would you cut if your competitors do not?" asked Richard Rosenzweig, according to the Washington Post. Rosenzweig, a former environmental official in the Clinton administration, now runs Natsource, a "carbon asset management" company.

As for Al Gore, the former U.S. vice president brings emotional fervor to his carbon crusade. He travels the country displaying charts and graphs, quoting scientific experts, and appealing to philosophers and religious leaders to save the planet from global warming. But he says nothing about his business partners who yearn to trade on the emerging carbon market. We know little about his former political associates who now staff the "climate crisis" advocacy groups. And the media pays no attention to the companies offering "carbon advisory services" that will profit from federal carbon emission controls.

Perhaps it's about time they did.

Deborah Corey Barnes is a freelance writer and blogger for the Polireport in Washington, D.C.

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PhilanthropyNotes

The world's wealthiest individuals donated more than $285 billion to charity last year, according to the 2007 World Wealth Report released by **Merrill Lynch & Company** and the **Capgemini Group**. High net-worth persons in the U.S. and Canada gave 7.6% of their assets to charity, 20% more than the previous year. High-net worth individuals in the Asia Pacific regions gave 11.8%, compared to 7.7% for those in the Middle East, 4.6% for Europeans, and about 3% for Latin Americans.

Private-equity firms would benefit by more aggressively publicizing their philanthropic work as two British firms have been doing, reports CNNMoney.com. Many private-equity firms have a bad public image because critics say they are making billions of dollars buying companies and then saddling them with huge debts. Britain's **CVC Capital Partners** and **Apax Partners** created the **Private Equity Foundation**, a London-based charity for children in 2006, and U.S. firms could help counter criticism of their industry by doing the same, according to the article. The mission of the new foundation includes making private equity a "force for good," says **Shaks Gosh**, the foundation's CEO. "There hasn't been a lot mentioned about [U.S. private-equity firms' charity] work so the public hasn't really gained any keen appreciation for the impact coming from the industry," says **James Post**, a professor at **Boston University School of Management**. U.S. private-equity firms made $644-billion worth of deals in the first half of this year alone, accounting for almost a quarter of all merger activity worldwide.

As more colleges embark on billion-dollar fund-raising campaigns, philanthropists have made more than a dozen pledges of $100 million or more for higher education so far this year, the Chronicle of Higher Education reports. Meanwhile, private student loans are increasing by an average of 27% annually and university fundraisers worry that growing student debt may discourage alumni giving, the Boston Globe reports. **American Student Assistance**, a Boston-based nonprofit, released a study suggesting that students with no debt were twice as likely to donate to their alma maters. "Whether your debt is $200 or $200,000, you don't tend to write checks as long as you have it," says **Scott G. Nichols**, vice president for development at **Boston University**.

Internet-savvy criminals are giving small sums to charities in order to verify the validity of stolen credit cards before they sell them on the black market, InformationWeek reports. "They go through the steps of validating credit cards before they purchase them," said **Yazan Gable**, a **Symantec Security Response** engineer. "The advantage of using a charity is it's not a regular purchase, so it may not come up as a flag for the credit card companies." A **Red Cross** spokeswoman said her charity detected 700 fraudulent online donations equaling about $7,000 in the month of June. The Red Cross returns such donations, she added.

Borrowing a British expression, columnist **Robert Frank** says very wealthy young people who live humbly and donate most of their wealth to charity are "yawns," an acronym for "young and wealthy but normal." These people live modestly and tend to be very dull, Frank wrote in a Wall Street Journal op-ed. "Although he is 51, **Bill Gates** is considered the patron saint of yawnhood. His philanthropy, nerdy clothes, and close family help to offset the conspicuousness of his 40,000-square-foot mansion," Frank writes. Other "yawns" are **Yahoo** founder **Jerry Yang**, **eBay** co-founder **Pierre Omidyar**, and rancher-billionaire **Brad M. Kelley**.