BILLIONAIRES' CARBON BOMB

THE KOCH BROTHERS
AND THE KEYSTONE XL PIPELINE

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EXECUTIVE SUMMARY

"BILLIONAIRES' CARBON BOMB" explains what could be at stake in the proposed Keystone XL (KXL) pipeline for two of the world's biggest billionaires, Charles and David Koch. The brothers co-own America's second largest private corporation, Koch Industries, and have a combined net worth ($92B) exceeding that of the world's wealthiest man, Bill Gates ($72B), according to Bloomberg's billionaires index. If approved by U.S. President Barack Obama, KXL will have an explosive impact on not only our planet's intensifying ecological crisis but also on today's extreme concentrations of global wealth and power.

KXL—which would carry 830,000 barrels per day of ultra-dirty tar sands oil from Canada to the Gulf Coast[1]—will significantly exacerbate carbon pollution by both triggering massive new increases in deadly greenhouse gas emissions and by concentrating ever more political power over carbon pollution in the hands of the Kochs. The Kochs are already the financial and ideological leaders of so-far successful efforts to counter regulation of carbon, as part of their broader agenda to advance an extremist ideology they call "economic freedom" that calls for shrinking government and the prioritization of profits over life itself.[2]

By better connecting Canadian tar sands to U.S. refineries and their growing export markets, KXL will create a cash cow on steroids for the Kochs. KXL would worsen today's chances for controlling carbon by enormously expanding the Kochs' financial war chest, thereby increasing their ability to influence U.S. carbon pollution policymaking and undermine urgent global climate cooperation.

IFG's special report reveals that Koch Industries' role in KXL includes:

> 2 million or more potential acres in Alberta with tar sands (and emissions) exceeding Exxon, Chevron and ConocoPhillips combined;
>
> $53 million in Koch Cash for front groups and politicians who are pushing to fast-track KXL;
>
> $100 billion in potential profits due to KXL, or 1 million times more than the average KXL workers' wage over the life of the pipeline.

The resulting rise in the pace and scale of Canadian crude oil consumption will make more money faster for the Kochs, who stand to personally profit from KXL more than any other individuals, even Exxon executives.[3]

The "Billionaires' Carbon Bomb"—if built—could pollute our planet with enough greenhouse gas emissions to dangerously warm all life on Earth, and it would increase the "Koch effect" of undercutting carbon pollution policy.[4]

Therefore, KXL is not in America's national interest because it will increase emissions and likely lead to further rollbacks of measures set to protect the people, the planet, and democracy. KXL's approval would give the Kochs more money to ramp up their already successful attacks against Americans' voting rights, labor rights, pollution controls, and other public interest protections. Embodying the fatal flaws of today's economic delusion that endless growth is possible on a finite planet, KXL offers only short-term jobs for a few thousand workers while polluters like the Kochs make billions more dollars pumping dangerous new levels of carbon into our atmosphere. Theirs is a worldview that has blighted us with unprecedented economic inequality and hurtled our Earth towards the edge of ecological collapse.

Tar sands are an inherently unsustainable and unjust industry, digging up vast landscapes in Alberta Canada occupied by First Nations and turning them into toxic wastelands while churning out deadly emissions.

INTRODUCTION

AN EMPIRE BUILT ON DEADLY EMISSIONS

The International Forum on Globalization's earlier report *Faces Behind a Global Crisis: U.S. Carbon Billionaires and the U.N. Climate Deadlock* followed the flow of fossil fuels industry funds to find that Charles and David Koch were, in fact, the single largest financiers of efforts to stop the phase out of fossil fuels.

With more money (combined net worth of $92B) than the world's wealthiest man, Bill Gates ($72B), the Kochs outspent all other oil companies, even Exxon, by leading in campaign contributions, lobbying expenses, denialist science, and myriad other activities since 1999 to stop solutions to today's quickening global climate crisis.[5]

Unprecedented financial wealth combined with the Kochs' fanatical belief in what they call "economic freedom" made them top spenders in the 2012 U.S. elections.[6] The Kochs have spent well over $22 million on traceable campaign donations since 1990, and almost four times that amount—about $76 million—on their lobbying expenditures since 1998 alone.[7] This number does not include the vast sums of dark money moved through their web of influence, as mapped and monitored by IFG's Kochtopus, an online tool to follow the Koch Cash moving through their influence network.

Since the 2010 U.S. Supreme Court ruling on Citizens United, "Koch Cash" has bought a radical faction in Congress that has seized the power of the purse, shrunk government by 8% via the sequestration, and

Koch Industries Inc./Bloomberg News

Charles & David Koch, co-owners of Koch Industries, America's second largest private company, have a combined net worth ($92B) exceeding that of the world's wealthiest man, Bill Gates ($72B)

restricted U.S. action on climate to President Obama's narrow administrative authorities, which the Kochs are already preparing to counter in court. Recent U.S. Supreme Court rulings on Koch-introduced legal cases have involved judges too friendly with the Kochs. These rulings undermine the legitimacy of the Court, the current composition of which is slated to continue to rule in the Kochs' favor.[8]

In this report, IFG examines the Kochs' role in the world's single largest industrial development project ever, and certainly its most carbon-intensive: the megatechnology known as tar sands. It is an inherently unsustainable and unjust industry, embodying in every step of its process the violence of placing profits over life itself. As its name implies, the proposed Keystone XL pipeline, which, if complete would carry up to 830,000 barrels of tar sands per day from Alberta to the U.S. Gulf Coast[9], is central to the expansion of tar sands trade into growing export markets.[10]

KOCH PROFITS FROM THE KEYSTONE XL PIPELINE

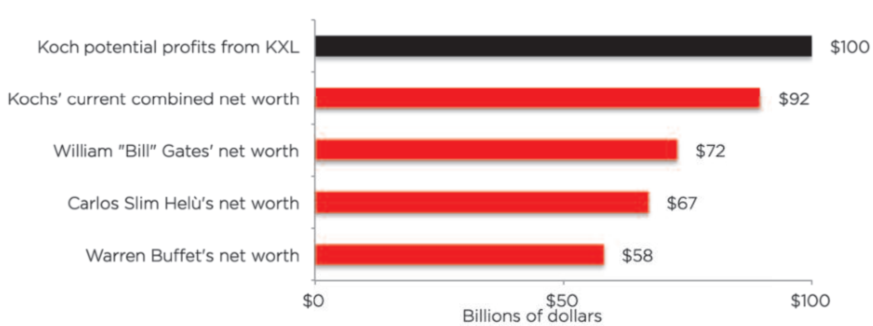
The Kochs may ay make more money from KXL than anyone else—even Exxon executives and top energy investors—since the Kochs privately co-own almost all of Koch Industries, whereas ownership of publicly traded corporations is much more diffuse among shareholders.

Koch Industries has several profit streams all along the tar sands value chain, easily profiting them personally in the billions of dollars annually. From crude oil production on land holdings of Koch Exploration Canada in Alberta's tar sands territory, to their 4,000 miles of pipeline operated by Koch Pipeline Company, to their lucrative oil derivatives dealing by Koch Supply and Trading.

The point on the pipeline's value chain at which we were able to identify a significant profit source for the Kochs is their production of crude oil from the 2 million acres they have in Alberta's tar sands territory. Because of the Keystone XL Pipeline, the Kochs could make an additional $100 billion in profits from their production operations alone.

Though it is impossible to project the profits that would accrue through oil derivatives trading due to the lack of transparency in this type of market, additional profits

FIGURE 1: KOCH POTENTIAL PROFITS FROM KXL VS. NET WORTHS OF THE WORLD'S WEALTHIEST MEN



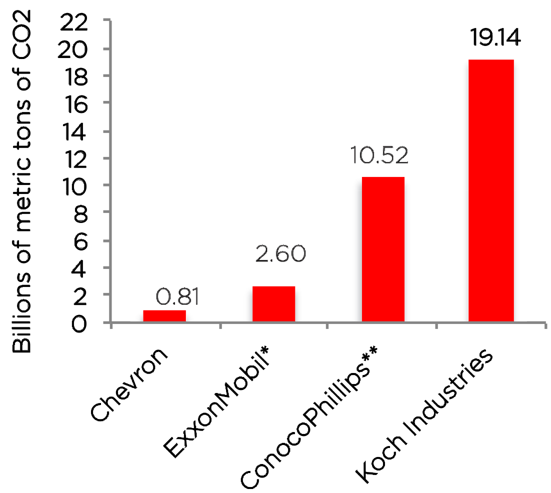
Koch Industries has several profit streams all along the tar sands value chain, and a potential profit of $100 billion from KXL according to this report. Compare above their KXL profits with the net worth of the world's wealthiest individuals, according to Bloomberg Billionaires Index in October 2013.[i]

in the tens of billions of dollars for the Kochs' derivatives trading are anticipated. See the following section for specifics on each sector of the tar sands trade.

CARBON BOMBS KILL

RETIRED NASA SCIENTIST, James Hansen, has likened tar sands to the "fuse to the biggest carbon bomb on the planet," saying that it is "game over" for the climate if the tar sands are fully developed. As its name implies, KXL is a keystone of the tar sands' future.[11] Tar sands oil is a type of crude oil that is mixed with sand, clay and bitumen, a semi solid or highly viscous liquid form of petroleum. Because of its particular extraction and processing techniques, tar sands produce three times the greenhouse gas emissions of conventionally produced oil.[12] Scientists say that burning all recoverable tar sands oil would make it much harder to avoid an increase in the global average temperature by 2 degrees Celsius, the threshold agreed upon in the U.N. to avoid catastrophic climate change. Even the U.S. and China agreed to this limit under the 2010 UNFCCC deal in Cancun. KIs' emissions from its potential 2 million acres in the tar sands territory of Alberta would rank first among U.S. oil companies in Canada, or more than Chevron, Conoco and Exxon, combined.[13]

FIGURE 2: EXACERBATING EMISSIONS: CARBON CONTENT OF U.S. OIL COMPANIES IN CANADA



This graph shows the total CO2 that could be released throughout the life-cycle of the bitumen produced by the top four U.S. oil companies in Canada, thus demonstrating how each of these companies will exacerbate the global climate change crisis. KI emissions could be more than Chevron, Exxon and ConocoPhillips combined, based on available information.[ii]

LIST OF ABBREVIATIONS

KXL: Keystone XL Pipeline TransCanada's proposed tar sands oil pipeline from Hardisty, Alberta, to Cushing, OK, which President Obama is to approve or reject.

KI: Koch Industries The Koch brothers' umbrella company, of which the others are all subsidiaries.

KEC: Koch Exploration Canada KI's crude oil exploration company, which has leases on land in Canada with significant bitumen reserves.

KPC: Koch Pipeline Company KI's 4,000 mile network of pipelines.

FHR: Flint Hills Resources KI refining subsidiary.

KST: Koch Supply and Trading KI's oil derivatives trading subsidiary.

B/d: barrels per day

SAGD: Steam Assisted Gravity Draining A crude oil production technique invented for Alberta oil sands deposits that were "too deep for mining."

CTS: Canadian Tar Sands A catch all term, which can refer to all forms of oil derived from the bitumen found in Canada, including: dilbit (diluted bitumen, also known as BB, or bitumen blend), syncrude (synthetic crude), WCS (Western Canadian Select)

UNFCCC: United Nations Framework Convention on Climate Change

Part One

THE KOCHS AND THE TOXIC TAR SANDS TRADE

GARTH LENZ

Roads dotted with trucks the size of four-story buildings cross the scoured landscape towards a typical tar sands oil operation in Alberta Canada. Tar sands are an inherently unsustainable and unjust industry dependent on digging up vast landscapes occupied by First Nations—such as the Cree, Dene, and Chipewyan—and turning them into toxic wastelands while churning out deadly greenhouse gas emissions.

50 YEARS, 500 FACILITIES & 2,000,000 ACRES

KOCH INVESTMENTS in Canada's toxic tar sands trade go back 50 years.[1] They have been leading investments in Alberta's tar sands for 40 of the 50 years, and only since the U.S. invasion of Iraq, a decade ago, have the "super major" oil companies invested so substantially in Alberta.[2]

Their initial foray began during the 1960s when they were struggling to sustain their father Fred's refinery company. In a *Forbes* magazine exclusive from December 2012, Charles Koch recalled the key moment that ushered their entry into the big-time oil business—when they borrowed heavily to leverage the buyout of a Minnesota refinery that now processes one-quarter of existing tar sands imports.

The facts from *Forbes* are quite revealing and read like a script from the television show, Dallas:

Koch's father died on a hunting trip in 1967 at age 67, shortly after handing full management control over to Charles, setting in motion the two most momentous turning points in the company's history. The following year, Charles made the riskiest, and likely most profitable, move of his career. His family owned 35% of the Pine Bend refinery outside Minneapolis, with Union Oil of California holding 40% and J. Howard Marshall owning 15%. Koch wanted to buy out Unocal, but the company was asking too much.

So he persuaded the older and more experienced Marshall—who later became infamous at age 89 for marrying the young stripper-turned-Playboy-pinup Anna Nicole Smith—to combine his 15% interest with Koch's 35% to prevent Unocal from assembling a majority stake to sell to outsiders. The risk paid off handsomely. Marshall's heirs, including the widow of his son, J. Pierce, hold Koch Industries stock worth at least $10 billion. And while Charles took on a potentially crippling $25 million in debt to buy out Unocal—something he has eschewed ever since—Pine Bend evolved into a cash engine that provided Charles the fuel to expand.[3]

FIGURE 3: KOCH ASSETS IN THE TAR SANDS TRADE

Koch investments in tar sands industry range from their potential two million acres in Alberta to thousands of miles of pipeline and storage facilities to two Texas refineries along the Gulf Coast.[iii] Ownership of so much infrastructure affords the Kochs access to insider's intelligence about the industry's supply, so the Kochs are able to place big bets on price movements in trading oil futures, derivatives, and other "innovative" and unregulated financial instruments that have made them the world's two wealthiest men.

Over the years, while other oil companies may have made larger overall investments in Alberta's Athabasca (the "oil patch" in that province of Canada), the Kochs took a different approach–quietly positioning themselves along the value chain of the tar sands trade, expanding specifically in those sectors where they were most competitive. After starting in refining, KI developed operations in everything from pipelines to storage depots, to oil derivatives trading, and likely soon, production.[4]

David Sassoon, reporter and founder of Pulitzer Prize-winning Inside Climate News, writes:

Koch Industries has touched virtually every aspect of the tar sands industry since the company established a toehold in Canada more than 50 years ago. It has been involved in mining bitumen, the hydrocarbon resin found in the oil sands; in pipeline systems to collect and transport Canadian crude; in exporting the heavy oils to the U.S.; in refining the sulfurous, low-grade feedstock; and in the subsequent distribution and sale of a variety of finished products, from jet fuel to asphalt, collaborated with other companies that have become leading players in the development of Alberta's oil resources, and it remains deeply invested in western Canada's oil patch.[5]

While there is a significant information void with regard to Koch Industries due to its exceptionally secretive nature, the information that is available publicly and historically shows that KI is one of the biggest players in Canadian tar sands.

LAND HOLDINGS/PRODUCTION

Koch Exploration Canada Koch Exploration Canada (KEC) is one of the two Koch subsidiaries at the core of the Kochs' tar sands interests. This company buys and sells land for energy development, and is well positioned to become a major producer in the coming years.[6] Their current land holdings appear to be significantly larger than those of Chevron, Exxon and ConocoPhillips combined. Not one of these three leading American oil companies can rival the political-influence network of the Kochs.

KEC's potential profits due to KXL could easily reach $100 billion, more than the Kochs' current combined net worth of $92B. These profits can be roughly projected by multiplying two key figures: 1) 15 billion barrels of recoverable, profitable-to-produce tar sands crude oil that KEC could have on its reported two million acres in Alberta's tar sands territory; multiplied by 2) $15 gross profit from production per barrel due to KXL.

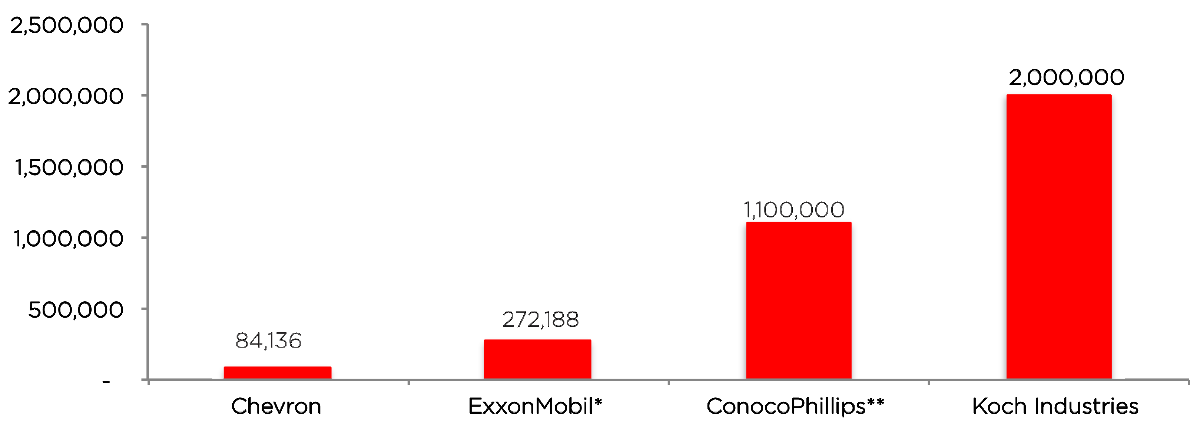
Multiplying these two key figures produces a $225 billion gross profit due to KXL solely from production. While KI's refining subsidiary, Flint Hills Resources (FHR), might make $120 billion *less* in profits due to KXL, KI overall would still profit enormously.

FIGURE 4: **LAND HOLDINGS OF KOCH EXPLORATION CANADA**

See more here:
http://navigator.oilsandsreview.com/maps/leases

This image plots partial acreage of Koch in Alberta, Canada, according to the Oil Sands Navigator. This online mapping tool shows Koch with practically two million acres, but ex-Koch geologists say they helped buy two million acres in Alberta's Athabasca region for tar sands development.[v]

FIGURE 5: **ACREAGE OF TOP U.S. OIL COMPANIES IN TAR SANDS TERRITORY**



This graph shows the total acreage of the four largest US oil companies in Alberta, Canada, based on partial information provided by the Canadian Oilsands Review website, Conoco's website, and Inside Climate News. Oilsands Review's values above land leased by various subsidiaries and joint venture partners of the four largest American oil companies. ExxonMobil* values include 70% of Imperial Oil Resources, and 17.5% of Syncrude. ConocoPhilips** of Cenovus and 50% of Total E&P.[v]

BOX A

CARBON CASH COW FOR THE KOCHS: METHODOLGY FOR PROJECTING ADDITIONAL PRODUCTION PROFITS

KI's gross potential profits due to KXL from producing Canadian tar sands can be projected by multiplying two key figures: 1) 15 billion barrels of profitable-to-produce Canadian tar sands oil that KEC is estimated to have in reserve on its reported two million acres in Alberta's tar sands territory; multiplied by 2) $15 gross production profit per barrel due to KXL. Here is how each input is derived:

1) To estimate how many recoverable barrels per acre might exist on KEC's two million acres, we extrapolate a barrels-per-acre ratio from a large property in tar sands territory representing 1/6 of their 2 million acres for which the information is available. Sassoon's same article cites KEC's 2006 sale of 374,000 acres with "47 billion barrels of oil resource estimated to be in place." The midpoint in the range of "in place" reserves that are typically recoverable is 13 percent, so 47 billion "in place" barrels could easily be 6 billion "recoverable" barrels. Dividing 6 billion barrels by 374,000 acres gives a recoverable-reserves-per-acre ratio of a little more than 16,000:1. Multiplying 16,000 by the two million acres equals 32 billion barrels of recoverable reserves. Assuming conservatively that less than half of those barrels will be profitable to produce still leaves 15 billion of recoverable, profitable to produce barrels.

2) $15 gross production profit per barrel due to KXL is based on an estimated per barrel discount prevented of $20, of which producers will capture only 75%. We use the term "discount prevented" because the value of KXL to producers is that it allows them to continue to increase their production without driving down the price they get for their crude- as much. KXL will drain excess crude from the Midwest market, relieving the oversupply that would otherwise drive down the price. We use the modest (given historical data)[vi] estimate that KXL will prevent on average a $20 discount to the price of a barrel of tar sands crude (see endote for a summary of historical data). We estimate that the producer will only capture on average 75% of the prevented discount per barrel because we estimate that, of the barrels that will be profitable to produce, only half would have been profitable to produce without KXL. This half of KEC's barrels would reap the full 100% of discount prevented, because it was already profitable to produce. Therefore, when it is $20 less cheap, that makes it $20 more profitable to produce. In contrast, the half of the barrels that would be profitable to produce with KXL, which would not be without KXL only capture on average 50% of the prevented discount. This is because 50% represents a midpoint in the range of the possible percentages of the discount that could be captured by barrels that are only profitable to produce with KXL. To illustrate, if a particular barrel of tar sands costs $90 to produce, but without KXL the price it would sell for would only be $80, then when it sells for $100 as a result of KXL, you can only say that the producer profited $10, or 50% of the prevented discount as a result of KXL. This is because without KXL this particular barrel would have merely gone un-produced. 75% is simply the average of 50% and 100%.

Bottom-line, KI's net profit could still easily total $100 billion. Box A details the methodology used to derive figures 1) and 2). Box B details the methodology to derive FHR's losses, and KI's net profits.

KEC's reserves of recoverable tar sands crude could be as much as 32 billion barrels, but we conservatively assume that less than half of these (15 billion barrels) would be profitable to produce. No one knows for sure the extent of KEC's reserves because they do not disclose this information publicly. As a result, one can only project what is possible based on the rare glimpses of their private information that have been disclosed to the public (See Figure 2).

KEC's two million acres were reported by former KEC geologist, Ryan Morrison, who wrote that he helped KEC purchase two million acres in Alberta's tar sands territory between 2006 and 2008, according to David Sassoon of *Inside Climate News*. Although the Kochs aggressively attacked certain claims asserted by Sassoon, including detailed challenges to specific sections posted on www.kochfacts.com, they never challenged the assertion that they purchased two million acres, further solidifying the credibility of the claim. KEC declined IFG's invitation to confirm or deny that they still held this land.

While we cannot be certain how much land KEC holds, Morrison called KEC one of the largest holders of oil (tar) sands assets in Alberta. Although KEC may have since sold this land, it is also entirely possible that KEC still has two million acres *or more* in the tar sands territory.

It is widely understood in the oil industry that the problem for that KXL will alleviate is the product's lack of access to a broad enough range of markets to absorb their production as its scale continues to increase.[7] Currently, most Canadian tar sands exports are mainly limited to the U.S. Midwest market by a lack of transportation infrastructure.

KXL would allow producers to transport more of their oil to the Gulf Coast, providing access to other U.S. as well as growing international markets.[8]

BEN POWLESS

Native and non-Native residents of Northern Alberta come together for the 4th annual Healing Walk, a 10-mile walk around the worst industrial devastation caused by the Tar Sands in the backyards of numerous Native communities.

Due to the cumulative size of these markets, they are capable of absorbing far more oil without driving down the price as significantly as if that same amount of oil was confined to the U.S. Midwest market, which could largely be the case without KXL.

PIPELINES

KXL's TAR SANDS crude producers would connect to Port Arthur, Texas, where the Koch Pipeline Company (KPC) already has a major hub servicing the Gulf Coast, an area that harbors half of all U.S. oil-refining capacity. This positions KPC to benefit from toll price increases due to increased demand for their pipeline capacity in the gulf region as a result of KXL.

Pipeline connections have also been a vital source of insider intelligence used in the Kochs massive investments in exotic financial instruments that play a significant role in driving energy markets today. Oil derivatives are perhaps the single largest source of exponential growth in the Kochs' net worth over the past several years.[9] See subsection below for more on "Derivatives Trading".

Pipeline maintenance and safety is an ongoing issue in the oil industry with the inevitable leaks and spills that occur while transporting the oil in crude form. Many rural communities are tempted by the revenues from pipelines potentially running through them, but few are sufficiently informed of the implications and

The particularly toxic brew from the tar sands known as dilbit, make it even riskier given that no one knows how to clean it should a spill occur.

real risks— not only at a global level but at a local level as well—associated with accepting such deadly infrastructure. Even though tar sand crude spills do receive some media attention, disasters such as the recent Mayflower, Arkansas and Kalamazoo River spill are not seen as the harbingers of future disasters they represent.[10]

The particularly toxic brew from the tar sands known as dilbit makes it even riskier, given that no one knows how to clean it should a spill occur.[11] Any leaks involving petroleum products can be lethal. Koch Pipeline Company itself has a history of pipeline accidents. One explosion at a site on a Koch pipeline in Texas tragically killed two teens. For more detail on this story see the section, "Victim's Voices."[12] With more pipeline activity as a result of KXL and given the difficulty of cleaning up dilbit, we can only anticipate that KXL will mean both more frequent and more damaging pipeline accidents.

STORAGE DEPOTS

Not only are storage depots essential infrastructure for managing the movement of major volumes of crude oil and other liquid fuels but they also enable the manipulation of energy markets by allowing depot operations to squeeze supplies while placing big bets in "oil futures trading." Oil in storage depots is essentially "money in the bank"—and how much money is determined by the manner in which the price is manipulated. Flint Hills Resources, a Kochs' subsidiary, owns a large oil depot in KXL's point of origin, Hardisty, Alberta, which holds up to 675,000 barrels of oil. (See subsection on Derivatives Trading.)

BOX B

IMPACT OF KXL ON KOCH REFINERIES

To estimate the net additional profit due to KXL we subtract the profit prevented for KI's Minnesota refinery by KXL from KI's gross profits. To provide a sense of the bar KI must clear in terms of prevented profits to its Minnesota refinery for KXL to begin to have a net impact of profitability for KI, we start with the fact that FHR's Minnesota refinery has the capacity to refine roughly 6 billion barrels of oil over the course of 50 years (.32 million barrels x 365 = roughly 117 million barrels, 117 million barrels x 50 years = a little less than 6 billion barrels). Because the producer will only capture on average 75% of the prevented discount per barrel (see box for A for explanation), while the refiner will miss out on 100% of that prevented discount, KI has to produce 8 billion barrels before KXL begins to provide it with a net profit.

Using our modest estimate that KXL will prevent on average a $20 discount to the price of a barrel of tar sands crude, FHR's Pine Bend refinery will miss out on $120 billion in profit ($20 x 6 billion barrels = $120 billion). By 8 billion barrels produced at an average gross profit per barrel due to KXL of $15, KI has made up that $120 billion loss ($15 x 8 billion barrels = $120 billion). By less than 15 billion barrels produced, KI crosses the threshold of a net profit of over $100 billion, due to KXL, on production alone ($100 billion/$15=6.67 billion barrels, 6.7 billion+8 billion<15 billion).

The Center for Land Use Interpretations, cliu.org/lubd.site/flint_hills_corpuschristi

The Kochs' refinery company, Flint Hill Resources (FHR), has two large facilities built for heavy crude refining along the Gulf Coast in Corpus Christi, Texas (above). Another Koch-owned refinery in Pine Bend, Minnesota processes one-quarter of current tar sands imports from Canada. KXL could play a key role in providing cheap Canadian crude for the Kochs' Texas refineries.

OIL REFINERIES

Flint Hills Resources (FHR), Koch Industries' oil refinery subsidiary in Pine Bend, Minnesota, refines up to 320,000 barrels a day of heavy oil from western Canada. Inside Climate News reports that, "The facility covers 1,000 acres and has 10 miles of its own roads, as well as thousands of miles of pipe. This single Koch refinery is now responsible for roughly 25 percent of the 1.2 million barrels of oil the U.S. imports each day from Canada's tar sands territories."[13]

The Kochs' two other big refineries are in Corpus Christi, Texas, near the southern end of the proposed KXL pipeline. These refineries have a combined crude oil processing capacity of about 300,000 barrels per day.[14]

While one potential purpose of the KXL pipeline for Koch Industries could be to provide access to Canadian tar sands for its Corpus Christi refineries, this benefit appears relatively insignificant compared to their massive potential profits from producing tar sands crude oil. While KXL would provide a more reliable supply of heavy crude to the Corpus Christi refineries, and the injection of large quantities of tar sands crude to the Gulf Coast could cause a modest reduction in prices for heavy crude there. For the sake of clarity, this relatively insignificant factor was not included in our calculations.

On the other hand, FHR's Minnesota refinery would clearly profit *less* due to KXL as it benefits from discounts that result from oversupply in the Midwest. This is not to say its profits would not still be in the tens of billions of dollars or more, or that the price of the tar sands crude it purchases will necessarily increase as a result of KXL. However, as the scale of Canadian tar sands production continues to increase, discounts to the price of Canadian crude that otherwise would have benefited the Minnesota refinery will be prevented as a result of KXL.

Gas-price gauging famously causes "pain at the pump" for millions of Americans, yet too few know that price manipulations add as much as 25% to a gallon of gas.

DERIVATIVES TRADING

GIVEN THE TRAJECTORY, of the Kochs' net worth, it is likely the Kochs' largest source of profit today is oil derivatives trading by its subsidiary, Koch Supply and Trading (KST).

Charles and David quintupled their combined net worth over the last several years, from $10 billion in 2005 to $50 billion in 2011 and then increased their net worth another $30 billion in 2012.[15] The Kochs' exponential growth, likely from unregulated oil derivatives trading, has helped to fuel their unprecedented network of political influence, the Kochtopus. (See Part Three.)

As we have noted throughout the report, the Kochs' influence in key sectors of the oil industry grants them insider intelligence regarding the future of oil supplies and enables them to squeeze supplies, thereby manipulating oil-futures prices. Koch Supply and Trading traders have openly bragged about buying cargo ships of oil and parking them in the Gulf Coast for months, artificially driving down supply and raising prices enough for KST to sell at a huge profit. All this is done with no oversight by government.[16]

With no ban on insider trading of commodities, nor limits on the size of "positions" that investors are allowed to take (i.e. how big their bets can be), what the Kochs do is not so much speculate on oil markets as manipulate derivatives exchanges in their favor at the expense of consumers across the world, including here in the U.S.

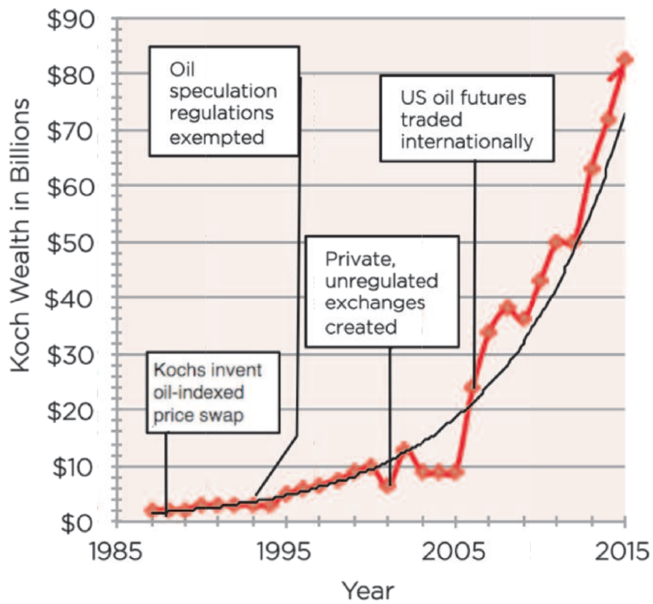
The Kochs' coverage of key sectors of the oil industry grants them insider intelligence regarding the future of oil supplies and enables them to squeeze supplies, thereby manipulating oil futures prices.

Boasting that Koch Executive Lawrence Kitchen engineered the first ever oil-indexed price swap, and that they are today one of the top five trading operations globally, KST traders freely trade oil derivatives almost entirely without regulation in today's "post-crisis" financial markets.[17]

Further, the Kochs' campaign contributions to key members of Congress who are responsible for regulating financial markets have helped to delay and/or effectively derail the implementation of any attempt to even register derivatives trading through the Dodd–Frank Act.[18]

See more in the IFG's forthcoming Special Report on the Kochs manipulation of markets and gas price gouging.

FIGURE 6:
KOCHS' NET WORTH DRIVEN BY OIL DERIVATIVES



The Kochs' combined net worth quintupled from $10B in 2005 to $50B in 2011, according to IFG analysis based on figures from *Forbes*.[vii] Since then it has continued to skyrocket, driven in great part by unregulated trading of oil derivatives that leverages their extensive ownership of energy infrastructure and insiders' knowledge of market-moving information. KXL is likely to increase the Kochs' wealth and power even more.

BOX C

DEBUNKING THE "JOBS MYTH"

The Kochs, like many of their industry peers, routinely tout Keystone XL's "American jobs" myth, while happily outsourcing and automating what jobs remain in their industries to maximize their profits.

The Kochs stand to make over 1 million times more than the average Keystone KXL worker over the life of the KXL Pipeline. That is calculated by comparing the Kochs' potential profits of $100B to the annual wages anticipated for average KXL workers for a two-year contract ($100,000) constructing the pipeline. Not only are very few relative jobs projected to be created through the construction of Keystone XL pipeline, but those few jobs are dangerous and expose workers to toxics.

President Obama told *The New York Times*, "Republicans have said that this would be a big jobs generator. There is no evidence that that's true. The most realistic estimates are this might create maybe 2,000 jobs during the construction of the pipeline, which might take a year or two, and then after that we're talking about somewhere between 50 and 100 jobs in an economy of 150 million working people."

Part Two

VICTIMS' VOICES SPEAK ABOUT KOCH GREED

Jen Reel via The Texas Observer

Dre'vyon Jones receives relief from his asthma attacks caused by oil refineries in Corpus Christi, Texas. The Kochs own two facilities here and KXL could bring cheaper dirty crude from Canada.

KOCH PROFITS COME FROM a variety of business streams and have left in their wake a trail of terrible health effects including death. Almost all appear to come with a high personal cost exacted from someone, somewhere. This section shows a few of the faces, and shares some of the voices of victims of Koch profits who live along their fossil-fuels infrastructure.

> *"…of all the environmental crimes committed in the area over the course of 10 years, 'Koch was the worst'"*
> *—Texas Observer*

1. POISONING THE POOR:

Corpus Christi, Texas—Latricia and Dre'vyon Jones

WHEN MELISSA JERRELL, an Associate Professor in the Criminal Justice Department at Texas A&M University in Corpus Christi, Texas, wrote her dissertation on environmental crimes in the fossil-fuel industry, she ran into a lot of roadblocks. As she told The Texas Observer, "no one wanted to talk about the dirty side of industry. When I would go to the local media, they'd say, 'Sorry, we don't want to hear it because we get a lot of advertising from industry.'"[1]

Through her own research, Jerrell discovered that of all the environmental crimes committed in the area over the course of 10 years, "Koch was the worst"[2] of the guilty parties, and their crimes went unpunished. In the communities that border its Flint Hills Resources refineries, especially in the Hillcrest neighborhood, residents "[…] call this 'cancer neighborhood,'"[3] says Jean Salone, a nearby homeowner and member of the Citizens for Environmental Justice grassroots organization.

And it's not only cancer. The FHR refineries and others in the area regularly process diesel, jet fuel, gasoline and other chemicals, all of which produce toxins including benzene, butadiene, and sulfuric acid, which are known carcinogens that cause birth defects and lung damage.[4]

Dre'vyon Jones is a two-year-old who lives with his single mother, Latricia, just two blocks from the Flint Hills refinery. Dre'vyon currently suffers from such crippling asthma that, in addition to the expensive, mood-altering medication he must take twice a day, he must also spend 30-60 minutes on a breathing machine every night. Yet "he's still in the ER every other month."[5] Doctors say refinery emissions "could be a trigger… that as long as [they] live near the refineries, he'll always have the asthma attacks." In fact, a routine admittance question at hospitals in Corpus Christi is whether the patient lives near a refinery.

Why don't these people just move? Dre'vyon's mother has a simple answer: "If I could afford it, I would move away." Jen Reel, an author of a revealing article on the Kochs in Corpus Christi, elaborates on this quandary: "Living next to the refineries is not only dangerous but a poverty trap, due to medical bills, missed work days and wages lost to illness." Indeed, the federal census shows that 18.5% of Corpus Christi residents live below the poverty line (a measure often criticized for still being set too low), a rate higher than the statewide averages.[6] The people of Corpus Christi have been subjected to the hazards of this toxic industry while systematic poverty has denied them the right to move to a safer area.

While Dre'vyon struggles to breathe as a toddler and his mother fights every day to make just enough money to get by, the neighboring Koch refineries continue to generate unfathomable profits for Koch Industries. The Kochs' dirty secret is how they manage to make money off the poor and disenfranchised and, as Melissa Jerrell found out, then use their wealth to dissuade the media from covering the story.

Corpus Christi Caller-Times/Bloomberg Markets

Sally Barnes-Soliz a former technician at the Kochs' Corpus Christi refineries, provided the proof of conspiracy and concealment by Koch Industries about uncontrolled emissions of the carcinogen benzene.

2. CONSPIRACY & CONCEALMENT:

Corpus Christi, Texas—Sally Barnes-Soliz

In January of 2000, Koch Industries, Koch Petroleum Group, and four employees were indicted of 97 felonies by the U.S. Department of Justice for various charges relating to the intentional concealment of uncontrolled benzene[7] emissions leaked into the air in 1995 from one of their refineries in Corpus Christi, Texas.[8] Rather than showing remorse for endangering the surrounding community, Koch Industries' indignation was conveyed by spokeswoman, Mary Beth Jarvis, who stated, "Koch believes that these charges are outrageous. The government has got this one very wrong."[9]

Meanwhile, the effects of the benzene emissions were already being seen in the surrounding community in the high rates of cancer diagnosis in the youth and elderly alike.[10] By the time of indictment in 2000, the emissions problem had been disclosed and corrected by the facility, but a pattern of conspiracy and concealment remained a significant problem.

"…her superiors 'asked her to falsify data for a reportto the state on uncontrolled emissions of benzene'…"
—Bloomberg

Former employee Sally Barnes-Soliz provided the proof of conspiracy and concealment by Koch Industries. Sally had previously worked as a technician at the refinery in question in Corpus Christi where her superiors "asked her to falsify data for a report to the state on uncontrolled emissions of benzene"[11] in 1995 when the emissions were discovered. Sally refused to falsify the data, and says, "They didn't know what to do with me. They were really kind of baffled that I had *ethics*" (emphasis added). The total disregard of Koch Industries for any social responsibility and moral standards is further seen in the actions that followed her refusal: her bosses solved the problem by transferring her to another location with an unfavorable evaluation.[12]

Ultimately, Koch pleaded guilty to concealing its violation of compliance measures, agreeing to pay a combined $20 million in fines and environmental projects. The rest of the charges against the company were dropped and former high-ranking officials successfully avoided prison sentences.[13] It was only Sally Barnes-Soliz whose career was interrupted—and for following federal regulations.

This is not the only case in which Koch Industries have been found guilty of leaks and emissions greater than the regulated standards. Their continued flouting of regulations and habit of attempting to cover up mistakes are serious hazards to the surrounding community and to the greater global climate.

3. NEGLIGENCE, WITH MALICE:
Lively, Texas—
Danielle Smalley and Jason Stone

ON SATURDAY, AUGUST 24, 1996, an 8-inch-diameter steel LPG (liquefied petroleum gas) pipeline transporting liquid butane ruptured and began leaking. The broken pipe, operated by Koch Industries, sent a deadly butane vapor into the surrounding residential area near Lively, in rural Houston County, Texas.

Two teens, Danielle Smalley and Jason Stone, smelled the gas in the air outside Smalley's home. As the home had no working telephone, they left in a pickup truck to dial 911 from a neighbor's house.

On the way, the truck stalled in a fog of butane vapor emanating from the corroded steel pipeline. Seconds later, as Danielle restarted the truck, the gas ignited in a "huge explosion and a horrendous fireball," a witness reported. Danielle and Jason were burnt alive.[14] Flames and a column of black smoke could be seen for miles and firefighters from six communities were called in.[15]

The 570-mile-long pipeline carrying liquid butane from Medford, Oklahoma to Mont Belvieu, Texas had corroded so badly that one expert, Edward Ziegler, likened it to Swiss cheese. The company never gave 40 of the 45 families near the explosion site— including the Smalley and Stone families— any information about what to do in case of an emergency, the National Transportation Safety Board (NTSB) wrote in its November 1998 investigative report.

Danielle Smalley's father sued Koch Pipeline for the wrongful death of his daughter. During the lawsuit, Bill Caffey, an executive vice president of the company, testified in his 1999 deposition that the company was at fault: "I will tell you Koch Industries is definitely responsible for the death of Danielle Smalley." Caffey also oversaw safety at the Koch Pipeline Co., the company that operated the pipeline. The National Transportation Safety Board (NTSB) investigation concluded that Koch Pipeline failed to adequately

National Transportation Safety Board (NTSB)

Igniting a huge explosion and a horrendous fire ball from a corroded steel pipelines' emanating butane, two Texas teenagers were blown up in their truck due to the Kochs' acting "with malice."

> *"Koch Industries acted with malice, as it had been aware of the extreme risks of using the faulty pipeline."*

protect its pipeline from corrosion, performed inadequate inspections, and had insufficient public engagement.[16]

The state jury awarded Danny Smalley $296 million in its October 21, 1999 verdict. The jury found that Koch Industries acted with malice, as it had been aware of the extreme risks of using the faulty pipeline. Smalley later settled for an undisclosed amount, as did the Stone family. Danny Smalley used settlement money to start the Danielle Dawn Smalley Foundation for pipeline safety and education.[17] Large pipeline operators such as ExxonMobil Corp., BP plc, and Kinder Morgan Inc. accept free services from the foundation, Smalley says, but not Koch Industries.[18]

4. OIL THEFT FROM NATIVE AMERICANS:

Oklahoma—Thurman Parton, Mary Limpy, and Arnita Gonzalez

In 1987 Thurman Parton and his sister Arnita Gonzalez, both members of the Caddo tribe living near Gracemont, Oklahoma, saw a drastic drop in the royalty checks they received each month from the three oil wells on their property.[19] These small royalties were their only source of income in a county where more than 25 percent of the population lives below the poverty line. With their income reduced by more than half, the siblings pored through the charts and measurements provided by Koch Industries in hopes of figuring out what had changed, but found no answers.

Around the same time, Mary Limpy, a Cheyenne-Arapaho physically disabled by polio, unable to work, and dependent upon her royalty checks for survival, found that the checks had become irregular or were not coming at all.[20] Unable to apply for public assistance because of her royalty-owner status, Mary could no longer pay her bills or even buy food for her children, who were later taken into foster care.

"Koch Oil, the largest purchaser of Indian oil in the country, is the most dramatic example of an oil company stealing by deliberate mismeasurement and fraudulent reporting."
—U.S. Senate

She got no help from Koch Industries and no answers as to why some of her checks never arrived.

What happened to Mr. Parton, Ms. Gonzales and Ms. Limpy had everything to do with the company who was supposed to be paying for the oil it extracted, rather than any kind of drop in production of the oil wells. In fact, the oil was being stolen and all evidence pointed to Koch Oil, a division of Koch Industries, as the culprit.

In the spring of 1989, a Special Committee on Investigations of the U.S. Senate's Committee on Indian Affairs, found that up to 75 percent of the measurements taken on the wells were fraudulent.[21] Plainly stated, this meant that the people responsible for measuring the amount of oil Koch Oil was taking from the wells had no oversight and had lied 75 percent of the time in order to inflate profits and underpay royalty holders. That committee stated: "Koch Oil, the largest purchaser of Indian oil in the country, is the most dramatic example of an oil company stealing by deliberate mismeasurement and fraudulent reporting."[22] The report triggered a grand-jury probe. The inquiry was dropped in March 1992, presumably because of Koch political ties to Bob Dole and other prominent Republicans,[23] who were outraged by the congressional investigators.

Caddo Nation Repatriation Committee & Caddo Nation Cultural Preservation Office

Thurman Parton and other indigenous peoples of the Great Plains were lied to by Koch Oil about how much oil was extracted from their land.

Between 1985 and 1989 Koch Industries stole an unknown amount of oil from Indian lands. "Oppose the Future," reported on March 16th:

According to testimony before the Senate Select Committee, Koch Industries' 1988 annual profit was $30 million. That year, company-wide, they made $7.1 million on 474,000 barrels of oil that they were not supposed to have. The overage gave them a 30% increase in profits. Not all of that $7.1 million would go directly to the owners of the leases like Mr. Parton and Ms. Limpy. A representative stake for a Native American owner was an eighth. So in 1988, for example, those lease owners were deprived of nearly a million dollars by Koch's "volume enhancement."[24]

Why would two of the world's richest men steal oil from low-income Native American families? Charles Koch reportedly responded, "I want my fair share—and that's all of it."[25]

© Greg Thompson

Atina Diffley fought and won against the Kochs' attempt to build a pipeline through her organic farm.

5. PUTTING PIPELINES THROUGH ORGANIC FAMILY FARMS:
Minnesota—Atina Diffley

Atina Diffley's husband Martin started the couple's first organic farm and vegetable garden in Eagan, Minnesota in 1973 on land that had been in his family for five generations. In 1991, they started over on a new farm in Eureka, Minnesota with land that had been saturated with chemicals. The damaged soil did not absorb water and Diffley and her husband spent three years repairing the damage while not raising any cash crops. The couple documented the entire process. In 2006, Atina and Martin received a letter in the mail threatening their land with the development of a 300-mile pipeline that would have cut through their organic farm. Atina was alarmed: "I started reading the agricultural impact mitigation plan and I came across that they would not knowingly allow more than 12 inches of topsoil erosion. I had just spent 15 years rebuilding the structure of the soil of this farm."

After learning that the pipeline was owned by Mincan, a Koch subsidiary, Atina navigated her way by phone through the tortuous company hierarchy, and finally spoke to a Mincan Route Corridor Coordinator. When she explained the history of their organic farm that served over 75,000 Twin Cities natural food co-op members, the representative snapped that it didn't matter if the farm was organic and hung up.

Realizing that they were in danger of losing their own natural resource—their farm—and this time to an oil company, the Diffleys decided to take legal action. The task in front of them was daunting. Not only had they to deal with binders full of application materials in legal jargon, but they had a problem finding legal representation. "I had a list of eminent domain attorneys in the Twin Cities," said Atina, "I called office after office, and I was told the same thing on each call: I'd tell my story and they would say please hold while I check if we have a conflict of interest and they would come back and would say, 'I'm sorry we cannot help you'." The problem was that the attorneys Atina contacted had all either worked for the Koch brothers or represented one of their subsidiaries.

Atina eventually found an environmental lawyer, Paula Maccabee with whom she shared her story, and to which Maccabee reportedly commented, "Garden of Eagan organic farm? Twelve inches of topsoil erosion? Crude oil pipeline? This is going to be fun." The legal proceedings involved three parties: Mincan (Koch), the Department of Commerce, and Garden of Eagan. The Diffleys had the same rights as the Kochs to file documents, bring in expert witnesses, speak at the hearing, and request discovery information.

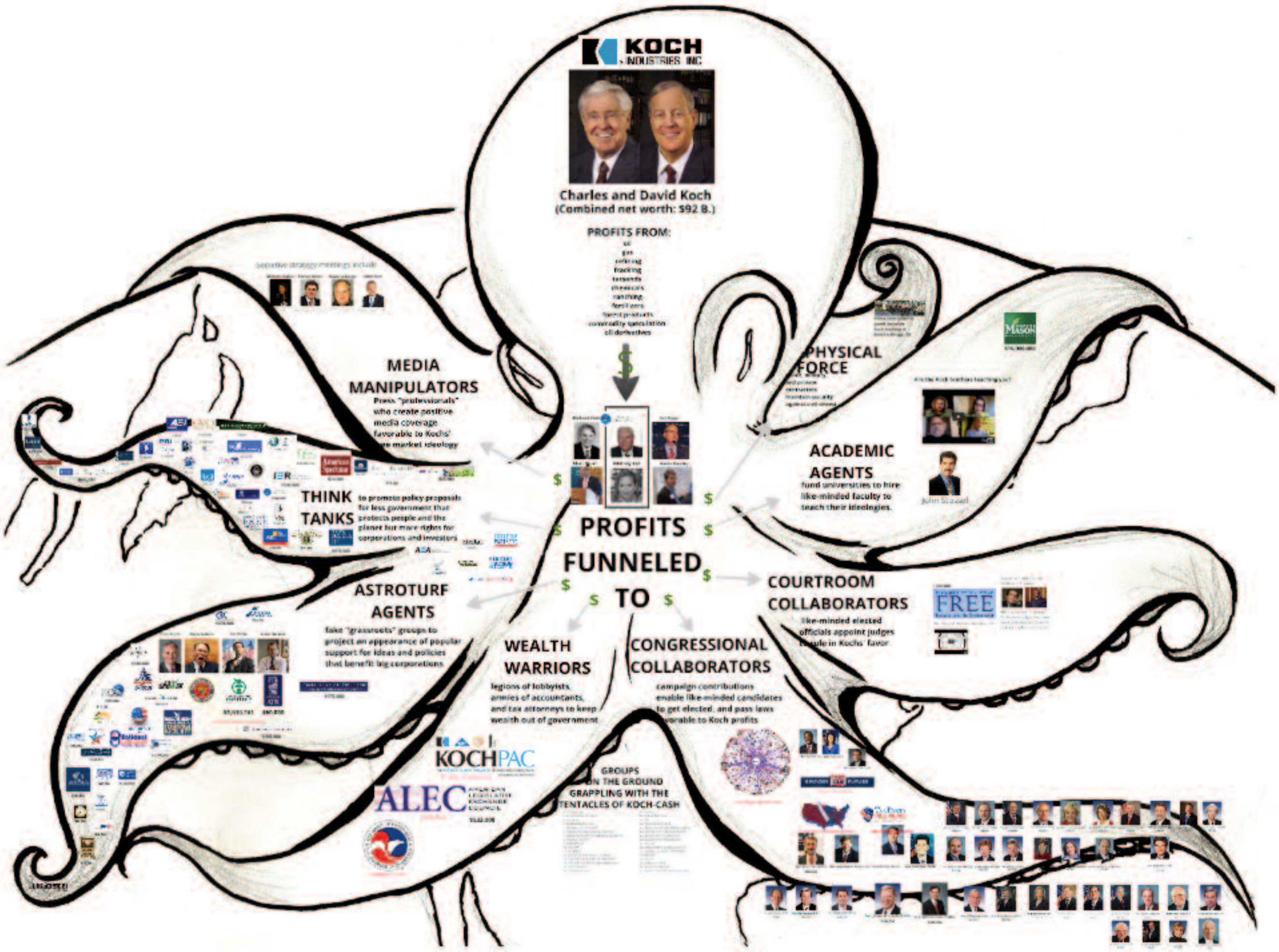
In the end, the Diffleys' goal was that the pipeline avoid organic farms, if feasible. They would also write an Organic Agricultural Mitigation Plan, so that if a pipeline or any public utility in the state of Minnesota did cross an organic farm, special procedures would have to be followed to protect the soil. As Atina put it, this "basically made it an expensive pain in the ass to cross an organic farm."

With the help of their respective lawyers, the Minnesota Department of Agriculture, and individuals who wrote over 4,500 letters of support, the Diffleys were successful in getting the proposed pipeline re-routed and putting their Organic Mitigation Plan into action that provided protections for the soil and certification of threatened organic farms in Minnesota.

Part Three

KOCH CASH TO FASTRACK KEYSTONE XL

FIGURE 7: **KOCHTOPUS: THE INFLUENCE OF KOCH CASH**



To explore more see[viii]:
http://prezi.com/0_wyaom0httg/ifgs-kochtopus-mapping-the-influence-of-koch-cash/

WHAT IS THE KOCHTOPUS?

THE *KOCHTOPUS*—a term originating in the Obama White House—is the network of political influence owned and operated by Charles and David Koch. The Kochs' extensive network, acting like the sprawling tentacles of an octopus controlling its prey, is the result of at least four decades of political activism and aggressive "philanthropic" initiatives to promote their financial interests and to apply their personal philosophy to law.[1] For a mapping of its main mechanisms for moving money (Koch Cash) and its organizational structure designed to influence government economic policies, interactive versions are available online at www.kochcash.org.

The Kochs appear to be motivated by not only making more money but also advancing an extremist ideology —expressed in a policy agenda of ultra-free markets and hyper-austerity—that they call "economic freedom."[2] Charles Koch Institute's definition, "the freedom to choose how to produce, sell, and use your own resources, while respecting others' rights to do the same," explains the philosophical basis of the brothers' rejection of government controls on the burning of fossil fuels.

It is precisely their worldview—in which a polluter's right to profit takes priority over the welfare of people and the planet—that has guided our global economic system to today's record economic inequality and ecological collapse. The economicfreedom.org website celebrates free-market philosopher Milton Friedman's 101st birthday by hailing his famous quote, "There is no such thing as a free lunch," yet ignores the fact that the entire Koch empire—built on deadly emissions—is made possible only because they pay millions of dollars to manipulate America's political process so that they can keep polluting for free.

Their network mobilizes climate skeptics, think-tank ideologues, and ultra-conservative elected officials to oppose any added costs on carbon, or other attempts to transition away from fossil fuels. Other "carbon profiteers" also need to be brought out of obscurity, but none comes close to the Kochs in terms of size, sophistication, and effectiveness found in the Kochtopus. Pulitzer Prize winning-author Stephen Coll's recent book, *Private Empire*, surveys the extensive influence—particularly over foreign policy—of Exxon, America's largest publicly traded oil company—but even Exxon does not appear to have the domestic political reach of Charles and David Koch.

Here's how the Kochtopus works: Profits from Koch Industries get funneled to an ideological brain trust that decides how to distribute cash and other forms of in-kind support to entities that operate as tentacles of the Kochs' network of influence. Its aim is to control public-policy making, in a wide variety of areas, but particularly anything that impacts the Kochs' carbon-based assets, which are the primary basis of their wealth and power.

Carbon regulation (or a cost directly imposed on carbon, such as a tax or a pollution fee) would hit the Kochs particularly hard, given that it would usher in the beginning of an end to the era of a fossil fuel-based economy. These opposed policies extend from not only government measures on physical carbon but also to regulation or even registration of countless financial instruments, the value of which is at least loosely based on carbon, such as oil derivatives, swaps, and futures.

> *The Kochs appear to be motivated by not only making more money but also advancing an extremist ideology—accompanied by a policy agenda of ultra-free markets and hyper-austerity—that they call "economic freedom."*

THE KOCHTOPUS AND KEYSTONE

Undue influence over democratic decision-making can take endless forms, but there is a basic organizational structure by which the Kochtopus operates by using the following functions (with examples about Keystone where information was available):

THINK TANKS:

Create and promote concrete policy proposals for less government protections of people and the planet but more rights to corporations and investors. The Cato Institute, an organization that was originally called the Koch Institute, released a report stating there would be no change in CO_2 levels due to the KXL pipeline, and that it would create jobs and lower gas prices—despite several studies debunking each of those claims.[3] These groups create the intellectual framework to legitimize and sell their vision of a privatized America. They mass-produce reports and policy papers and are invited as "experts" to speak on the news, to write for magazines, to do radio interviews, and to write online pieces. By skillfully playing on the psychology of conservative voters, and through sheer ubiquity in the media, these think tanks are able to advance their policy proposals with an impressive degree of success.

ASTROTURF AGENTS:

Appear like of grassroots groups, but are in fact funded and organized by the Kochs to create the perception of popular support for ideas and policies that benefit them. Many of these Koch funded groups have published pro-KXL articles, blogs, op-eds, and reports. IFG found that 38 of these groups have received a

FIGURE 8: KOCH CASH FOR KEYSTONE XL

ORGANIZATION	PRO KXL "MENTIONS"[ix]	KOCH CASH[x]
Cato Institute	20	$13,878,990
Freedom Works	161	$12,331,712
Americans For Prosperity	2	$5,610,781
The Heritage Foundation	20	$4,685,571
The Reason Foundation	20	$2,661,521
Federalists Society for Law and Public Policy Studies	18	$2,478,999
The Manhattan Institute for Policy Research	20	$1,975,000
Foundation for Research on Economics and the Environment	1	$1,650,500
Independent Women's Forum	20	$835,000
Competitive Enterprise institute	20	$725,146
Fraser Institute	10	$673,721
Capital Research Center	3	$650,000
National Center for Policy Analysis	20	$595,000
Texas Public Policy Foundation	6	$573,999
American Legislative Exchange Council	2	$533,000
George C. Marshall Institute	4	$350,000
American Council on Capital Formation	6	$325,000
Institute for Energy Research	260	$237,000
Property and Environment Research Center	2	$233,144
Frontiers of Freedom	6	$175,000
American Enterprise Institute	20	$150,000
Independence Institute	20	$141,000
John Locke Foundation	30	$134,472
Commonwealth Foundation for Public Policy Alternatives	20	$104,943
Heartland Institute	36	$100,000
Mackinac Center for Public Policy	18	$84,151
Americans for Tax Reform	20	$60,000
Center for Freedom and Prosperity Foundation	9	$54,266
Council for National Policy	3	$50,000
State Policy Network	15	$50,000
Hudson Institute	18	$35,000
National Taxpayers Union Foundation	20	$32,500
Ayn Rand Institute	20	$25,000
Media Research Center	42	$15,005
CFACT	13	$12,285
60 Plus Association	8	Unknown
American Future Fund	1	Unknown
TOTALS	**944**	**$52,901,418**

In addition to their significant investment in the US Congress, the Kochs work to shape public opinion and shift debates through other entities. By channeling funds to a long list of organizations, the Kochs advocate for their position by convincing the public that their own interests are also the nation's best interests, including the Keystone XL Pipeline.

The fact that the Kochs were considering buying into the news business, by purchasing the Tribune Company, speaks volumes about their ambition to disseminate their views, or at least views which advance their agenda.

total of at least $52 million in Koch Cash and released nearly 1000 pro-KXL pieces of media in the past two years. (See chart on page 24.)

Once the think tanks create the message, they pass it on to the Astroturf Agents to mobilize voters, not only to create the appearance of popular support so as to spread their views to other voters, but to pressure politicians into voting for Koch interests. Bob Inglis was famously unseated by a Koch-backed Tea Party challenger for merely admitting to believing in the reality of human-caused climate change.[4] Needless to say, since then, Republicans in office have carefully avoided this hazard, though there are rumors that privately, many are very much concerned about the climate crisis.

One of the biggest victories for the Kochs in recent years is the success of the Tea Party. The Tea Party's strength didn't come from the grassroots, but from the intellectual leadership, ample airtime in the mainstream and rightwing media, abundant funding, and organizational support from the Kochtopus by groups like Americans for Prosperity (AFP).[5]

David Koch created and chairs AFP through which the Kochs move millions of dollars to manipulate not just energy policy, but also the federal budget, taxes, and overall economic governance. The documentary film, *Billionaires' Tea Party*, shows David Koch standing at the podium before AFP field organizers, who boastfully report to Koch, state by state, how many people each organizer turned out to Tea Party Caucuses. Even an internal memo of the Governor Mitt Romney presidential campaign called the Kochs "the financial engine of the Tea Party."[6] The Koch-funded free market group FreedomWorks hosted the first national Tea Party.

FreedomWorks, like AFP, also spawned from the Koch-funded Citizens for a Sound Economy.[7] By creating a façade of political support for Tea Party members, then funding their electoral campaigns, the Kochs ensure that concerns over carbon regulation could be dressed in populist propaganda, all without them having to say a word in public. For example, Rep. Todd Tiahrt is the biggest recipient of Koch Cash in Congress ($237,366) and is also a Tea Party favorite who consistently votes in the interest of so called "economic freedom."[8]

MEDIA MANIPULATORS:

These are press professionals who create positive media coverage favorable to the Kochs' free-market ideology, as well as their specific policy proposals. Organizations like AFP work closely with PR firms like Creative Research Concepts (CRC) to ensure that the activities and spokespersons of AFP are prominently covered, particularly across the conservative media. CRC counts among its impressive victories: the "swiftboat" ads, which are widely credited with defeating John Kerry's presidential campaign; the town hall meetings over "death panels," widely credited with defeating the public option in the Obama health care bill; and finally the full court press that thwarted 2010 "cap-and-trade" climate legislation in the Senate.

The shaping of debates takes place not only in political races, but in the daily media. The fact that the Kochs are considering buying into the news business, by purchasing the Tribune Company, speaks volumes about their ambition to disseminate their views, or at least views that advance their agenda.[9]

WEALTH WARRIORS:

Are lobbyists who fund and direct both Republican and even some Democratic politicians. (For more on this see IFG's report "Faces Behind A Global Crisis".)

The current US Senate has received millions of dollars from Koch Industries in traceable contributions alone.

CONGRESSIONAL COLLABORATORS:
These are like-minded candidates who get elected with campaign contributions. In 2012, the Kochs were the single largest source of campaign contributions from any oil company.[10] They push to pass legislation favorable to the Kochs, and perhaps more often and more importantly, block legislation that threatens the Kochs' interests.

The Kochs have cultivated not only a faction of Congressmen, but achieved a coup-of-sorts within the Republican Party that has changed the party's over-arching narrative to "shrink government." In less than three years since the Supreme Court 2010 Citizen's United ruling removed restrictions on political spending, the Kochs have successfully seized Congress' sacred "power of the purse," held hostage federal spending by threatening a government default on debts over the routine act of raising the debt ceiling, and forced an initial shrinkage of overall government spending through the so-called sequester. Within this broader political context, the Kochs have surely made clear to their supporters in Congress how important the passage of the Keystone XL pipeline is for their business interests. See the list on page 27 of the Kochs' campaign contributions to the Senators who recently used their positions to push for Keystone XL's immediate passage.[11, 12]

The current U.S. Senate has received millions of dollars from Koch Industries in traceable contributions alone.[13] Of the 62 senators who've taken action in support of KXL, 49 (almost 80 percent) of them have received Koch Cash. (See list on page 27). Given the rewards, the relatively modest price at which the U.S. Congress sells itself, is remarkable. If KXL is approved, the Kochs might consider the U.S. Congress one of their best investments, as the billions of dollars the Kochs would gain from KXL is a massive return.

No other fossil fuel industry leaders have the extensive personal political influence throughout the Republican Party as do the Kochs. Republicans are reportedly deeply divided over the future of their political party, with the Tea Party representing a faction from the radical right that the Kochs have helped to both found and fund into becoming the powerful political force it is today. While some say the Kochs didn't get much from their record spending in 2012 election, the fact that they now have held hostage the whole federal government to a contrived budgetary crisis is testament to their undue influence over our democracy. The Kochs' grip on the Republican Party goes all the way to the top. The Romney-Ryan ticket in 2012 was very much aligned with the Kochs' economic-freedom agenda. While only 8% of Americans dismiss climate change, the Kochs' disproportionate power over policy-making has severely obstructed American democratic processes in addressing the crisis.

Other notable tentacles of the Kochtopus not directly engaged in this particular fight, but which are still significant enabling agents include:

COURTROOM COLLABORATORS:
These are like-minded judges who get appointed by like-minded elected officials to rule in favor of the Kochs. Supreme Court Justices Scalia and Thomas in particular are especially close with the Kochs.[14] This is extremely helpful to the Kochs' interests when cases they fund reach the Supreme Court, often delivering key rulings, which serve the Kochs. Two recent rulings—one rolling back the "crown jewel" of the 1965 Voting Rights Act and another increasing the rights of property owners against government measures to protect land—were bankrolled by the Kochs.[15] The roll-back of the Voting Rights Act will be key in keeping African Americans and other minorities from voting, which will significantly help deliver seats to Republicans.

ACADEMIC AGENTS:
These are University departments—both public and private—that teach Koch-approved curricula by Koch-approved faculty. Quite disturbingly, the Kochs have applied their aptitude for purchasing influence

FIGURE 9: KOCH CASH FOR CONGRESS

List of 113th Congress (Senate)	Signed Pro-KXL Resolution[xi]	Signed Letter to President Obama[xii]	Signed Letter by Hoeven-Baucus to Secretary of State John Kerry[xiii]	Koch Cash Received[xiv]
Pat Roberts (R-KS)	YES	YES	NO	$96,900
Jim Inhofe (R-OK)	YES	YES	NO	67,750
Jerry Moran (R-KS)	YES	YES	NO	63,550
Roy Blunt (R-MO)	YES	YES	NO	62,000
Tom Coburn (R-OK)	YES	YES	NO	53,800
John Thune (R-SD)	YES	YES	NO	53,800
Richard Burr (R-NC)	YES	YES	NO	51,500
Mitch McConnell (R-KY)	YES	YES	YES	44,750
Lisa Murkowski (R-AK)	YES	YES	YES	29,950
Saxby Chambliss (R-GA)	YES	YES	NO	29,900
Orrin Hatch (R-UT)	YES	YES	YES	29,000
Marco Rubio (R-FL)	YES	YES	NO	26,400
John Cornyn (R-TX)	YES	YES	YES	26,300
Mark Kirk (R-IL)	YES	YES	NO	25,700
John Barrasso (R-WY)	YES	YES	YES	24,900
Mary Landrieu (D-LA)	YES	YES	YES	24,500
Rob Portman (R-OH)	YES	YES	YES	21,600
Roger Wicker (R-MS)	YES	YES	NO	20,600
Dean Heller (R-NV)	YES	YES	NO	20,500
Mark Pryor (D-AR)	YES	YES	YES	20,000
Pat Toomey (R-PA)	YES	YES	NO	19,200
Richard Shelby (R-AL)	YES	YES	NO	17,500
Kelly Ayotte (R-NH)	YES	YES	NO	17,200
Ron Johnson (R-WI)	YES	YES	NO	15,800
Johnny Isakson (R-GA)	YES	YES	NO	15,500
Ted Cruz (R-TX)	YES	YES	NO	15,000
Rand Paul (R-KY)	YES	YES	NO	14,600
Jeff Flake (R-AZ)	YES	YES	NO	14,500
David Vitter (R-LA)	YES	YES	YES	14,250
Max Baucus (D-MT)	YES	YES	YES	14,000
Bob Corker (R-TN)	YES	YES	NO	12,500
Dan Coats (R-IN)	YES	YES	NO	11,000
Tim Scott (R-SC)	YES	YES	NO	11,000
Jeff Sessions (R-AL)	YES	YES	YES	10,500
John Hoeven (R-ND)	YES	YES	YES	10,000
Mike Crapo (R-ID)	YES	YES	NO	9,000
Lindsey Graham (R-SC)	YES	NO	NO	8,000
Tom Carper (D-DE)	YES	NO	NO	7,500
Mike Johanns (R-NE)	YES	YES	YES	7,000
Jim Risch (R-ID)	YES	YES	NO	7,000
Susan Collins (R-ME)	YES	YES	NO	6,000
Heidi Heitkamp (D-ND)	NO	YES	NO	6,000
Tim Johnson (D-SD)	YES	NO	NO	5,000
John Boozman (R-AR)	YES	YES	YES	5,000
Thad Cochran (R-MS)	YES	YES	NO	4,500
Chuck Grassley (R-IA)	YES	YES	NO	4,500
Lamar Alexander (R-TN)	YES	YES	NO	1,500
Bob Casey, Jr. (D-PA)	YES	NO	NO	500
TOTAL:				**$1,077,450**

US Senators who have advocated for approving the Keystone XL Pipeline and the dollar amounts of career campaign contributions each has received from the Kochs.

Quite disturbingly, the Kochs have applied their aptitude for purchasing influence learned in the political sphere to the education system. The Kochs have literally bought a say in the hiring and firing of faculty across American academia.

learned in the political sphere to the education system. The Kochs have literally bought a say in the hiring and firing of faculty across American academia.[16] Unsurprisingly, they use this say to install faculty sympathetic to their ideology and remove faculty that are not. This means that not only have politics and the media been corrupted by the influence of private money in general, and Koch Cash in particular, but academia as well.[17]

DENIALISTS, DARK MONEY, AND DONOR'S TRUST

Recent news reports show increasing volumes of undisclosed or "dark" money moving through opaque organizations like DonorsTrust.[18] Legally a charity, they funnel increasing amounts of money from undisclosed sources, such as the Kochs, to organizations that are legally recognized as primarily interested in promoting "social welfare." Perversely, this money often flows to front groups that fight climate policies. Increasing amounts of funds are shifting from organizations that must disclose their donors by law to those that do not, making it much more difficult to "follow the money" to its original source.

While the largest sources of the money are carefully obscured, some clearer evidence of DonorsTrust's ideological orientation can be found by looking at its leadership. Executive Director Whitney Ball was the former fundraiser at the Cato Institute (which, as we noted before, was originally to be called the Koch Institute), and still receives significant funding from the Kochs.[19] The chairman of the board of Donors Trust is San Francisco's William J. Hume, who sits on the board of trustees at the Heritage Foundation, also a Koch-funded think tank.[20]

DonorsTrust is also noted as the sole point of contact for the Project on Fair Representation, the plaintiff in the 2013 Supreme Court ruling that rolled back the 1965 Voting Rights Act, which has unleashed a flood of efforts in dozens of states to restrict voting access, effectively removing minorities and others from the voting rolls.

Part Four

THE KOCH EFFECT

WHAT MORE KOCH CASH MEANS

THE IMPACTS OF MORE KOCH CASH are cause for broader concern beyond today's climate crisis. In three years since the Supreme Court's ruling on Citizens United (which allowed unlimited, undisclosed spending from corporations and wealthy donors), the Kochs have not only bought blocking power in the Congress but also created offensive capabilities to advance their extremist agenda by "shrinking government" via "sequestration" of federal funds for enforcing pollution laws, monitoring extreme weather, and financing for clean energy. Permitting the Keystone XL pipeline would propel the Kochs' personal wealth and political power ever faster and upward, meaning:

MORE POWER FOR EXTREMISTS

SENATOR JAMES INHOFE (OK) is author of *The Greatest Hoax: How the Global Warming Conspiracy Threatens Your Future* and is the ranking Republican on the Senate's Environment Committee. He has received more Koch Cash than anyone else in Congress except the senator from Kansas (the Kochs' own state). More money for the Kochs means more support for the ideological extremists polarizing the political debate in Congress and the courts, resulting in greater gridlock against any meaningful solutions for today's increasing inequality and ecological crises.

MORE ATTACKS AGAINST VOTING RIGHTS

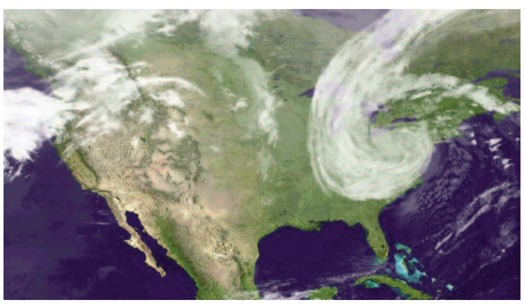
Joel Raedle/Getty Images

AFRICAN AMERICANS, LATINOS, and other communities of color could face more attacks against their voting rights as a result of more Koch Cash. NAACP's Benjamin Jealous says that today's Koch-funded efforts to weaken Americans' voting rights is the most serious threat in the past 100 years to the voices of minorities, youth and seniors in elections. The Kochs' DonorsTrust funded a Supreme Court case that resulted in the 2013 ruling that reduced the voting rights that were the crowning achievement of America's civil rights struggle.

MORE ASSAULTS AGAINST WORKERS' RIGHTS

Wisconsin workers were overwhelmed in 2012 by a Koch-backed governor's attempt to roll back workers' protections. Steelworkers say that the Kochs are financing attacks against workers' rights across the country, from cutting pensions for public employees to silencing labor unions' political participation. Charles Koch most recently urged a total rollback of minimum wage laws.

MORE CARBON POLLUTION



Nasa/Getty Images

Superstorm Sandy swept through the Northeast after a summer of record drought, and amidst the Kochs' own funded scientific research showing that human-caused carbon emissions are undeniably warming our Earth's average temperature. More Koch Cash means more money for their ideological effort to oppose any regulation of, or price on, carbon.

MORE POWER FOR CAPITAL

Protecting our planet and poor people must be the central purpose of governments and politicians everywhere, yet the Kochs' ideology elevates money over life itself. Reducing the power of these two billionaires begins with blocking the Keystone XL pipeline and imposing a carbon tax that urgently phases out the production of fossil fuel, as well as removing the corrupting role of private money polluting politics.

CONCLUSIONS

ENDING AMERICA'S KOCH PROBLEM

Billionaires' Carbon Bomb: The Koch Brothers and the Keystone XL Pipeline, explains what's at stake for the world's two wealthiest men—versus the fate of our planet and its peoples—in President Obama's pending decision to approve or deny the permit to build the pipeline.

The Koch Brothers now share a net worth of $92 billion whereas Bill Gates has $72 billion.[1] Already, such extreme wealth has enabled the Kochs to outspend all other oil companies, even Exxon, to successfully stop U.S. pollution laws and, in turn, obstruct global climate action under the U.N.[2]

IFG's report reveals that the Kochs have two million acres of tar sands territory in Alberta (more than Exxon, Chevron, and Conoco combined), and that's just the beginning of the story. The Kochs have spent over $50 million on front groups and politicians to fast-track KXL since they stand to make up $100B from KXL being built. That's 1 million times more than the average KXL worker's wages would be over the life of the project.

The pipeline will no doubt directly trigger more deadly emissions by connecting the Kochs' and others' crude oil in Canada to growing export markets globally via the Gulf Coast. KXL's ecological and economic impacts will also have direct political consequences on the balance of forces influencing U.S. climate, energy, and pollution policy. That's because KXL's windfall profit for the Kochs will itself "significantly exacerbate carbon pollution" (President Obama's litmus test for KXL), by enriching the Kochs to spend ever more money on manipulating pollution laws.

IFG's Kochtopus comprehensively maps the money, structure, and unprecedented scale of the Kochs' political influence network aimed at defending their carbon wealth.[3] Stanford climate scientists recently warned that the likely rate of change over the next century will be at least ten times quicker than any climate shift in the past 65 million years.[4]

Permitting the pipeline would enormously expand the financial war chest the Kochs use in their crusade to oppose any controls on carbon. The result would concentrate the Kochs' control over carbon pollution policy particularly, and U.S. democratic decision-making overall. The report's findings close the case that KXL is not in America's national interest as its increasing emissions and exacerbation of the "Koch effect" will together significantly exacerbate carbon pollution.

No single permit or pipeline will itself solve our Earth's deepening crisis of economic inequality and ecological collapse, but rejecting both can build awareness and popular pressure to reduce the role of private money polluting politics, the underlying problem obstructing our global economic transition from today's delusion of endless industrial growth to ecological sustainability and social justice.

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Figure 1—Koch Industries' Potential Profits from KXL
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Figure 2—Exacerbating Emissions: Carbon Content of U.S. Oil Companies in Canada
ii Having first calculated the recoverable bitumen from the tar sands based on the companies' acreage (See Box A), we then converted barrels to metric tons of emissions. This conversion was done by using the barrel-to-emission equivalence taken from Oil Change International's report, "Cooking the Books," which considers the full life-cycle of the oil sands (i.e., emissions during the various stages of production, refining, transportation, and combustion). When the entire life-cycle is taken in to consideration, the emissions intensity of oil sands is 598kgCO2/barrel, so 598 multiplied by each company's respective net recoverable bitumen gives amount of emissions for each company.

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Figure 3—Koch Assets in the Tar Sands Trade
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Figure 4—Land Holdings of Koch Exploration Canada
iv Information based on the Canadian Oilsands Navigator, from the Canadian Oilsands Review. This online map plots land leased by Alberta authorities to oil companies for tar sands exploitation. To explore more, click on link below, type "Koch Exploration Canada" in the box, then click "PLOT."
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Figure 5—Acreage of Top U.S. Oil Companies in Tar Sands Territory
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vi Box A: Summary of Historical Data
Our estimate of a $20 prevented discount due to KXL is modest because the rate of Canadian tar sands production increased by less than 500,000 barrels per day (bpd) between 2009 and 2012, as reported by the 2013 "Crude Oil Forecast" of the Canadian Association of Petroleum Producers (CAPP). When increased production from "the Bakken play" is added in—further contributing to the supply glut in the Midwest, the increase in production is still less than 900,000 bpd. Yet this period saw a nearly $40 spike in the Canadian tar sands/Mexican Mayan price differential in spite of their similar quality, because Mayan was not confined to the Midwest market. This spike in price differential is likely largely due to the saturation of the U.S. Midwest market as a result of this increase in production of less than a mere 900,000 bpd. CAPP forecasts that over the next 5 years, production of Canadian oil sands alone will increase another nearly 800,000 bpd. By 2030 CAPP projects that production will increase another 2.5 million bpd on top of the 800,000. Without the expanded transportation infrastructure that KXL provides, such scaling up of production would completely saturate the markets that Canadian producers would be limited to, causing significant discounts to the price of their oil. A much smaller percentage of their reserves would be profitable to produce. Above all, it would significantly delay the ability of Canadian producers to profit from their reserves. In the meantime, the opportunity might pass them by as the world's demand for energy shifts to cleaner alternatives. Simply put, while the amount at stake for KI could easily exceed $100 billion, the amount at stake for the broader tar sands industry could easily be in the trillions of dollars.

Figure 6—Kochs' Net Worth Driven by Oil Derivatives
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Figure 7—Kochtopus: The Influence of Koch Cash
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Figure 8—Koch Cash for Keystone XL
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