BILLIONAIRES’ CARBON BOMB

THE CASE FOR KEEPING THE KOCH BROTHERS’ TAR SANDS ASSETS IN THE GROUND

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THE GROUPS FIGHTING against the Keystone XL tar sands pipeline have been mainly tribes, farmers and ranchers, climate kids and green groups. In favor of the project have been the Government of Canada, the Government of Alberta, the oil industry including Exxon, Chevron, Conoco, Shell, etc., the Republican Party and roughly half the Democratic Party.

With this new report, the consummate Koch watchdog, International Forum on Globalization, reminds us that as if that array of powers wasn’t enough, no one has more to gain from tar sands expansion than the Koch Brothers.

The Kochs are familiar for many reasons, including their militant anti-unionism and their plan to spend 900 million dollars on the 2016 elections. But how many people know that one of the family’s earliest cash cows was a refinery for Canadian crude, and that refinery fueled the investments that eventually grew the Koch family into an empire? And that their future wealth will also be greatly enhanced by expansion of the Canadian tar sands?

The Keystone XL pipeline is more famous than the Alberta tar sands, but it’s the tar sands in the pipe that would make Keystone, in Bill McKibben’s formulation “the fuse to the largest carbon bomb on the continent.” At the root of the Keystone fight is whether the Alberta tar sands industry, with the most expensive, dirtiest and highest carbon oil in the world, should expand from its current production of about 2 million barrels a day to 6 million by 2030, and as much as 9-10 million thereafter. Those levels of production would represent disastrously high worldwide oil consumption and “game over” for the fight against climate change, in the controversial but accurate phrase of James Hansen.

We should not doubt the industry’s ability. As the Pembina Institute tells it in their 2005 report “Oil Sands Fever,” in 1995 a Canadian task force set a goal of reaching 1 million barrels per day of production by 2020. They surpassed that goal in 2004.

Fortunately there is a passionate, authentic and growing movement against tar sands expansion in both Canada and the US. The trends against Keystone—and for keeping tar sands in the ground—are strong:

- President Obama has seen through the hype and is expected to reject Keystone XL.
- Oil prices are low.
- There is a new, pro-labor government in Alberta.
- Unified First Nation opposition to West Coast pipelines is stronger than ever.
- The prospects for Energy East, the giant tar sands pipeline to New Brunswick, are distant.
- For the first time, projects in Alberta are being shelved.

Yet what this report makes clear is that the Kochs are a monstrous adversary with an exceptionally high stake in tar sands expansion. So great is their stake, IFG argues, it is one of the primary hidden motivations for their substantial investment in an oil-friendly U.S. Congress.

The good news is that the Kochs have alarmed so many people with their pollution, especially of the political process, the unlikely alliance that brought Keystone to the President’s attention is set to expand to include the labor and democracy movements. The Koch brothers are a two-man outreach program for unifying progressive movements in the U.S.

Democracy-loving Canadians, too, should be very wary of empowering and enriching the Kochs any further.

The Keystone campaign started in 2008 with a cry for help from Alberta. A rapid and reckless industrial expansion was destroying the land and harming indigenous peoples. At the same time land men for TransCanada were bullying landowners and farmers along the proposed route.

Years later the Kochs are still bullying, and, as this report shows, their stake in the tar sands, historical and future, is almost existential.

Then again, so is ours.
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 are, in fact, the single largest financiers of efforts to stop the phase out of fossil fuels. This report reveals one reason for their spending: the Kochs’ enormous investments in tar sands could become “stranded assets” if Keystone XL, the Alberta Clipper, and other important infrastructure for tar sands expansion is not approved.

With more money (a combined net worth of $100B) than the world’s wealthiest man, Bill Gates ($86B) the Kochs outspent all other oil companies, even Exxon, in campaign contributions, lobbying expenses, denialist science, and myriad other activities since 1999 to stop solutions to today’s quickening global climate crisis. Unprecedented financial wealth combined with the Kochs’ fanatical belief in what they call “economic freedom” made them top spenders in the 2012 and 2014 U.S. elections. 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. This number does not include the vast sums of dark money moved through their web of influence, as mapped by IFG’s Kochtopus, and monitored by KochProblem.org, online tools 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 restricted U.S. action on climate to President Obama’s narrow administrative authorities, which the Kochs are currently countering 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.

Tar sands are an inherently unsustainable and unjust industry, digging up vast landscapes in Alberta, Canada that are still occupied by First Nations and turning them into toxic wastelands while churning out deadly carbon emissions that exacerbate global warming and wastewater that pollutes entire ecosystems.

INTRODUCTION
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.

**TAR SANDS ASSETS STRANDED WITHOUT INFRASTRUCTURE**

The proposed Keystone XL pipeline, which, if completed, would carry up to 830,000 barrels of tar sands per day from Alberta to the U.S. Gulf Coast, is central to the expansion of tar sands trade into growing export markets. The Alberta Clipper Pipeline, if expanded as proposed, would add another 350,000 barrels per day (bpd) to its current capacity of 450,000 bpd. TransCanada’s Energy East, Kinder Morgan’s Transmountain, and TransCanada’s Energy East are other potential large-scale escape routes for tar sands, but none of them has strong prospects at the moment.

The Kochs may make more money from tar sands assets than anyone else—even Exxon executives and top energy investors—since the Kochs privately own almost all of Koch Industries, whereas ownership of publicly traded corporations is diffused among shareholders.

Koch Industries has several profit streams all along the tar sands value chain. From crude oil production on the millions of acres leased by Koch Oil Sands Operating ULC 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 Kochs’ assets could net them personal profits in the tens of billions of dollars.

The point on the oil supply chain at which one sees a significant profit source for the Kochs is their production of crude oil from the approximately 2 million acres they have in Alberta’s tar sands territory. The Kochs could make an additional $100 billion in profits from their production operations alone, according to high net worth energy advisors.

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 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, Keystone XL is a keystone of the tar sands’ future. 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. 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 would rank first among U.S. oil companies in Canada, or more than Chevron, Conoco and Exxon, combined.

Tar Sands exploitation has both victimized people and caused immense environmental damage. Beyond recurring pipeline spills that result in soil and water pollution, the tar sands development processes uses an astounding 4.8 million barrels of fresh water every day. In 2011, the amount of water used to process bitumen equaled the water use of 1.7 million Canadian households. Toxic tailings lakes, formed due to reckless dumping of tar sands effluents, have started to cause deformities and abnormalities in the aquatic life of the region. Consumption of such fish species poses serious health risk to humans. The tar sands industry not only poses a water security risk to humans but endanger aquatic life and the ecosystem services on which they depend.

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**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.
Part One

THE KOCHS AND THE TOXIC TAR SANDS TRADE
50 YEARS, 500 FACILITIES & 2,000,000 ACRES

Koch investments in Canada’s toxic tar sands trade go back fifty years. They have been leading investors in Alberta’s tar sands for forty of the fifty years, and only since the U.S. invasion of Iraq in 2003 have the “super major” oil companies begun to invest so substantially in Alberta. The Kochs’ 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.

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 and 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.\footnote{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. 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.}

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. 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 Oil Sands Operating (KOSO) is one of the two Koch subsidiaries at the core of the Kochs’ tar sands interests. This company operates in conjunction with its partner Koch Exploration Canada (KEC) to buy and sell land for energy development, and is well positioned to become a major producer. KOSO’s current land holdings appear to be larger than those of Chevron, Exxon and Conoco combined. An exhaustive investigation by The Washington Post, prompted by IFG’s original research, confirmed with a senior Canadian oil official that Koch controls “closer to two million” acres in Alberta’s tar sands territories.

Koch’s potential profits due to tar sands oil production could easily reach $100 billion, matching the Kochs’ current combined net worth of $100B according to IFG’s analysis in conjunction with high net-worth investment advisors specializing in the energy sector. 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 KOSO 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, the Alberta Clipper, and other key infrastructure for tar sands transport.

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 Alberta Government Database, the US Securities and Exchange Commission (SEC), Canadian Oilsands Review 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. ConocoPhillips** of Cenovus and 50% of Total E&P.
BOX A
CARBON CASH COW FOR THE KOCHS:
METHODOLGY FOR PROJECTING ADDITIONAL PRODUCTION PROFITS

KI's gross potential profits 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 Koch 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 Koch'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 Koch'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 (and other important infrastructure for tar sands' full expansion) 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 and other infrastructure 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)" 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 Koch'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%.
Multiplying these two key figures produces a $225 billion gross profit from production alone. While KI's refining subsidiary, Flint Hills Resources (FHR), might make $120 billion less in profits due to tar sands expansion, KI overall would still profit enormously.

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.

KOSO'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 process. No one knows for sure the extent of KOSO’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).

Koch’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, solidifying the credibility of the claim. Koch declined IFG’s request to confirm or deny that they still held this land.

While we cannot know definitively the extent of KOSO’s land holdings, Morrison called Koch one of the largest holders of oil (tar) sands assets in Alberta. Although Koch may have since sold portions of this land, it is also entirely possible that Koch still has two million acres or more in the tar sands territory.

It is widely understood in the oil industry that the problem that KXL would 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. Currently, most Canadian tar sands exports are 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 growing global markets. 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.

**PIPPINES**

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 the Kochs’ net worth upwards. Oil derivatives are perhaps the single largest source of exponential growth in the Kochs’ net worth over the past several years. See the following 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 real risks—at both a local and global level—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 crude spill disasters.\(^\text{10}\)

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.\(^\text{11}\) 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.”\(^\text{12}\)

Increased pipeline activity as a result of KXL, coupled with the difficulty of cleaning up dilbit, will mean 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

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**BOX B: IMPACT OF KXL AND OTHER INFRASTRUCTURE 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).
point of origin, Hardisty, Alberta, which holds up to 675,000 barrels of oil.

Another important Koch storage depot is the Clearbrook Terminal, an aboveground tank terminal in the Headwaters of the Mississippi River in MN that currently consists of eleven crude oil tanks and support equipment. It is owned by the Minnesota Pipeline Company and operated by the Koch Pipeline Company (KPL, a subsidiary of Koch Industries). KPL has proposed to expand this terminal and build 4 external floating roof crude oil tanks that would be used to temporarily store, segregate, and blend crude oil delivered through existing pipelines. The capacity of the four proposed tanks is 50,400,000 gallons in total. (See subsection on Derivatives Trading.)

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, “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.”

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.

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.

**DERIVATIVES TRADING**

Given the trajectory of the Kochs' net worth, it is likely the Kochs' largest source of profit today is trading on oil derivatives executed by a subsidiary company Koch Supply and Trading (KST).

Charles and David Koch 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 as a result of 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.\(^{16}\)

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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.

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.

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 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.\(^{18}\)
The Kochs could make **1 million times more** money from the Keystone XL Pipeline than the average construction worker building it.

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 lifetime of the KXL Pipeline. This figure 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 relatively few jobs projected to be created through the construction of Keystone XL pipeline, but those few jobs are dangerous and expose workers to toxins.

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.”

*Image credit: bloomberg.com/billionaires*

**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. Bloomberg’s Billionaires’ Index calculates the two brothers’ current combined net worth as much higher ($100 billion) than Forbes. 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.
Part Two

VICTIMS’ VOICES SPEAK ABOUT KOCH GREED
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 their profits 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 alongside their fossil-fuels infrastructure.

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 number of roadblocks. 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.’”

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” 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,’” says Jean Salone, a nearby homeowner and member of…

“…of all the environmental crimes committed in the area over the course of 10 years, ‘Koch was the worst’”
—Texas Observer
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 four-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.” 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 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 that they profit at the expense of the poor and disenfranchised and, as Melissa Jerrell found out, then use their wealth to dissuade the media from covering the story.

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 emissions leaked into the air in 1995 from one of their refineries in Corpus Christi, Texas.7 Koch Industries showed no remorse for endangering the surrounding community. Instead a Koch spokesman, Mary Beth Jarvis, conveyed the corporation’s indignation, saying, “Koch believes that these charges are outrageous. The government has got this one very wrong.”8

Meanwhile, the effects of the benzene emissions were already being seen in the surrounding community in the high rates of cancer diagnosis among the youth and elderly alike.9 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 report to the state on uncontrolled emissions of benzene’...”

—Bloomberg

Former employee Sally Barnes-Soliz provided the proof of conspiracy and concealment by Koch Industries. Barnes-Soliz 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. Barnes-Soliz 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 ethical 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, and agreed to pay a combined total of $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
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. 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.

4. OIL THEFT FROM NATIVE AMERICANS:

Oklahoma—Thurman Parton, Mary Limp, 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. 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 Limp, 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. 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.
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. 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.”

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, who were outraged by the congressional investigators.

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.”

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.”

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:

“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
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 began a new farm in Eureka, Minnesota, on land so saturated with chemicals that the damaged soil did not absorb water. For three years the Diffleys were unable to grow cash crops, and instead struggled to repair the land. 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.

The Diffleys realized that they were in danger of losing their farm, and decided to take legal action. The task before them was daunting: they had to page through binders full of application material in legal jargon, and they also 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 responded, “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 to ensure that the pipeline would avoid organic farms, if feasible. They would also write an Organic Agricultural Mitigation Plan, which meant 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 FastTrack
Keystone XL
WHAT IS THE KOCHTOPUS?

The Kochtopus 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. 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.kochproblem.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.” 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 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):
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.

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<td>American Future Fund</td>
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**FIGURE 7: KOCH CASH FOR KEYSTONE XL**

TOTALS: 944 | 52,901,418
FIGURE 8: KOCHTOPUS: THE INFLUENCE OF KOCH CASH

The Kochtopus maps the money, structure and scale of the Kochs’ political influence network, and how Koch Cash is damaging democracy. Explore more at ifg.org/kochtopus
**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 CO₂ 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 legitimate 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 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 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 23.)

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:**
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
FIGURE 9: KOCH CASH FOR CONGRESS

| List of 113th Congress (Senate) | Signed Letter to President Obama | Signed S. 1 Energy Efficiency Act | Signed Letter by Hoeven-Baucus to Secretary of State John Kerry | Koch Cash Received
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**TOTAL:** $76,358,694

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.
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”.)

**CONGRESSIONAL COLLABORATORS:**
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 at least 67 million dollars from the Koch network in traceable contributions alone.¹³ Of the 62 senators who have taken action in support of KXL, 56 (90 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:
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. 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. 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:
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 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.

DENIALISTS, DARK MONEY, AND DONOR’S TRUST
Recent news reports show increasing volumes of undisclosed or “dark” money moving through opaque organizations like DonorsTrust. 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. 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.

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.
more Koch cash means more influence for carbon extremists like Senator James Inhofe (R-OK), Chairman of the Senate’s Environment Committee and author of *The Greatest Hoax: How the Global Warming Conspiracy Threatens Your Future*. He has received more Koch Cash than anyone else in Congress except the senator from the Koch’s home state, Kansas. More money for the Kochs means more support for the ideological extremists polarizing the political debate around climate change and climate action. As natural disasters like droughts and super-storms increase in frequency, it becomes more important than ever to isolate carbon extremism to take meaningful climate action.

**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 expansion of the tar sands industry 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.
MORE ATTACKS AGAINST WOMEN’S RIGHTS

Women’s organizations and health centers formed to protect a woman’s right to reproductive autonomy are increasingly under threat by the Koch agenda. Recent Koch-backed state budgets have attempted to cut funding to Planned Parenthood and rape crisis clinics and to fund measures limiting women’s access to safe abortion. The Kochs’ indirectly fund Christian crisis pregnancy centers, which investigations have found to offer dangerously inaccurate reproductive health information and mislead patients about their pregnancy options. Nearly every Koch-backed politician in the Senate has consistently voted against measures to guarantee fair wages for women.1

MORE ATTACKS AGAINST WORKERS’ RIGHTS

Wisconsin workers were overwhelmed in 2012 by a Koch-backed governor’s attempt to roll back workers’ protections. Labor leaders 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 ATTACKS AGAINST VOTING RIGHTS

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 are the most serious threat in the past 100 years to the voices of minorities, youth and seniors in elections. The Kochs’ Donors Trust 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.
CONCLUSIONS

ENDING AMERICA’S KOCH PROBLEM

Billionaires’ Carbon Bomb: The Case for Keeping the Koch Brothers’ Tar Sands Assets in the Ground, explains what’s at stake for the world’s two wealthiest men—as opposed to the fate of our planet and its peoples—in the President’s pending decision to approve or deny the permit to build the Keystone XL pipeline (KXL), the Alberta Clipper and other infrastructure for expanding the tar sands industry.

IFG’s report reveals that Charles and David Koch are invested in approximately two million acres of Alberta Tar Sands (more than Exxon, Chevron, and Conoco combined), and that’s just the beginning of the story. Koch has an inherent interest in all infrastructure for tar sands expansion.

The Koch brothers’ political influence network has spent over $76 million on senators and $50 million on front groups to push KXL. Koch’s 32 billion barrels of oil could make over $100 billion from the construction of KXL. That’s 1 million times more than the average KXL worker’s wages would be over the life of the project.

The Koch brothers currently share a net worth of $100 billion, much more than Bill Gates’ $86 billion. Kochs’ fossil fuel fortune has allowed them to outspend even the country’s largest oil companies to successfully stop passage of US pollution laws, in turn, obstructing global climate action under the U.N.

KXL embodies the Koch brothers’ reckless pursuit of profit at the expense of people and the planet. Tar sands extraction on indigenous lands create massive carbon emissions and wastewater that risk the lives of all earth’s inhabitants.

The rejection of these two pipelines could be the turning point for Tar Sands and the broader climate debate. Koch’s unique exposure in this filthiest form of fossil fuel wealth should signal to other energy investors that the biggest losers of any stranded assets could be limited to the world’s two wealthiest men.

Approval would directly trigger more deadly emissions by connecting the Kochs’ (and others’) Canadian crude oil via the Gulf Coast to growing export markets globally. KXL could negatively impact US climate and energy policy because profits from both pipelines could enormously expand the Kochs’ financial war chest, allowing Koch to spend even more money on the manipulation of pollution laws. KXL would “significantly exacerbate emissions” (President Obama’s stated litmus test for KXL) by giving Koch the financial means to drastically influence future carbon pollution policies, as well as damage US democratic decision-making overall.

The report’s findings close the case that KXL, Alberta Clipper and tar sands expansion is not in America’s national interest since its exacerbation of emissions and intensification of the “Koch effect” will together significantly worsen climate change and income inequality.

The rejection of a single permit or pipeline will not itself solve our Earth’s deepening economic and ecological crises, but rejecting both can build broader awareness and popular pressure to reduce the role of private money polluting politics, the underlying problem obstructing today’s global economic transition from the delusion of endless industrial growth to ecological sustainability and social justice.
ENDNOTES

INTRODUCTION


3 Ibid.


15 Analysis by International Forum on Globalization, based on data from Forbes.


17 Ibid.

18 Ibid.

PART ONE


2 Ibid.


11 Ibid.


15 Analysis by International Forum on Globalization, based on data from Forbes.


17 Ibid.

18 Ibid.

PART TWO

1 Del Bosque, Melissa and Jen Reel, “Kochworld: To see how the Koch brothers’ free market utopia works, look no further than Corpus Christi,” Texas Observer, October 24, 2012, http://www.texasobserver.org/kochworld

2 Ibid.

3 Ibid.

4 Ibid.

5 Ibid.


7 Benzene is a known cancer-causing toxin and a serious threat to the surrounding community’s health and well-being.
PART THREE


7 Ibid.


13 Ibid.


15 The Project on Fair Representation, Funded by DonorsTrust, http://www.theprojectonfairrepresentation.org


18 Kroll, Andy, “Exposed: The Dark-Money ATM of the Conservative Movement,” Mother Jones, February 5, 2013,

PART FOUR
1 http://rhrealitycheck.org/article/2013/11/05/anatomy-of-the-war-on-women-how-the-koch-brothers-are-funding-the-anti-choice-agenda/
2 Bloomberg, Bloomberg Billionaires: Today’s ranking of the world's richest people - chart, accessed September 11, 2013,
http://www.bloomberg.com/billionaires/2013-10-03/cya

FIGURES
Figure 1—Koch Industries’ Potential Profits from KXL
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.
Figure 3—Koch Assets in the Tar Sands Trade
ii Google maps, Koch Assets interactive map, by IFG, https://maps.google.com/maps/ms?msid=208766254594228440027.0004d61d0323693e5957b&msa=0&ll=57.704147,-111.928711&spn=6.509076,10.964355
Figure 4—Koch Land Holdings.
Figure 5—Acreage of Top U.S. Oil Companies in Tar Sands Territory
vii 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 KXL 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—Koch’s Net Worth Driven by Oil Derivatives
v  Prezi presentation by IFG mapping the influence of Koch Cash, http://prezi.com/xqgaxf0bvn0q/copy-of-ifgs-kochtopus-mapping-the-influence-of-koch-cash/
Figure 7—Kochtopus: The Influence of Koch Cash
viii Forbes magazine data analyzed and collected by IFG from Forbes’ annual analyses from 1985 to 2012 of the net worth of the world’s wealthiest individuals.
Figure 7—Kochtopus: The Influence of Koch Cash
viii Prezi presentation by IFG mapping the influence of Koch Cash, http://prezi.com/xqgaxf0bvn0q/copy-of-ifgs-kochtopus-mapping-the-influence-of-koch-cash/
Figure 8—Koch Cash for Keystone XL
ix More detailed information can be found on our website: http://kochcash.org/koch-cash-influencing-the-public-debate/
Figure 9—Koch Cash for Congress
xi Chamberlain, Jacob and Jon Queally, “‘Senate’s Big Oil Benefactors’ Slammed for Keystone XL Vote: 10 KXL amendment co-sponsors took $8 million from fossil fuel industry,” Common Dreams, March 22, 2013, https://www.commondreams.org/headline/2013/03/22-7
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RESEARCHERS:
Brendan Burke          Margaret Daly          Anna Odell          Yass Sepidnameh
Nikita Chandra        Emily Ebbers          Stefani Robnett      Bryan Snyder
Yu-Ta Chen            Ian Laettner           Sabrina Rubakovic    Cassandra Stuart
Mary McFarland

© 2015 by the International Forum on Globalization (IFG)
1009 General Kennedy Avenue #2
San Francisco, CA 94129, USA
Tel: 415.561.7650 | Fax: 415.561.7651
email: ifg@ifg.org | www.ifg.org

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