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POLITICS 02/18/2016 06:12 pm ET | **Updated** Feb 19, 2016

The Kochs Are Plotting A Multimillion-Dollar Assault On Electric Vehicles

A new group could spend \$10 million a year on the campaign.

By Peter Stone



DONKEYHOTEY/FLICKR

Billionaires Charles and David Koch, prominent donors to conservative causes, are now looking to put their money behind an advocacy group that would promote petroleum-based transportation fuel and fight government subsidies for electric cars, sources say.

The oil and gas industry may have thought it had killed the electric car, but sales — boosted

by generous government subsidies — rose dramatically between 2010 and 2014, and energy giants are worried the thing may have come back to life.

Time to kill it again.

A new group that's being cobbled together with fossil fuel backing hopes to spend about \$10 million dollars per year to boost petroleum-based transportation fuels and attack government subsidies for electric vehicles, according to refining industry sources familiar with the plan. A Koch Industries board member and a veteran Washington energy lobbyist are working quietly to fund and launch the new advocacy outfit.

Koch Industries, the nation's second-largest privately held corporation, is an energy and industrial conglomerate with \$115 billion in annual revenues that is controlled by the multibillionaire brothers — and prolific conservative donors — Charles and David Koch.

James Mahoney, a confidente of the brothers and member of their company's board, has teamed up with lobbyist Charlie Drevna, who until last year helmed the American Fuel and Petrochemical Manufacturers, for preliminary talks with several energy giants about funding the new pro-petroleum fuels group.

Late last year, Mahoney and Drevna flew into San Antonio to explain the need for a new group to executives at two Texas refining giants, Valero Energy and Tesoro Corp. Then, in late January, Mahoney moderated a seminar on "Changing the Energy Narrative" at the brothers' twice-a-year retreat for mega-donors in California. The panel drew a mix of CEOs from big energy companies and other wealthy attendees who, in conjunction with the Koch brothers, bankroll numerous conservative advocacy groups. And last month, Mahoney and Drevna had further conversations with Koch executives about the new project, sources say.

Neither Mahoney nor Drevna returned multiple calls seeking comment about the new group. A Koch spokesman also didn't respond to a request for comment.

It's not clear when the still-unnamed group will be launched, but energy industry sources predict it's likely to be up and running by this spring or summer, and that Koch Industries — or a Koch foundation or allied nonprofit — will be the lead financier.

"The fact that Jim Mahoney is leading the effort appears to indicate that this is being driven by the business side of Koch," rather than the political operation that helps oversee the brothers' conservative advocacy empire, said one refining industry source familiar with the early plans for the new group.

Once launched, the new group is expected to use paid and earned media to push its pro-

petroleum transportation messages, and do research to bolster the cause.

"I think they (are) approaching all the major independent refiners," added a second industry source, who requested anonymity because he had not been authorized to speak about the private discussions. The group's broad mission will be to "make the public aware of all the benefits of petroleum-based transportation fuels," he explained, adding that "the current administration has a bias toward phasing out" these fuels.

The source also stressed that the new initiative is partly attributable to "electric vehicles and the subsidies for them."

"They're worried about state and community subsidies," he added. "In 20 years, electric vehicles could have a substantial foothold in the U.S. market."

The fledgling Mahoney and Drevna efforts seem to signal an expansion of Koch-backed drives against subsidies and tax breaks for alternative fuels to the transportation sector, at a time when support may be on the rise in Washington and some states for boosting electric vehicles.

Industry analysts and conservatives familiar with Koch world say the new initiative seems to fit the playbook that advocacy outfits backed by the Koch network have deployed in recent years to fight solar and wind power, battles that are fueled by ideology mixed with bottom line concerns.

"The Kochs have invested heavily in a pugnacious defense of fossil fuel consumption," said one conservative energy analyst. "They've done this in the electricity sector, and as the debate shifts to transportation they're behaving true to form."

Other energy analysts point out that electric vehicle usage is likely to accelerate before long, which could catch a number of energy companies off guard.

"Electric vehicle adoption started slowly, but it certainly is going to follow an exponential growth trajectory," said Varun Sivaram, an energy and environment fellow at the Council on Foreign Relations. "Once electric vehicle adoption hits a critical mass, I think it will take refiners, petroleum producers and automakers by surprise."

More broadly, some veteran energy lobbyists note that attacks on electric vehicle subsidies could backfire.

"Producers and refiners need to be careful in going after clean energy subsidies and incentives — unless they're being paid for by the petroleum industry," said Don Duncan, a

former top lobbyist for ConocoPhillips (which has now split in two). Duncan added that attacks on clean energy subsidies potentially "could again refocus the debate on subsidies and incentives enjoyed by producers and refiners."

Electric vehicles make up just 1 percent of the U.S. market, but some analysts see them rising to as much as 5 percent by 2025. Much of the impetus for boosting electric vehicles to curb climate change is coming from the government in the form of tax breaks and subsidies, and that's a key reason why Koch and some refining industry allies are riled up.



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Not long after the Obama administration took office, it set an ambitious goal of having 1 million plug-in electric vehicles on the road by last year. But only some 400,000 have reportedly been sold in the U.S. to date. In a new effort to spur the electric car and driverless car markets, Obama early this month called for a \$10-a-barrel oil tax, a proposal that has little chance of passing Congress.

For Koch and other large refiners, the impact of a growing electric vehicle market could be significant down the road. Koch Industries' refining, pipeline and exploration operations contribute a healthy chunk of its \$115 billion in annual revenues.

In their early forays to find financial backers, Mahoney and Drevna have turned to some old

allies. Koch Industries has teamed up with Valero and Tesoro before. In 2010, Valero and Tesoro were the leading donors behind a multimillion-dollar California ballot initiative that was aimed at killing new state standards to reduce carbon emissions. Koch was also a big donor to the ballot campaign, which was defeated by environmental groups and other liberal interests.

The new group's formation comes in the wake of other discussions in Koch circles, going back to 2013, about building a stronger pro-fossil-fuels message. At a donor retreat in mid-2013, discussions were held about the need to do more to bolster traditional fuels, according to an April 2014 email that Koch operative and fundraising honcho Kevin Gentry sent to scores of donors.

In that email, Gentry alluded to the importance of a new initiative that would "drive the national narrative around energy and the tremendous benefits of reliable affordable energy for all Americans, especially the less fortunate." Gentry indicated that the energy initiative would be mounted by Freedom Partners, the fundraising hub for the Koch donor network which officially hosts the semiannual donor retreats.

To be sure, the Koch brothers and their network allies have long backed several nonprofit groups that have spent millions of dollars to fight alternative energy, notably wind and solar power projects, and poke holes in climate change science and regulations. The Koch brothers have repeatedly voiced skepticism that fossil fuel use contributes to global warming, and have long maintained that subsidies and tax breaks for alternative energy don't fit with their free-market libertarian ideology.

In a twist, Koch interests held talks more than a year ago with Securing America's Future Energy, a group focused on reducing American dependence on foreign oil, about making a sizable investment, say two sources familiar with those talks.

SAFE, which was launched in 2006 with major funding from FedEx CEO Fred Smith, never received any Koch money, a spokesperson said.

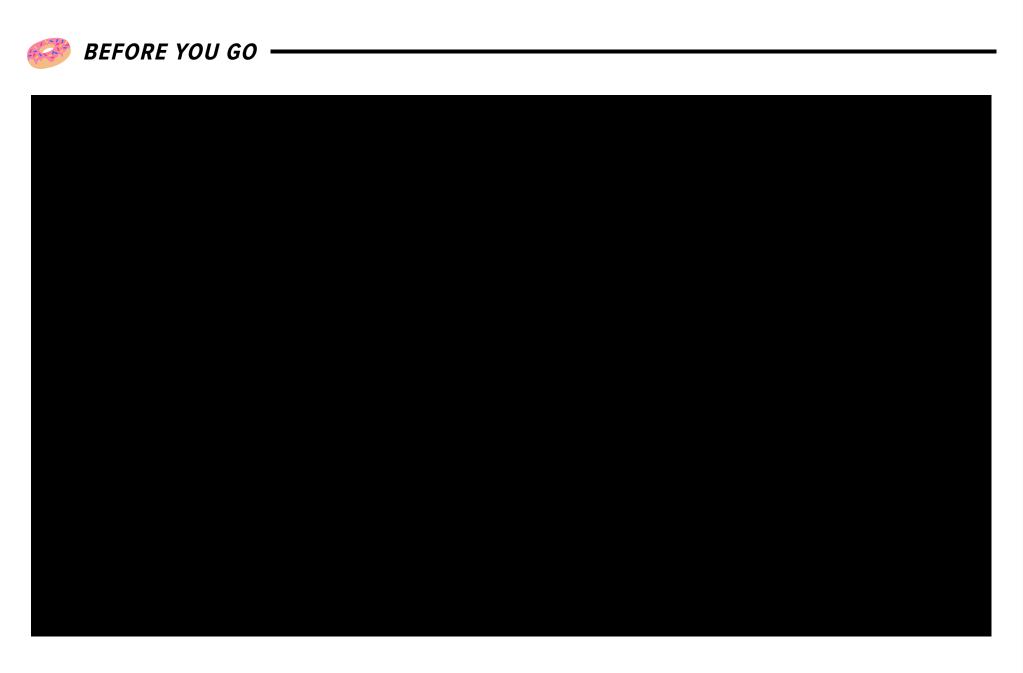
The group seemed an odd choice for a Koch investment: One of its key priorities is promoting alternative transportation, including electric vehicles.

While the full dimensions of the Mahoney-Drevna initiative aren't clear, some sources believe there could be some overlap with other advocacy outfits backed by the Koch donor network. "The new organization may be doing work that's now being done by the Institute for Energy Research," a Koch-backed think tank, according to one source.

Although IER in recent years has issued several statements and papers attacking electric vehicle subsidies as part of a broad pro-fossil-fuels agenda, the new initiative is expected to expand the focus on electric vehicles and sell its message to a bigger audience through ads to generate more political backing.

Serendipitously, Drevna became a "distinguished senior fellow" at IER last May, after he left his perch running the American Fuel and Petrochemical Manufacturers. The month after Drevna came aboard, the think tank posted a new paper attacking subsidies for a leading player in the electric car market: Elon Musk's <u>Tesla Motors</u>.

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