

RELEASE IN FULL

From: Mills, Cheryl D <MillsCD@state.gov>
Sent: Thursday, February 9, 2012 8:27 PM
To: H
Subject: FW: Keystone XL OIG Report Public Reaction: Overall a good day

-----Original Message-----

From: Hammer, Michael A
Sent: Thursday, February 09, 2012 8:24 PM
To: Mills, Cheryl D; Jones, Kerri-Ann; Blumenfeld, Joshua R; Benes, Keith J; Klevatorick, Caitlin B; Clune, Daniel A; Zeya, Uzra S; Adams, David S
Subject: Keystone XL OIG Report Public Reaction: Overall a good day

Keystone XL OIG Report Public Reaction: Overall a good day (as of 8 pm Feb 9)

SUMMARY OF COVERAGE

Media coverage of the Office of the Inspector General's "Special Review of the Keystone XL Pipeline Permit Process" released to Congress today was not as extensive as prior media coverage on the National Interest Determination decision and previous Department decisions related to Keystone. Reporting by major media outlets was mostly straightforward and factual, largely characterizing the report as "absolving" the State Department of any impropriety. The Washington Post, Fox News, U.S. News and World Report, San Jose Mercury News, Seattle Times, Canadian Business and others ran the AP story, headlined "State Department watchdog clears agency of impropriety in Keystone pipeline review." The New York Times followed its "no conflict of interest" lead, with a sentence saying the report had found "the Department had not adequately weighed concerns about the route of the 1,700-mile pipeline and should strengthen its oversight of contractors performing environmental impact statements for major projects." The LA Times noted the "report faulted the agency for its lack of expertise in conducting environmental assessments and for not doing enough to consider alternate routes for the Alberta-to-Texas pipeline, issues at the heart of criticisms of the State Department's review."

As of now, there has been no public reaction from the Canadian government or the major environmental NGOs besides activist Bill McKibben (quotes below). The Project on Government Oversight (POGO) used it as an opportunity to draw attention to the need for Department oversight, writing the report "is sure to be heavily scrutinized by the Members of Congress who requested the review" and that "[t]he scrutiny will likely be amplified because the State Department has been without a permanent IG for a staggering 1485 days."

News of the OIG report was not covered on network evening news broadcasts or the major cable news networks.

KEY QUOTES AND EXCERPTS

WHAT TRANSCANADA IS SAYING:

TransCanada said that it had been confident its conduct would be ruled to be above-board.

"We are pleased that the latest claims put forward by activists who are opposed to Keystone XL are unfounded, as we knew they would be," spokesman James Miller said in an email. (

Reuters, 2/9/2012)

WHAT CONGRESS IS SAYING:

Sen. Bernie Sanders, an Independent from Vermont

"The findings confirm once again why the project should not be rubber-stamped for approval, despite efforts by Republicans in Congress to do just that," said Senator Bernie Sanders, an independent from Vermont who asked for the review.

Sen. Richard Lugar, a Republican from Indiana

"There is no 'there' there in the [Office of Inspector General] report. It doesn't support conspiracy theories that KXL opponents freely spread," said Neil Brown, a senior aide to Sen. Richard Lugar (R-Ind.).

"The point is that the Obama Administration has missed the mark on the urgency of job creation and energy security," said Brown, Sen. Lugar's senior aide. "They examined the evaluation for 1,217 days – more than 3 years – and still missed the urgency of our economy's needs." (Politico, 2/9/2012)

Rep. Steve Cohen, a Democrat from Tennessee

Steve Cohen, a Democratic congressman from Tennessee who has led opposition to the project, noted the report found State Department did not have enough expertise and experience to review the project, and did not consider alternative routes. "This report undermines the integrity of the project's review and underscores the point that the pipeline should not be approved based on a shoddy, unscientific review," said Cohen. (Reuters, 2/9/2012)

Rep. Peter Welch, a Democrat from Vermont

Rep. Peter Welch (D-Vt.), one of the lawmakers who pushed for the IG probe, said the review was needed in light of conflict-of-interest concerns. "In order to maintain any level of public confidence you have to have a full investigation," he said in an interview Thursday. (Politico, 2/9/2012)

WHAT ENVIRONMENTAL ACTIVISTS/NGO'S ARE SAYING:

Bill McKibben, an environmental activist who has organized protests against Keystone XL, seized on the finding about the manner in which alternative routes were considered as confirming opponents' concerns.

"The more we learn about Keystone and the State Department's review process, the clearer it is that we were right to mount spirited protests last summer and fall," he said in an emailed statement. "As this report reveals, the environmental review wasn't carried out at arms length, nor with the technical know-how that was clearly required." McKibben added that he was pleased that the Department told the Inspector General it agreed to change its process for selecting third-party contractors. (FuelFix, 2/9/2012)

WHAT INDUSTRY IS SAYING:

American Petroleum Institute

"It's clear that another excuse not to build the pipeline has been removed, so we can only ask ourselves what's the excuse now for not approving Keystone?," said American Petroleum Institute President Jack Gerard, whose group is lobbying in favor of Keystone.

ARTICLES FROM MAJOR OUTLETS:

AP

Audit clears State Department in Keystone review

By DINA CAPPIELLO | Associated Press

February 9, 2012 3:34 PM EST

WASHINGTON (AP) — The State Department's internal watchdog cleared the agency Thursday of any impropriety in its review of a permit for a controversial pipeline that would carry Canadian oil produced from tar sands to refineries along the Texas Gulf coast.

In a report released to Congress, the department's inspector general said it found no evidence that State Department employees were improperly influenced by the company asking to build the pipeline, TransCanada, when they selected the third-party contractor to conduct the environmental analysis, as opponents of the project had charged. The inspector general also concluded that no conflict of interest existed between the contractor, Cardno Entrix, and the State Department, TransCanada and other federal agencies the company had worked for.

Victoria Nuland, a State Department spokeswoman, said Thursday that the report found "the State Department conducted a thorough, rigorous and transparent review of the environmental impact of the proposed project."

Two lawmakers, Sen. Bernie Sanders, I-Vt., and Rep. Steve Cohen, D-Tenn., had asked for the internal probe and pressed President Barack Obama to delay any decision on the pipeline until it was complete. But that demand became moot when Obama, at the suggestion of the State Department, rejected the pipeline in January. Republicans had attempted to force his hand to get an approval, and environmentalists had waged protests to block the \$7 billion project.

The explanation offered by the administration was that there was not enough time under a GOP-ordered deadline to examine the environmental toll of alternative routes that avoided crossing over an aquifer in Nebraska. Besides Nebraska, the pipeline would pass through Montana, South Dakota, Kansas, Oklahoma, and Texas en route to the Gulf. Republicans, however, accused the administration of pandering to environmentalists in an election year.

While the report cleared the department of wrongdoing, opponents of the pipeline and efforts to force its approval in Congress were quick to point out findings that said a lack of expertise and resources at the State Department affected the environmental review. In addition, the inspector general found that neither TransCanada nor the department reviewed Cardno Entrix's conflict of interest statements, an oversight the State Department officials said would be corrected.

"The findings confirm once again why the project should not be rubber stamped for approval, despite efforts by Republicans in Congress to do just that," Sanders said in a statement.

Bill McKibben, the environmentalist who organized the protests against the project, said the report showed the environmental analysis wasn't carried out at "arms-length", but he said if TransCanada or another entity re-applied, the procedures would be improved.

But Neil Brown, a spokesman for Sen. Richard Lugar, R-Ind., who is sponsoring a bill to override the president's decision and approve the pipeline, said the report at most says there is room for improvement.

"There is no 'there' there in the report," said Brown. "It doesn't support the conspiracy theories that Keystone opponents freely spread. The point is that the Obama administration has missed the mark on the urgency of job creation and energy security."

New York Times

State Dept. Cleared of Conflict of Interest in Review of Pipeline Project

February 9, 2012 4:12 PM EST

By JOHN M. BRODER and DAN FROSCH

WASHINGTON — The State Department's inspector general has found no conflict of interest or improper political influence in the agency's review of the disputed Keystone XL pipeline project.

But in a report released on Thursday, the official said the department had not adequately weighed concerns about the route of the 1,700-mile pipeline and should strengthen its oversight of contractors performing environmental impact statements for major projects.

The proposed Keystone pipeline, which is to carry heavy oil from formations in Alberta, Canada, to refineries on the Gulf Coast, has become a partisan football in Congress and a debating point in the presidential campaign. President Obama scratched the project last month after being forced by Republicans in Congress to make an up-or-down decision on it. He said that there was not sufficient time to devise an alternate route that would avoid environmentally sensitive areas in Nebraska but that the builder was free to apply for a new permit.

Republican leaders in Congress are now pushing a bill to bypass the normal environmental review process to quickly approve the pipeline.

Several Democratic members of Congress late last year asked the State Department's deputy inspector general, Harold W. Geisel, to determine whether the pipeline owner, TransCanada, had improperly influenced the review process. They also sought answers to questions about the choice of a contractor, Cardno Entrix, used to prepare the environmental impact statement for the pipeline, which found there would be minimal adverse impacts if the company operated the pipeline properly.

Cardno Entrix was paid by TransCanada to conduct the environmental review of Keystone XL, an arrangement approved of by the State Department.

Opponents of the pipeline questioned whether the company's financial relationship with TransCanada influenced its review. Cardno Entrix has said in its promotional materials that it considers the pipeline company to be one of its major clients. And TransCanada previously paid Cardno Entrix to conduct other environmental reviews of its projects. Although such practices are said to be common in the federal environmental review process, some environmental law experts and politicians said the State Department should have been more cautious in assigning the review, especially for such a controversial project.

The State Department has also faced charges of political conflict of interest over its handling of the Keystone XL application because TransCanada's chief Washington lobbyist, Paul Elliott, was a top official in Hillary Rodham Clinton's 2008 presidential campaign.

Late last year, 14 members of Congress asked the Office of the Inspector General to look into the relationship between TransCanada and Cardno Entrix. In an October letter, the lawmakers said they were "disturbed" by reports, including an article in The New York Times, indicating that the State Department permitted TransCanada to handpick the contractor.

The letter was sent by Senator Bernard Sanders, an independent from Vermont, and Representative Steve Cohen, a Democrat from Tennessee, and signed by 12 other Democrats.

"The findings confirm once again why the project should not be rubber-stamped for approval, despite efforts by Republicans in Congress to do just that," Mr. Sanders said in a statement.

Reuters

Watchdog absolves State Dept in Keystone review

* IG: State was not biased in its Keystone review

* Says State kept TransCanada "at arms length"

* Makes some suggestions for improvements (Adds lawmaker quotes, additional details)

By Timothy Gardner and Roberta Rampton

WASHINGTON, Feb 9 (Reuters) - An internal watchdog on Thursday cleared the U.S. State Department of conflict of interest allegations in its review of the stalled Keystone XL crude oil pipeline.

Lawmakers concerned about the environmental impact of TransCanada's pipeline requested the State Department's Inspector General take a closer look at the players involved in reviewing the project, which President Barack Obama has since put on ice for further environmental study,

In a 58-page report, Harold Geisel, State's deputy inspector general, said he found the department "did not violate its role as an unbiased oversight agency" in reviewing the Canada-to-Texas pipeline.

"TransCanada's influence was minimal," the review said.

Obama blocked the project last month, citing the need for further review of its route as the line would have traversed sensitive lands and an aquifer in Nebraska.

But the absolution of alleged conflicts shores up the argument for Republicans in Congress, who are trying to speed approval for the pipeline.

Republicans in both the Senate and House of Representatives have introduced legislation to try to fast-track the stalled project, which has become a prominent issue ahead of the 2012 elections.

But the report is unlikely to quell criticism from lawmakers and environmental groups who worry about pollution created by Canadian oil sands crude, and who want to stop the project.

SOME IMPROVEMENTS NEEDED

Environmentalists had claimed that the State Department was influenced by the company's lobbyists including Paul Elliott, who had served as the national campaign manager for Secretary of State Hillary Clinton, during her 2008 run for president.

The review concluded however that the department had kept TransCanada's officials "at arm's length" as it met with a wide range of groups holding different views.

TransCanada said that it had been confident its conduct would be ruled to be above-board.

"We are pleased that the latest claims put forward by activists who are opposed to Keystone XL are unfounded, as we knew they would be," spokesman James Miller said in an email.

Still, the Inspector General suggested some improvements, and said State could have done more to verify that there was no conflict of interest between Cardno Entrix, the contractor hired to manage the environmental review, and TransCanada.

"The findings confirm once again why the project should not be rubber-stamped for approval, despite efforts by Republicans in Congress to do just that," said Senator Bernie Sanders, an independent from Vermont who asked for the review.

Steve Cohen, a Democratic congressman from Tennessee who has led opposition to the project, noted the report found State Department did not have enough expertise and experience to review the project, and did not consider alternative routes.

"This report undermines the integrity of the project's review and underscores the point that the pipeline should not be approved based on a shoddy, unscientific review," said Cohen.

The Inspector General did suggest improvements to the way TransCanada conducts environmental reviews, including hiring a staff member with expertise.

The State Department has already begun to make the suggested changes and will have them in place within two months, a senior official said. (Additional reporting by

Ayesha Rascoe and Andrew Quinn in Washington and

Jeffrey Jones in Calgary.; Editing by Alden Bentley and

Bob Burgdorfer)

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